

# Tax Briefing

## Budget 2021

## Corporation tax complexity

The Chancellor announced that taxes would have to rise, but not quite yet, as all tax rates except for VAT are frozen for 2021-22.

Large companies will then see their corporation tax rate rise from 19% to 25% from 1 April 2023. Companies making no more than £50,000 per year in profits will still pay tax at the current rate of 19%. There will be a system of marginal relief on corporate profits between £50,000 and £250,000, above which the tax rate will be set at 25%.

Complexity is added for groups and associated companies as the profit thresholds of £50,000 and £250,000 will have to be divided by the number of associated companies. The companies counted as being in a group or associated will be those which are under the common control of a person, a company or a group of persons.

Family companies which are not trading will also pay corporation tax at 25% on all profits.

We can work with you to calculate the most tax efficient way to structure your group and extract profits from your company from April 2023.



## Super deduction for capital expenditure

Larger companies may have opted to wait until April 2023 before making major investments in plant or machinery to achieve tax relief of 25% on those costs following the increase in the corporation tax rate.



However, the Government wants to encourage those companies to invest sooner so is offering a super deduction of 130% of capital expenditure on new qualifying plant and machinery. The contract to buy must be entered into on or after 4 March 2021 and the purchase must be made between 1 April 2021 and 31 March 2023.

This 130% deduction will only apply to assets eligible for the main capital allowances pool with writing down allowances normally given at 18%. Cars do not qualify for this super deduction unless they are specially adapted for use in a driving school.

Expenditure on other new assets such as fixtures and integral features in buildings will qualify for a 50% deduction in the year of purchase if acquired before 1 April 2023. The remaining cost of these assets will qualify for a writing down allowance at 6% per year.

These enhanced deductions for the cost of new assets apply alongside the 100% deduction available under the annual investment allowance which covers up to £1 million of expenditure per year until 31 December 2021. We can help you decide on the most efficient timing of expenditure to maximise the reliefs available.

## Points mean penalties

HMRC is changing the way taxpayers interact with them in a project called making tax digital (MTD).

Most VAT registered businesses are already submitting their VAT returns using MTD-compatible software and unincorporated businesses will have to use MTD software from April 2023. Income tax reporting by unincorporated businesses will be required at least quarterly rather than once a year as is currently the case under self assessment.

HMRC has announced that they will use a new points based system to encourage taxpayers to submit MTD updates on time. The taxpayer will be given points for every late VAT or income tax return and once a defined number of points is reached an automatic £200 penalty will be issued.

This new points and penalty system will commence from 1 April 2022 for VAT and from 6 April 2023 for taxpayers submitting MTD income tax updates.

Sanctions for late payment of tax will also be harmonised across all taxes.



## Relief for business losses

Many businesses have made losses during the Covid-19 pandemic. Normally trading losses can be carried back one year to set against profits and generate a repayment of tax.

The Government have announced that they will permit businesses to carry back losses for up to three years.

Companies that make losses in accounting periods ending between 1 April 2020 and 31 March 2022 will be able to carry back up to £2 million of extra losses for three years with the normal unlimited carry back for one year followed by the additional £2 million to the two preceding years.

Unincorporated businesses will be able to carry back losses made in the tax years 2020-21 and 2021-22 for three

years, setting the loss against the profits of the latest year first. For example, a business which made a loss in 2020-21 can carry that loss back against its profits made in 2019-20, 2018-19 and 2017-18, setting off the loss against the profits of 2019-20 first, before setting the loss against the two earlier years.

Talk to us about your trading results from the pandemic period. If you have made a loss, taking action now could generate a useful tax repayment.

## Frozen bands and allowances

Income tax and national insurance contribution rates have been frozen for 2021-22 and are likely to remain frozen until the end of this Parliament in 2024.

By freezing the personal allowances and tax bands at their 2021-22 levels the Chancellor is causing the value of those allowances and bands to diminish by inflation.



In real terms, if the taxpayer increases their income or profits in this period, more of their income will be taxed at the higher rates. As a result, the taxpayer pays more tax despite the tax rates being unchanged.

This 'freezing' approach has been applied to inheritance tax since 2009, while the value of property subject to that tax has increased enormously, resulting in more deceased estates becoming liable to pay inheritance tax.

The capital gains tax exempt amounts and rates have also been frozen in 2021-22 with the Chancellor confirming these will also be fixed for the foreseeable future.

## Two new SEISS grants

As a self-employed individual you may have been able to claim up to three grants under the self-employed income support scheme (SEISS) since the start of the pandemic. Two more SEISS grants will soon be made available, capped at £7,500 each.

