March 2021 Budget

As the UK economy looks to recover from the global impact of the coronavirus pandemic, the Chancellor, Rishi Sunak, presented his plan for economic recovery to the House of Commons on Wednesday. Despite the speculation, there were few major surprises; the rates and thresholds for the main taxes (income tax, national insurance, VAT, CGT and IHT) remain unchanged, although the government will generate additional revenue in future years through fiscal drag (by freezing allowances).

The extent to which some of these areas will be revisited further down the line remains to be seen. We are likely to have a better idea on the 23rd March when the Government publishes a number of tax consultations. In the meantime, this note provides a high level overview of the key points from yesterday's announcements.

Key points

The Chancellor's 'three-part plan to protect jobs and livelihoods':

1. Government to continue to 'do whatever it takes' to protect jobs and livelihoods during the coronavirus crisis.
2. Start repair of the public finances.
3. Outline plans to building the future economy.

1. Further government support

Additional £65 billion of measures announced. £407 billion total fiscal support due to pandemic by the end of next year.

- Furlough scheme – extended to end of September. Employees see no change to current structure. Employers to commence contributing 10% of cost from July and 20% from August.

- National minimum wage to increase from April to £8.91 per hour

- Self-Employment Income Support Scheme (SEISS) extended to September 2021 across UK, with those who filed a tax return in 2019/20 now being able to claim for the first time.

- Stamp Duty Land Tax (SDLT) temporary cut in England and Northern Ireland extended until September 2021. The £500,000 nil rate band will be extended until 30 June 2021 then it will be set at £250,000 until 30 September 2021 returning to its standard level of £125,000 on 1 October 2021.

- New mortgage guarantee scheme to enable all UK homebuyers to secure a 95% mortgage on properties up to £600,000 – only a 5% deposit needed. Second homes and buy to let properties are excluded. The scheme is due to run from April 2021 until December 2022 in the first instance.

2. Start repair of the public finances

- No increases to income tax, national insurance and VAT rates in accordance with election manifesto.

- Income tax: For 2021/22 Personal Allowance increasing to £12,570, basic rate band to £37,700 meaning a higher rate threshold of £50,270 – but then these figures will be frozen until April 2026. No changes to dividend allowance, personal savings allowance, starting rate band for savings.

- Pensions: Lifetime allowance for pensions frozen at £1,073,100 until April 2026. No changes to annual allowance, money purchase annual allowance or tapered annual allowance figures or rules.

- Capital gains tax annual exempt amount frozen at £12,300 until April 2026. Despite the speculation, there was no mention from the Chancellor, Rishi Sunak, in relation to an increase to Capital Gains Tax.

- Inheritance nil rate band frozen at £325,000 and residence nil rate band at £175,000 until April 2026 (and the residence nil rate band taper threshold remains at £2 million until April 2026).

- ISA subscription limit remains at £20,000 in 2021/22 and the Junior ISA and Child Trust Fund subscription limits remain at £9,000.

- Corporation tax: In 2023 the main corporation tax rate will increase to 25% but for companies with profits of no more than £50,000 the rate will remain at 19%. There will be a tapering of the rate for companies with profits over £50,000 but less than £250,000 so only companies with profits above £250,000 will suffer the full 25% rate.

- Close Investment Holding Companies will become liable to corporation tax at 25% from April 2023 regardless of their profits. Family Investment Company's largely fall within this definition and, therefore, will likely incur the higher rate on profits.

- A 130% 'super deduction' will be introduced for capital investments in qualifying new plant and machinery.

- Generous loss relief rules allowing companies to reclaim tax paid in the past three years by carrying back current losses, up to a limit of £2 million per group.

- The 2% additional surcharge on purchases of residential property in England by non-UK residents (including non-resident companies and trusts, as well as some UK companies controlled by foreign ultimate beneficial owners) announced at the 2018 Budget will come into force as planned from 1 April 2021. Any sales completing on or after that date will be subject to the surcharge, which will be levied in addition to the existing 3% surcharge on purchases of second homes.

- Enhanced powers for HMRC to obtain information – From July 2021 HMRC will be able to require financial institutions to provide information about taxpayers without having to get prior approval. For example, they will be able to ask banks to supply bank statements relating to a particular taxpayer.

3. Future economy

- There were a number of announcements regarding investment in business, including the £375 million Future Fund: Breakthrough, the £150 million Community Ownership Fund, and the £4.8 billion Levelling Up Fund.

- The Future Fund: Breakthrough is a new £375 million fund which brings a new direct co-investment fund to support the scale up of innovative R&D-intensive businesses. The British Business Bank will take equity in funding rounds of over £20 million led by private investors in these companies.

- New business infrastructure bank in Leeds. To be capitalised with initial £12 billion with remit to invest into greed infrastructure.

- A new retail product to be introduced to allow investors to invest in green technologies.

- Policies to unlock pension funds with flexibility to invest with more freedom into infrastructure etc.

- The Chancellor announced a new fast track visa scheme to help start-ups and rapidly growing tech firms source talent from overseas. Digital technology is a key growth area for the UK economy and relies heavily on migrant talent.

- Designation of eight Freeport Tax sites across the UK; geographic areas that are treated as being outside that area for the purposes of customs and import duties.