DavisGrant

CHARTERED CERTIFIED ACCOUNTANTS

Budget summary 2021

In the year since the Chancellor, Rishi Sunak, delivered his first Budget to a packed Commons chamber in March 2020, more than 135,000 people in the UK have died from Coronavirus, there have been three national lockdowns, the economy has shrunk by 9.9 per cent and Coronavirus support measures have cost around £280 billion.

As a result, Government borrowing – the budget deficit – is expected to rise from a forecasted £55 billion to about £355 billion by the end of 2020-21. Meanwhile, national debt is already approaching 100 per cent of GDP at £2.1 trillion and could rise to 120 per cent of GDP during the first half of the decade according to the Office for Budget Responsibility (OBR).

The widely respected Institute for Fiscal Studies (IFS) warned late last year that around £40 billion of tax rises will be needed by the middle of the decade to keep borrowing down to £80 billion a year and debt down to 100 per cent of GDP, prompting intense speculation that they could come as soon as this Budget.

With the Conservatives having committed in their 2019 General Election Manifesto not to raise the rates of Income Tax, National Insurance or VAT, much of the speculation about possible tax rises was focused on Capital Gains Tax (CGT) and Corporation Tax.

At the same time, the Budget came against the background of a growing sense of cautious optimism. More than 20 million people have now been vaccinated against Coronavirus and, just over a week ago, the Prime Minister set out the Government's roadmap out of lockdown.

In announcing the roadmap out of lockdown, the Prime Minister – echoed by various ministers over the intervening days – all but confirmed the Chancellor would announce further Coronavirus support for businesses and the self-employed at the Budget.

Then, at 10pm the night before the Budget, several major news organisations reported the same details of how the various Coronavirus support measures would be extended, leaving little doubt about what the Chancellor would say on the subject.

The question, then, as Mr Sunak rose to the dispatch box in a virtually deserted Commons chamber, was whether he would increase any taxes immediately or hold off until a later date.

Economic outlook

The Chancellor began by noting the way that the Coronavirus pandemic has fundamentally altered our way of life and summarising the Government's response to the crisis.

After promising to do whatever it takes to support people through the crisis, he said: "It's going to take this country and the whole world a long time to recover".

Turning to the economic outlook, the Chancellor said that the OBR is now expecting a swifter and more sustained recovery than it had expected in November, with the economy now expected to return to its pre-Covid level by the middle of next year – six months earlier than forecast.

However, he said that in five years' time, the economy will still be three per cent smaller than it would have been, had it not been for the pandemic.

He said that growth this year is forecast to be four per cent, rising to 7.3 per cent in 2022, followed by growth of 1.7 per cent, 1.6 per cent and 1.7 per cent in the subsequent years.

Coronavirus support measures

Turning to the Government's Coronavirus support measures, the Chancellor confirmed, as had been trailed, that the furlough scheme – the Coronavirus Job Retention Scheme (CJRS) – would be extended to the end of September 2021, continuing to pay furloughed workers 80 per cent of their usual wages, capped at £2,500 a month.

However, unlike the scheme as it currently operates, he said employers will have to contribute 10 per cent of a furloughed worker's wages in July and 20 per cent in August and September.

Moving to support for self-employed individuals, the Chancellor said that 600,000 newly self-employed people would be eligible for the fourth round of the Self-Employment Income Support Scheme (SEISS) as people who have submitted a 2019-20 Self-Assessment tax return will now be eligible.

The fourth round of the scheme will once again provide grants worth up to 80 per cent of trading profits, capped at £7,500. Applications will open in late April.

He then announced a fifth grant worth three months of average profits. This will continue to pay grants at 80 per cent of usual trading profits capped at £7,500 for people whose turnover has fallen by 30 per cent, but it will reduce to 30 per cent of usual trading profits capped at £2,850 for people whose turnover has fallen by less than that.

The Chancellor also announced the extension of the £20 a week uplift to Universal Credit for people who have lost their jobs for the next six months.

Moving to direct support for businesses, he announced the launch of the Recovery Loan Scheme from 6 April this year to replace the Government's existing Coronavirus loan schemes. The Recovery Loan Scheme will allow any business of any size to apply for a loan of between £25,000 and £10 million backed by an 80 per cent Government guarantee.

He said that new Restart Grants will also be launched in April, making one-off payments of up to £6,000 per premises for non-essential retail businesses and up to £18,000 for businesses in the hospitality sector and others that are reopening later.

