Forbes Dawson
THE TAX SPECIALISTS

Autumn Budget 2021

Forbes Dawson's Top 10

AUTUMN BUDGET 2021 – SUNAK'S SPENDING GAMBLE?

It has only been six months since the Chancellor last stepped up to the dispatch box to deliver a Budget. Much has changed in that time. Energy price rises, global supply chain issues and rising demand, prompted by the easing of coronavirus restrictions have caused inflation to hit levels not seen in a decade. With inflation tends to come interest rate rises, and although the base rate is currently a miniscule 0.1%, any change could affect consumer confidence.

Against this backdrop, though, the Chancellor presented an upbeat statement today. The economy has rebounded, unemployment figures are down, and tax receipts are reportedly ahead of forecast. Rishi Sunak was, therefore, able to avoid having to unveil further tax increases, such as to Capital Gains Tax (a perennial target of speculation!) or Inheritance Tax. However, to some extent the 'bad' news had already been dealt with by last month's announced 1.25% National Insurance/dividend rate increase.

Instead of tax rises, the Chancellor used his Budget statement to put forward a programme of spending increases and targeted tax cuts, with bankers, beer drinkers and business rates payers amongst the winners. Nevertheless, these fiscal stimuli will rely heavily upon the economy continuing to perform well, and time will tell whether the Chancellor has to bring out his begging bowl again in future …

Over the following pages we have pulled out our usual 'Top 10' measures that you may find of interest from today's Budget.

As ever, we welcome the opportunity to discuss these, or any other tax matters with you.

THE FORBES DAWSON TEAM
27 OCTOBER 2021

Forbes Dawson
THE TAX SPECIALISTS

Autumn Budget 2021

Forbes Dawson's Top 10

NATIONAL INSURANCE AND DIVIDEND RISE

Although announced last month, the biggest tax change affecting individuals for several years will come into force from 6 April 2022 when the following increases to tax rates will take place:

- Employer's NIC will increase from 13.8% to 15.05%
- Employees' NIC will increase from 12%/2% to 13.25%/3.25%
- Self-employed NIC will increase from 9%/2% to 10.25%/3.25%
- Dividend tax rates will increase as follows:

Basic rate	7.5% to 8.75%
Higher rate	32.5% to 33.75%
Additional rate	38.1% to 39.35%
Trust rate	38.1% to 39.35%

It was also confirmed in Finance Act 2021/22 that section 455 tax (paid by companies on overdrawn director's loan accounts) will also increase from 32.5% of the outstanding balance to 33.75% of the outstanding balance.

OUR VIEW

The increase in dividend tax and National Insurance rates, along with the previously increased corporation tax rates will have a significant impact on the tax position for employees, employers and those running businesses.

With an increase in the marginal tax rates on salaries and dividends, company owners may wish to look at alternative strategies for profit extraction such as:

- Charging interest on amounts lent by the owner to the company; or
- Charging rent on property privately owned but occupied by the company.

The increase in National Insurance rates also makes salary sacrifice arrangements more attractive. Employers may wish to consider these for areas such as pensions and electric cars.

SUPPORT FOR THE LOW PAID

The Chancellor announced an increase to the current National Living Wage with affect from 1 April 2022.

Age	Current minimum wage	From 1 April 2022
23 and over	£8.91	£9.50
21 – 22	£8.36	£9.18
18 – 20	£6.56	£6.83
Under 18s	£4.62	£4.81
Apprentices	£4.30	£4.81

Alongside this, the Universal Credit ('UC') taper relief has been cut from 63% to 55% and the threshold for when taper relief begins, known as 'work allowance', increased by £500. Taper relief is the rate at which UC is withdrawn from the claimant, for every £1 they earn over the threshold. A claimant earning £100 over the work allowance will now keep an additional £8 of their universal credit.

The Chancellor announced this change will come into effect as soon as possible and at the very latest by 1 December 2021.

OUR VIEW

Both changes announced will be welcomed by those families on low incomes. However, these have to be considered against the backdrop of the temporary £20 a week uplift to UC ending. Some claimants may not find themselves better off.

The changes are a clear move by the Chancellor to support working UC claimants and encourage those not working to come back into the workforce.

Only time will tell whether these changes will have the desired effect and promote the government's 'high skill, high wage' economy or add further inflationary pressures.

The lowest earners may find any benefits eroded if the UK experiences a sustained period of high inflation.

CHANGES TO BUSINESS RATES

The Chancellor has cancelled the proposed increase in business rates and offered up to £7bn in selective business rates cuts:

- An additional 50% business rates discount (to a maximum of £110,000) for businesses in the retail, hospitality and leisure sectors
- A new investment relief will mean that businesses will be able to make property improvements and pay no extra business rates for 12 months
- An exemption from business rates until 2035 for on-site use of renewable energy (such as solar panels).

In addition, revaluations of property will now be made every three years from 2023.