Each of these new grants will be based on your average trading profits as reported on your tax returns for the four years to 2019-20. You will only be eligible to claim these grants if you submitted your 2019-20 tax return by midnight on 2 March 2021 (it was due by 31 January 2021).

The extension means that if you started your business in 2019-20 you will be able to claim a SEISS grant for the first time, as long as you meet the other criteria and thresholds, which are the same as they were for the first three grants. The online facility to claim the fourth SEISS grant will open in late April.



As part of the claims process you must declare that you have suffered a significant drop in trading profits. HMRC does not quantify what 'significant' means but the reduction in earnings need not be enough to put you out of business as you must still be trading, or be intending to continue to trade once the Covid-19 restrictions are lifted, in order to be eligible for the SEISS grants.

A fifth SEISS grant will be available in late July 2021 but the eligibility criteria will be tighter still.

If your turnover has fallen by at least 30% you may be able to get the full grant, calculated at 80% of your average trading profits, capped at £7,500. Businesses whose turnover has fallen by less than 30% will receive a grant based on 30% of average profits, capped at £2,850.

All of the SEISS grants are taxable income for your business and they will have to be declared as income on your tax returns for the tax years in which they are received.

## VAT boost for hospitality

Many hospitality venues have been closed for almost a year and are still unable to open under the Covid-19 restrictions. To help them survive this period, the Government has given them a 15% VAT reduction on most sales. Where the business would normally collect 20% in VAT they currently only have to pay 5%.

This 5% VAT rate has applied in the hospitality and tourism sectors since 15 July 2020 and will continue to apply until 30 September 2021. This will then gradually increase with sales made from 1 October 2021 to 31 March 2022 in these sectors adding 12.5% before returning to the usual 20%.

These reduced VAT rates broadly cover restaurant meals or hot take-away meals (not sandwiches); hotel and similar accommodation; entrance fees for tourist attractions and cultural venues. The lower rate does apply to soft drinks taken with a restaurant or café meal eaten in-house.

The reduced VAT rates do not apply to tickets for sporting events nor admission to sporting facilities, so bookings to use a tennis court or five-a-side football pitch are still subject to 20% VAT.

A special low rate applies to gross sales under the VAT flat rate scheme for small businesses, such as pubs, hotels and catering services. The flat rate scheme rules will be revised to take account of the 12.5% rate that applies until 31 March 2022.



## Stamp duty holiday extended

**Stamp duty land tax (SDLT) must normally be paid by purchasers when they buy residential property in England or Northern Ireland for more than £125,000.**

This lower threshold was raised to £500,000 from 8 July 2020 to 31 March 2021 and will now remain at that level until 30 June 2021. It will then be reduced to £250,000 from 1 July to 30 September 2021 and will revert to £125,000 from 1 October 2021.

This means that if you are buying your main home and complete the deal on or before 30 June 2021 you will pay no SDLT where the purchase price does not exceed £500,000. This could save you up to £15,000.

Landlords and companies who buy investment properties to let out will benefit from the SDLT holiday but must pay a surcharge at 3% on the entire value of the deal.

Purchasers of property in Wales must pay land transaction tax (LTT) which normally applies to residential property deals above £180,000. A similar LTT holiday has applied in Wales since 26 July 2020 when the lower LTT threshold was raised to £250,000. This threshold will now stay at £250,000 until 30 June 2021. However, investors, second home buyers and companies cannot benefit from the LTT holiday at all.



The Scottish Parliament also applied a land tax holiday on residential properties purchased between 15 July 2020 and 31 March 2021 where the purchase price does not exceed £250,000. However, that tax break will not be extended.

## Furlough scheme extended

**Some potentially good news for employers is the Chancellor's decision to extend the furlough scheme in its current form until 30 June 2021. Employers can continue to claim 80% of each furloughed employee's usual wages for periods the employee is furloughed, up to £2,500 per employee per month.**

The furlough scheme will continue until 30 September 2021 but the costs for employers will increase:

- for pay periods from 1 July 2021 the employer can claim 70% of their employees' usual wages up to £2,187.50 per employee per month; and
- for pay periods from 1 August 2021 the employer can claim 60% of their employees' usual wages up to £1,875 per employee per month.



In all cases the employer must continue to pay furloughed staff 80% of their usual contracted wages and pay all of the employer's Class 1 NIC and any employer's pension contributions due on those furloughed wages.

Employees can be asked to work part time and be furloughed for the rest of their normal working hours.

Be aware that HMRC now publishes the names of employers who use the furlough scheme and an indication of the total amount claimed each month. Employees can also check their personal tax account to see if a furlough claim has been made in respect of their wages.