



Spring Budget 2021

The Highlights | 3 March 2021

Introduction

This note summarises key points from the Spring Budget 2021.

Corporation tax rate increase

Arguably the headline tax announcement of the Budget is an increase in the rate of corporation tax from 19% to 25% with effect from April 2023, where a company has profits exceeding £250,000. The existing 19% rate will generally remain applicable to companies with profits under £50,000 and relief will be available where profits are between £50,000 and £250,000. When this change takes effect it will indirectly affect individuals who are holding investment assets via corporate holding structures as it seems that the existing rate will not remain available to closely-held investment companies. As such, the 25% rate will apply regardless of the level of the company's profit. Individuals can be attracted to the governance and succession benefits which holding assets within corporate structures offers but the change in the overall tax profile will also need to be taken into account in considering future arrangements.

No change

Despite speculation over the last six months, there was no announcement in respect of any immediate increase in capital gains tax rates. Similarly, there were no announcements in respect of changes to inheritance tax, for example potentially exempt transfers or business relief, or the potential introduction of a wealth tax. These matters may well remain an ongoing topic of discussion.

Fiscal drag

As widely trailed, whilst the Chancellor has kept to the government's 'Triple Lock' manifesto pledge and not increased the big three revenue-raising taxes, income tax, national insurance and VAT, he is seeking to increase revenues from these taxes by maintaining thresholds up to and including 2025/26.

The income tax thresholds will increase for 2021/22 by £200 and the personal allowance will increase by £70 to £12,570. Those levels will then be frozen until 2025/26. It is estimated by the government that this will raise over £19bn by the end of 2025/26. The capital gains tax annual exempt amount is also being frozen at £12,300 until 2025/26. This measure is only expected to raise £65m in that period, which firmly puts capital gains tax in context in comparison to other taxes. Similarly, the current inheritance tax thresholds will be maintained until 2025/26 at £325,000 (with the 'main home' threshold for those qualifying at £175,000). The government expect this will raise £985m. The pension lifetime allowance will also be unchanged at £1,073,100 until 2025/26. Finally, the VAT registration threshold will stay at £85,000 until 2023/24.

23 March 2021 – Happy tax day

In a departure from the approach taken in previous years, the government will publish a number of tax-related consultations and calls for evidence on 23 March.

Jesse Norman, Financial Secretary to the Treasury said: 'We are making these announcements separately to the Budget, but still all on a single day, in order to give a range of important but less high profile measures greater visibility among Members of Parliament, tax professionals and other stakeholders, and greater scope for scrutiny by them'.

Further to the comments above, this may include consultations on matters relating to capital gains tax and inheritance tax.

Stamp Duty Land Tax

In July 2020, the government temporarily increased the Stamp Duty Land Tax ('SDLT') nil rate band on purchases of residential property in England and Northern Ireland from £125,000 to £500,000 for purchases completing between 8 July 2020 and 31 March 2021. Today the Chancellor announced an extension to this temporary increase until 30 June 2021. It will then be reduced to £250,000 on purchases which complete between 1 July 2021 and 30 September 2021, before returning to its normal level of £125,000. Taxpayers purchasing a second home who are not replacing their main residence are subject to an additional 3% SDLT charge. Where this is the case, taxpayers will be subject to SDLT at a rate of 3% on amounts within the nil rate band.

The Chancellor had previously announced the introduction of a further 2% SDLT surcharge for non-resident purchasers of residential property in England and Northern Ireland with effect from 1 April 2021. This will take the highest rate of SDLT on residential properties to 17% on purchases completing on or after that date.

Freeports

The Chancellor announced plans for eight Freeports across the UK, which will begin operations from late 2021. These Freeports will benefit from tax reliefs, government support and are areas where business can be carried out or goods stored free of import VAT and customs duties. If goods ultimately leave the Freeport to come into the UK then taxes will arise at that point. Otherwise, they can be exported without any incidence of UK VAT or customs duties.

For individuals this means they will be able to import personal assets such as artwork to the UK and store it in a Freeport without incurring import VAT or customs duties. Non-UK domiciled taxpayers should however continue to be aware of the potential tax implications for them of doing so. The announcement today and related documents do not include provisions to override the usual situs rules for assets or remittance rules, although provisions such as the temporary importation rule will still apply, where relevant.

Enterprise Management Incentive Scheme

Alongside the Budget announcements, the government has released a call for evidence in relation to the Enterprise Management Incentive scheme. The scheme offers the opportunity for employers to award share options to employees such that they can participate in the company's growth in a tax efficient manner. The stated aim of the review is to ensure the scheme continues to provide support for high-growth companies to recruit and retain the best talent, so they can grow effectively. The review will also examine whether more companies should be able to access the scheme.

Find out more.....

To find out more about any aspect of the above, please discuss with your usual Deloitte contact. If you do not have a usual contact, please contact one of the contacts named below. Please also visit www.ukbudget.co.uk.

Nicola Roberts

nicolaroberts@deloitte.co.uk

Michael Hooke

mhooke@deloitte.co.uk

Mark Stokes

mastokes@deloitte.co.uk

Deloitte.

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