OUR VIEW

Rishi Sunak has been under pressure for some time to reform the business rates system, with his Labour counterpart promising to abolish the system entirely, should they win the next election.

The 50% business rates cut will no doubt be welcomed by the retail, hospitality and leisure sectors which were the hardest hit by the pandemic.

However, many businesses in these sectors may be financially distressed due to the downturn and it remains to be seen whether these business rates cuts will be sufficient to keep some businesses afloat.

We support any reliefs for business rates, although the detailed aspects of the new schemes are yet to be set out.

PENSION TAX CHANGES

Those individuals born in 1973 or later will have to wait an additional two year period before they are able to draw from their private pension.

The Chancellor announced that the age at which pension benefits can be drawn without an unauthorised charge are increasing from age 55 to 57 from 2028. This follows the original rise in pension age from 50 to 55 that took place in 2010.

Those schemes with a protected pension age, as well as schemes set up for firefighters, police and the armed forces will not be affected by these new rules, nor will people retiring for ill-health reasons.

A consultation document was issued in February 2021 to seek views on this proposed change, but as only 117 people responded, this news may come as an unwelcome surprise to a lot of people.

OUR VIEW

Clearly, with increased life expectancy comes greater financial burden.

Whilst the intention to encourage people to save longer, to have greater financial security in their retirement is commendable, the fact that the lifetime allowance remains stuck at £1,073,100 until 2026 negates this.

Additional contributions and growth over this additional two year period, could push more people into a lifetime allowance charge. This may currently seem like a problem for the wealthy but with the lifetime allowance frozen for five years, it could easily become an issue for those 'middle-earners'.

RESIDENTIAL PROPERTY DEVELOPER TAX

The Government has confirmed that a new Residential Property Developer Tax ('RPDT') will apply from April 2022. The tax was originally put forward in February, and later consulted on, but it was only in today's Budget that the final details were announced.

In summary, RPDT will apply at a rate of 4% to profits generated on UK residential property development activities in excess of £25 million. In computing these profits there are understood to be addbacks for some or all of the company's finance costs. The tax due will be reported and paid as part of the company's corporation tax return, with the £25 million allowance allocated between companies within a group.

RPDT has been introduced to pay for the removal of unsafe cladding from high-rise residential buildings, with projections suggesting it will contribute £2bn towards the Government's £5bn Building Safety Fund.

The tax is intended to be time-limited, with the consultation document earlier this year stating that the Government will seek to repeal the tax after 10 years, once sufficient funds have been raised.

OUR VIEW

It remains to be seen how the RPDT will affect the property development sector. However, the tax is currently structured in a way that will only impact businesses who make significant profits from property development activities. We therefore expect the vast majority of developers to be unaffected by these announcements.

The RPDT aside, it is worth noting the Chancellor has ignored some of the unfair aspects of the tax system which affect leaseholders caught up in the cladding scandal. This includes the 3% Stamp Duty Land Tax 'second home' surcharge where individuals buy a new home whilst unable to sell their current flat due to cladding.

We have been lobbying Government for further assurances to be provided for leaseholders in these areas, and it is disappointing to find that no additional measures have been announced.

EXTENSION OF THE £1M ANNUAL INVESTMENT ALLOWANCE FOR BUSINESS

The Annual Investment Allowance ('AIA') provides a 100% capital allowance deduction against taxable profits in respect of expenditure incurred on qualifying plant and machinery that otherwise would have only qualified for writing down allowances.

In the 2018 Budget, it was announced that the AIA amount would be temporarily increased from £200k to £1m, for a two year period beginning 1 January 2019. In November 2020, the government announced that the £1m allowance would be extended for a further 12 months until 31 December 2021.

The Chancellor has today announced a further 15 month extension to the £1m AIA amount, meaning it is not due to revert to the £200k limit until 1 April 2023.

Whilst the extension of the increased AIA limit does coincide with the availability of the super-deduction, unlike the super-deduction, AIA is available to all businesses and not just those that operate as a limited company. The availability of the super-deduction is due to cease on the same date that the AIA limit reverts to £200k.

OUR VIEW

The benefits of this extension will be limited for many businesses, as companies are likely to claim the super-deduction in preference to the AIA (as it provides relief for capital expenditure at an enhanced rate of 130%).

However, the extension to the £1m limit will be still be welcomed by capital intensive LLPs and unincorporated businesses that don't qualify for the super-deduction, or for companies purchasing assets which qualify for AIA but would not otherwise qualify for the super deduction (such as second-hand assets).

Businesses should be looking to accelerate their capital expenditure plans if they are able to do so, and maximise the generous reliefs that are available to them for the next 18 months whilst they still remain.

R&D TAX RELIEF CHANGES

Following the consultation launched following the March Budget, it was announced today that R&D tax reliefs will be reformed to support modern research methods by expanding the categories of qualifying expenditure to include data and cloud computing costs.