The Chancellor confirmed that the current 100 per cent business rates relief for eligible retail, hospitality and leisure businesses will continue for three months to 30 June 2021. There will then be a 66 per cent reduction in business rates for these businesses until 31 March 2022, capped at £2 million for businesses required to close on 5 January 2021 and capped at £105,000 for other businesses.

Staying with the hospitality sector, he said that the VAT reduction from 20 per cent to five per cent on many goods and services in the hospitality and leisure sectors will now be extended from 31 March 2021 to 30 September 2021. It will then move to an interim rate of 12.5 per cent until it reverts to 20 per cent in April 2022.

The Chancellor also said that the Government will double incentive payments for employers in all sectors to take on apprentices to £3,000.

Moving to the housing sector and the property market, the Chancellor said the £500,000 Stamp Duty Land Tax (SDLT) nil-rate band will remain in place for a further three months until 30 June 2021. It will then fall to £250,000 – twice its normal rate – until the end of September.

He then moved on to announce a new mortgage guarantee scheme, beginning in April 2021. The scheme will offer a Government guarantee to lending offering 95 per cent mortgages on homes worth up to £600,000.

The Chancellor said that the measures set out in the Budget amount to a further £65 billion of Coronavirus support, bringing the total since the start of the crisis to £407 billion.

Personal tax measures

The Chancellor said that the cost of Coronavirus support and the impact of the economic downturn on tax receipts meant that borrowing would reach £355 billion this year and £234 billion next year.

Reiterating his commitment to sustainable public finances, he said it was necessary to take steps to get the public finances back on track.

The Chancellor said that the Income Tax Personal Allowance and Higher Rate Threshold (HRT) will increase in line with the consumer prices index in April 2021 but will then remain at this level until April 2026, cancelling planned increases in line with inflation.

He said that thresholds for Inheritance Tax, the pensions Lifetime Allowance and the Annual Exempt Amount for CGT will remain at their current levels until April 2026.

Business tax measures

Moving to business tax measures, the Chancellor confirmed the widely expected increase in Corporation Tax from 19 per cent to 25 per cent, which will come into effect from April 2023.

However, he also announced a new Small Profits Rate of Corporation Tax for small businesses with profits below £50,000 of 19 per cent, meaning they will see no increase. Businesses with profits of between £50,000 and £250,000 will see a tapered rate, while those with profits of more than £250,000 will pay the full 25 per cent rate.

The Chancellor moved on to say that the Government will extend the trading loss carry-back rule temporarily from one to three years. Loss-making unincorporated businesses and those that are not part of a corporate group will be entitled to relief for up to £2 million of losses in 2020-21 and 2021-22.

Those that are part of a corporate group will have caps on either £200,000 or £2 million across the group in each year.

He also announced a two-year temporary Capital Allowances Super Deduction of 130 per cent for main rate assets such as plant and machinery as well as a 50 per cent First Year Allowance for special rate assets.

Meanwhile, he said that the current VAT registration threshold of £85,000 will remain in place for a further two years from April 2022.

Turning back to the hospitality sector, the Chancellor announced that planned increases in the duties of spirits, wine and beer would be cancelled.

He also once again froze fuel duty.

The Chancellor also confirmed reviews of Research and Development Tax Reliefs and Enterprise Management Incentives.

Public spending

Moving to spending announcements, the Chancellor confirmed the launch of the UK Infrastructure Bank, based in Leeds, which will support investment in public and private infrastructure projects.

He said there would be an additional £1.6 billion to support the vaccine roll-out, £1 billion in local funding for towns, and a £375 million Future Fund: Breakthrough for highly innovative companies.

Again returning to the hospitality sector, he announced the launch of a £150 million Community Ownership Fund for communities to invest in assets such as pubs, theatres, shops or sports clubs.

Finally, he announced the locations of eight Freeports, subject to simpler planning rules, infrastructure grants and lower taxes. They will be at East Midlands Airport, Felixstowe and Harwich, Humber, Liverpool City Region, Plymouth, Solent, Thames and Teeside.

Conclusion

Although most of the key Coronavirus business support measures had been revealed in advance of the Budget, the Chancellor confirmed that taxes will rise in the coming years, as had been widely expected.

As ever, what the Budget means for individuals and businesses will become clearer as more details of the specific policies are announced in the coming days and weeks.

It seems clear, however, that businesses and individuals are about to start meeting the costs of the Government's Coronavirus support measures.

020 8477 0000 info@davisgrant.co.uk davisgrant.co.uk

Treviot House, 186-192 High Road, Ilford, Essex, IG1 1LR