The Budget
2021

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The Budget commenced with the Chancellor outlining all the ways the Government has been supporting individuals and businesses throughout the pandemic, before moving on to outline the ways in which the Government intends to claw back funds to help move the country to a more stable footing for the future.

Some of the rumoured changes failed to materialise, including the fact that the capital gains tax system remained untouched apart from the freezing of the annual exempt amount for several years, an action that has been repeated with various other tax bands and allowances.

Please bear in mind that until passed into legislation these details may potentially be subject to change.

Income Tax

For 2021/22 the Personal Allowance is increasing to £12,570 and the basic rate band to £37,700 meaning a higher rate threshold of £50,270 – but then these figures will be frozen until April 2026. There are no changes to the dividend allowance, personal savings allowance or starting rate band for savings.

Changes to the Personal Allowance will apply to the whole of the UK. Changes to the basic rate limit, and higher rate threshold, will apply to non-savings, non-dividend income in England, Wales and Northern Ireland, and to savings and dividend income in the whole of the UK. Income tax rates and thresholds on non-savings, non-dividend income for Scottish taxpayers are set by the Scottish Parliament.

National Insurance

The National Insurance contributions Upper Earnings Limit and Upper Profits Limit will remain aligned to the higher rate threshold of £50,270 for 2021/22 to 2025/26. These changes apply to the whole of the UK.

Capital Gains Tax

The capital gains tax annual exempt amount is frozen at £12,300 until April 2026. There were no changes made to the CGT rates.

Inheritance Tax

The inheritance tax nil rate band is frozen at £325,000 and residence nil rate band at £175,000 until April 2026. The residence nil rate band taper threshold remains at £2 million until April 2026.

Pensions

The Lifetime allowance for pensions is frozen at £1,073,100 until April 2026. There are no changes to the annual allowance, money purchase annual allowance or tapered annual allowance figures or rules.

Taxation of collective money purchase pensions - the Government will legislate to ensure that collective money purchase pension schemes (also known as collective defined contribution schemes), to be introduced by the Pension Schemes Act 2021, can operate as registered pension schemes for tax purposes.

Defined contribution (DC) pension investment: government to remove barriers in pension regulation that may be discouraging DC pension schemes from investing in high-growth companies. The Government will shortly consult on whether certain costs within the charge cap affect the ability of pension schemes to invest in a wider range of assets. The Government is keen to tap into the pool of capital available from institutional investors, particularly DC pension schemes, to assist in the redevelopment of the country's infrastructure and economic initiatives.

Investing funds held within UK pensions could provide a massive boost to these plans, as well as enabling savers' pension pots to benefit from the long term returns on these investments. The FCA is to publish a consultation.

Investments

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

Venture Capital Schemes: Extension of the Social Investment Tax Relief (SITR) - the government is extending the operation of SITR to April 2023. This will continue availability of Income tax relief and Capital Gains Tax hold-over relief for investors in qualifying social enterprises.

Businesses

Corporation tax: The corporation tax rate will remain at 19% for tax years 2021/22 and 2022/23. It increases to 25% in 2023/24 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. Companies with profits between £50,000 and £250,000 will be taxed at the main rate of 25% but will be able to claim marginal relief.

Temporary extension of carry back of trading losses: The government will temporarily extend the period over which incorporated and unincorporated businesses may carry-back trading losses from one year to three years. This extension will apply to a maximum £2,000,000 of unused trading losses made in each of the tax years 2020/21 and 2021/22 by unincorporated businesses.

Preventing abuse of the R&D relief for small and medium-sized enterprises: For accounting periods beginning on or after 1 April 2021, the amount of SME payable R&D tax credit that a company can receive in any one year will be capped at £20,000 plus three times the company's total PAYE and National Insurance contributions liability, in order to deter abuse.

Super-deduction and 50% first-year allowances: Between 1 April 2021 and 31 March 2023, companies investing in qualifying new plant and machinery will benefit from new first-year capital allowances. Under this measure, investments in main-rate assets will be relieved by a 130% super-deduction, whilst investments in assets qualifying for special rate relief will benefit from a 50% first-year allowance.

Annual Investment Allowance (AIA) extension: The temporary £1,000,000 limit for the AIA will be extended by one year. This change will have effect from 1 January 2021 to 31 December 2021.

Stamp Duty Land Tax (SDLT)

Stamp Duty Land Tax (SDLT): The temporary cut in England and Northern Ireland is extended until September. 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 before returning to its standard level of £125,000 on 1 October 2021.

Non-UK resident SDLT: A Stamp Duty Land Tax surcharge is introduced on non-UK residents purchasing residential property in England and Northern Ireland with effect from 1 April 2021. The surcharge will be 2% above the existing residential rates.

Coronavirus support schemes

Coronavirus Job Support Scheme: Extended to September 2021 across the UK (employer contribution of 10% required in July and 20% in August and September).

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

Taxation of coronavirus support payments: Grants from the Self-Employment Income Support Scheme (SEISS) made on or after 6 April 2021 are to be taxed in the year of receipt. This measure will have effect for the tax year 2020 to 2021 and subsequent tax years.

Charge if person is not entitled to a Self-Employment Income Support Scheme (SEISS) payment: An individual is subject to a 100% tax charge if they receive payment to which they are not entitled. This measure will allow HMRC to recover payments where an individual was entitled to the grant at the time of claim but subsequently ceases to be entitled to all or part of the grant.

Tax treatment of COVID-19 support scheme: working households receiving tax credits: An exemption from income tax for the COVID-19 support scheme will be introduced for working households receiving tax credits payments.

Other areas

Fuel duty and alcohol duties are frozen.

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.

Van benefit charge and fuel benefit charges for cars and vans from 6 April 2021: will increase by the September 2020 Consumer Price Index.

VAT: No change in registration and deregistration thresholds: The VAT registration and deregistration thresholds will not change for a further period of two years from 1 April 2022. Therefore, the taxable turnover threshold which determines whether a person must be registered for VAT will remain at £85,000 and the taxable turnover threshold which determines whether a person may apply for deregistration will remain at £83,000. The further 2 year period ends on 31 March 2024.

Important information

This summary has been prepared very rapidly and is for general information only. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at 3rd March 2021, which are subject to change.

It is important to note that VCT and EIS can be very high risk investments. There may be no market for the underlying shares at the time you wish to dispose of them, and there is a strong possibility of significant or complete capital loss. The tax reliefs available will depend on your personal situation, and are subject to change.

The Financial Conduct Authority does not regulate tax advice.

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