Further measures will be announced in due course with the aim of refocusing support towards innovation in the UK. The Chancellor said, "the current system subsidises R&D happening outside the UK. That is not fair, and inconsistent with what is happening in other countries".

In addition, measures to target abuse and improve compliance will be introduced.

These changes will be legislated for in Finance Bill 2022/23 and will take effect from April 2023. Further details of the changes and next steps for the review will be set out in due course.

OUR VIEW

The government is demonstrating its commitment to ensure that R&D tax relief remains up-to-date, competitive and well-targeted, by modernising the relief to extend the categories of qualifying software costs. This is a welcome and expected change.

It will be interesting to see the details of the changes regarding the nature of the restrictions to offshore R&D. Such changes could unfortunately significantly reduce the benefit of R&D claims for UK companies who sub-contract a large proportion of their R&D.

BASIS PERIOD REFORM

Partnerships and businesses currently pay income tax and class 4 National Insurance on the profits for the accounting year which ends in the applicable tax year.

For example, a business with an accounting period reference date of 30 April will be assessed in 2020/21 on the profits in the accounting year to 30 April 2020, with the tax being due by 31 January 2022.
For the 2024/25 tax year onwards, all sole traders and partners will be assessable on a tax year basis, i.e., the profits that arise between 6 April 2024 and 5 April 2025. The intention is to make the income tax system easier to administer following the move towards 'Making Tax Digital'.

The equivalence of 31 March (to 5 April) will be retained so that businesses that draw accounts up to 31 March will have no change.
There are transitional rules, so that for 2023/24, the business will declare all profit up to 5 April 2023, and any overlap profit will be used.

Note that the transition can result in more than 12 months' profit being taxed in one tax year. Therefore, a spreading adjustment is allowed where the taxable profit in 2023/24 is larger, than it otherwise would have been without the rule change.

OUR VIEW

These changes should ultimately simplify the current rules under which profits of an unincorporated trading business are allocated to tax years using basis periods.

However, businesses should seek advice on the application of these new provisions to ensure they are compliant and understand the impact of the transitional rules.

Note that unless there is a fundamental reason for a non-fiscal, year-end accounting date, such as for a seasonal business, businesses may consider changing their accounting period reference date to 31 March for administrative ease.

CAPITAL GAINS TAX REPORTING

Since 6 April 2020, UK tax resident individuals have been required to file a return (and pay the associated tax) on the sale of UK residential property which is not covered by a relief or exemption within 30 days of the disposal.

Since 2015 (or 2019 for commercial property) non-UK tax resident individuals have also been required to file a 30-day return on the sale of any UK property.

For any property sales which complete on or after 27 October 2021 the deadline for reporting and paying any associated tax is now 60 days, rather than 30 days.

The changes also clarify that, for UK tax residents, where a gain arises in relation to a mixed-use property that only the portion of the gain that is the residential property gain is to be reported and paid.

OUR VIEW

The system for completing 30 days returns is overly complex and it can often be a struggle to register government gateway accounts and complete the returns within the allotted 30 day window.

This change is therefore a welcome move.

As noted, disposals which are covered by a relief (such as the principal private residence or 'main home' relief) do not fall within these rules.

ALCOHOL DUTY 'SHAKE UP'

Rishi Sunak announced radical changes to the UK's alcohol duty system which he described in his speech today as "outdated, complex and full of historical anomalies." The aim of the shake up is to create a 'fairer, simpler and healthier system'.

The planned tax rise for beer, wine, cider and Scotch Whisky has been scrapped from tonight. Other reforms will be introduced from February 2023 subject to approval and consultation.

The main duty rates will be cut from 15% to 6% to reflect a 'common sense principle' that the stronger the drink, the higher the rate, with rates being harmonised for drinks at 8.5% ABV and above. The 28% duty premium on sparkling wine will also be scrapped.

To encourage innovation, a common small producer relief is being introduced, to reduce the tax burden on smaller producers of wine, cider and spirits below 8.5% ABV.

Finally, pubgoers and beer drinkers will also benefit from a new 'draught relief'. This is a lower rate of duty on draught beer and cider served on draught in pubs. This relief will see a cut in the rate of duty of 5% and a saving of 3p per pint if passed on to the customer.

OUR VIEW

This radical shake up of a very outdated system is a welcomed measure and represents the most sweeping changes to alcohol duty in living memory. The Chancellor confirmed this has only be made possible by the UK's exit from the EU.

The measures are welcomed after a tough 18 months for the sector due to COVID-19 restrictions.

This change along with the 50% rates cut for hospitality, retail and leisure firms provides a life-line for the struggling sector with many publicans stating they "will be toasting the Chancellor today".

The FT have reported a 5% increase in the share price of JD Weatherspoon's shares, with the shares in other listed UK pub chains soaring in response to the news.