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UK Budget 2021

Article By:

Catherine Sear

Richard Miller

The UK has now been in lockdown, on and off, for the best part of a year. With the COVID-19 vaccination programme now in full swing in the UK, and hopefully with light at the end of tunnel, attention has inevitably turned to the question of “how are we going to pay for it all?”. Sweeping and significant tax rises have been feared and, following last year’s Office of Tax Simplification (OTS) review into capital gains tax (CGT), it was thought that an increase in CGT rates could well be on the cards.

But in Rishi Sunak’s budget announcement yesterday, aside from the deferred increases in the rate of corporation tax (discussed below), there were no such immediate tax rises. At least for now, the government’s predominant short term focus appears to be on policies intended to stimulate growth and investment – highlighted by the new super deduction for capital investment costs.

Although welcome, that is unlikely to be the end of the story. On 23rd March 2021 the government will publish a range of tax-related consultation papers which may well set the tone for the future UK tax landscape. It is quite possible that this will include a roadmap for CGT changes. And while the chancellor yesterday confirmed the government’s intention not to raise rates of income tax, national insurance or VAT, that doesn’t completely rule out, for example, the possibility of aligning the national insurance treatment of the self-employed with the employed in the coming years.

So what was announced yesterday?

The April 2023 increase in corporation tax from 19% to 25% for companies with annual profits in excess of £250,000 (with a tapered rate between profits of £50,000 and £250,000) is obviously a key point. On a positive note, there was the corporation tax 130% “super deduction”, i.e. a first year capital allowance of 130% for plant and machinery expenditure, for the next two years. And also in the next two years UK companies will be able to carry back trading losses to not just the prior year but the three prior years, subject to a group-level cap at £2m of losses for each of the earliest two years.

As was widely trailed, furlough payments are extended to the end of September, with employees receiving 80% of salary for hours not worked due to COVID-19 during this time. Employers will be required to contribute 10% in July and 20% in August and September.

Outside these more mainstream announcements a few points jumped out. Amendments will be made to the hybrid mismatch rules to correct certain technical issues in the current legislation which is welcome (and expected). The detail of these changes will be included in the Finance Bill published on 11th March. On the enterprise management incentive (EMI) front, a new consultation was published aimed at enhancing the effectiveness of EMI tax advantaged share options, and it was confirmed that until April 2022 HMRC will continue to disregard reduced working hours (e.g. in connection with furlough) in determining EMI option tax benefit eligibility. On research & development (R&D) tax reliefs, a consultation on extending and simplifying the existing regime has been announced. Although no new announcement was made yesterday, we are also waiting for the response to the consultation on the proposed UK asset holding company regime and this is likely to be published on 23rd March.

Leaving the tax announcements to one side, other noteworthy points included the investment project announcements, including a new £22bn UK infrastructure bank which will invest in private and public infrastructure projects to help meet government objectives on climate change and regional economic growth, a £375m 'breakthrough' fund which the British Business Bank will invest in R&D-intensive businesses, and new designated "freeport" locations around England (with discussions ongoing about delivering these in Scotland, Wales and Northern Ireland) the businesses in which will benefit from enhanced tax reliefs including enhanced capital allowance deductions and SDLT relief.

Despite the early noise regarding the threat of CGT rises, in many ways yesterday's budget announcement was entirely unsurprising given that we are still in lockdown. However the papers which are unveiled on 23rd March are expected to give a clearer indication on the government's longer term direction on increasing tax revenue and modernising the tax system to encourage growth. So expect more to come.

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