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Budget Webinar

5 March 2021

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Corporation tax - headline measures

- CT rate rise to 25% top rate
  - **from** 1 April 2023, not phased
  - 19% remains up to £50k so marginal rate (effective 26.5%) applies between £50k and £250k
  - For groups the associated companies rule reduces the marginal band
- Super deduction for cap-ex
  - **until** 31 March 2023
  - 130% (or 50% where current rate of 6% applies)
- Extended loss carry back
  - **until** 31 March 2022
  - Maximum potential tax refund of £760k

Corporation tax increase to 25%

- 6% additional tax on future profits
- Increased benefit of deductions after April 2023:
  - Income recognition
  - Postpone/delay decisions on one off revenue expenditure
  - Defer bonuses
  - Disclaim capital allowances in 2022
  - R&D and Patent Box regimes
  - Super deductions for P&M
- OMB’s to reconsider remuneration strategies

Temporary extension to trading loss carry back

- For losses in years ending March 2021 and 2022 and applies to both corporates and unincorporated businesses
  - Previously only carried back one year
  - Temporary extension allows for additional carry back of up to £2m to the periods two and three years preceding the year of loss
- Benefit is immediate cash back where tax paying in earlier years – up to £380,000 additional tax refund per year of loss
  - Trade off for companies between cash benefit of reclaiming tax (at 19%) versus carry forward to offset future profits (at 25%).
  - Super deduction has a related impact where increasing losses – carry forward or back?

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Corporation tax increase to 25%

- International aspects
  - ‘Lowest rate in the G7’, but higher than EU average (22%)
  - Increases marginal rate benefit of recognising income in low tax overseas jurisdictions
  - Consideration of overseas managed structures where this fits commercially – ‘inversion’ back on the agenda?
  - increased pull for shareholders of owner managed businesses toward shifting personal and corporate residence offshore…especially If CGT rates increase down the line

Remuneration planning

LIMITED COMPANY

- Dividends
- Salary
- Interest
- Capital event
- Rent
- Loan account
- Benefits in kind
- Pension

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Remuneration planning

- Key factors:

	Salary	Dividend	Interest/Rent	P'ship
CT deduction	Yes	No	Yes	n/a
NIC	Yes	No	No	Yes

- Dependent upon profits and other income

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Remuneration planning

CURRENT	Basic rate	Higher rate	Additional rate
Salary	40.2%	49.0%	53.4%
Dividend - small	25.1%	45.3%	49.9%
Interest/rent	20.0%	40.0%	45.0%
Partnership	29.0%	42.0%	47.0%

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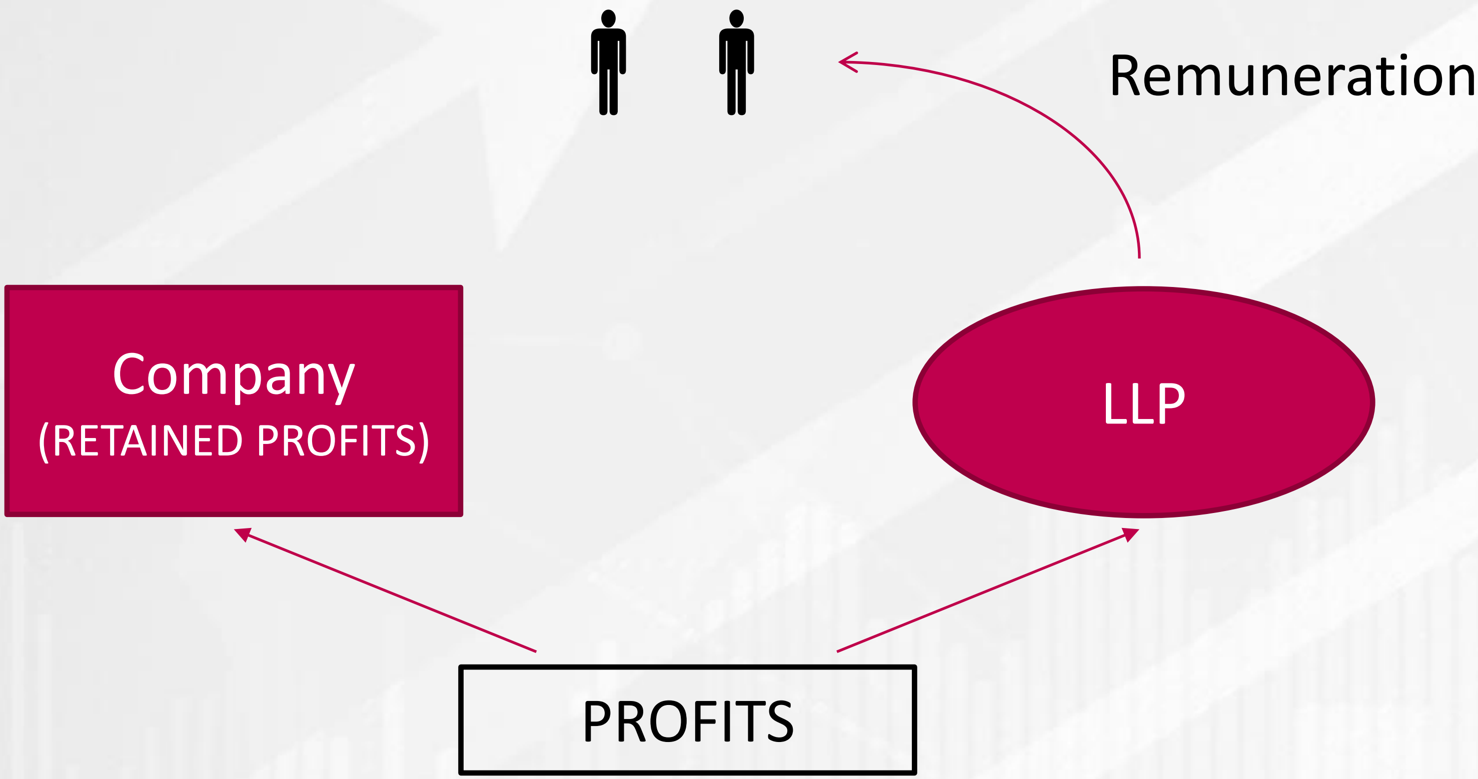
Remuneration planning

FROM 1 APRIL 2023	Basic rate	Higher rate	Additional rate
Salary	40.2%	49.0%	53.4%
Dividend - small	25.1%	45.3%	49.9%
Dividend - marginal	32.0%	50.4%	54.5%
Dividend - large	30.6%	49.4%	53.6%
Interest/rent	20.0%	40.0%	45.0%
Partnership	29.0%	42.0%	47.0%

Partnership structure



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Final points

- Consider alternative methods of extraction
- Reorganisations with loan notes
- Company car benefits for electric vehicles
- Pension contributions
- Plan ahead of capital events

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Personal tax impact

- No increase in CGT – delay disposals until after 5 April 2021
- Consultation responses 23 March 2021 – CGT and IHT
- FICs – Close Investment Company or profits > £50k = higher rates
  - Dividends remain exempt
  - Interest and gains @ 25%
  - Roll-up investments – unit trusts etc.?
  - Loans into FIC - deduction for interest charged?