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Wilmington Professional

TAX IN 2021: KEY BUDGET 2021 TALKING POINTS FOR CLIENTS

Budget 2021 took place on 3 March and the measures announced were included in Finance Bill 2021. We expected many of the measures that were announced by the Chancellor and we have developed products and courses to help you get things right for your clients. We talk through some of the headline measures, the detail behind them, and suggest ways in which we can help. This is part 1 of a 2-part series. Look out for part 2 coming soon, where we will look at how we can help you in areas that weren't mentioned in the Budget but were the subject of consultations published on 23 March.

	COMMENT	THE DETAIL	HOW WE CAN HELP
Extension of COVID-19 measures	When the Prime Minister announced the lengthy roadmap to get the country out of lockdown, it became clear that the Chancellor would have to further extend support for businesses. The extensions to the Coronavirus Job Retention Scheme (CJRS) and the Self-Employed Income Support Scheme (SEISS) were welcomed, as was the extension of the temporary reduction in VAT for supplies of hospitality, accommodation and admissions to events and attractions.	The fourth SEISS grant will be for 80% of trading profits for 3 months, up to a maximum of £7,500. Eligibility is based on a 2019/20 return having been submitted by 2 March 2021. Claims can be made from the end of April until 31 May. The fifth grant can be claimed from late July, but there will be a new basis for claiming that considers "turnover reduction in the year to April 2021". The CJRS is extended until 30 September 2021, with eligible employees being entitled to 80% of their salary for hours not worked. The employer is required to fund the 3% pension contribution and employers' NICs, and from July the employer will have to fund part of the employee's furlough payment. The temporary 5% rate of VAT for certain supplies of hospitality, accommodation and admissions is extended until 30 September. Thereafter, a new 12.5% reduced rate will apply to those supplies until 31 March 2022	There is a real risk of the client getting the grant application wrong. Complexity surrounding accounting for the grants, together with the potential for money laundering implications as HMRC look to claw back grants presents clients with a compliance risk. Want to know the latest to assist your clients? Available on-demand, we have new courses that cover the impact of COVID 19 on accounting, auditing, and tax. Free for our members, or from £72.00 for non-members, access these courses now: **COVID 19 – Accounting and Auditing Issues** **COVID 19 - Tax Issues**

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Income tax allowance/banding freeze	The coronavirus support measures come at a cost, however. Whilst some people expected increases to the rate of income tax, others pointed to the Conservative Party manifesto from the 2019 general election, in which they pledged not to increase the rates of income tax, NIC or VAT. The workaround, therefore, was to freeze the income tax personal allowance at £12,570 until April 2026, which will effectively increase the amount of income tax collected in real terms. The higher rate threshold is also frozen at £50,270 until April 2026.	Thresholds and limits that are frozen from 6 April 2021 until 5 April 2026: Personal allowance (£12,570); Basic Rate Band (£37,700); Pensions lifetime allowance (£1,073,100); National insurance Class 1 Upper Earnings Limit and Class 4 Upper Profits Limit (£50,270); Capital Gains Tax Annual exemption (£12,300); Inheritance Tax Nil Rate Band and Residence Nil Rate Band (£325,000 and £175,000 respectively); VAT Registration Threshold (£85,000).	Our **Finance Act Update** course will detail the practical implications of this for your clients.
Increase to corporation tax	Another measure to cover the cost of the pandemic, which came as no surprise. From 1 April 2023, main rate of 25% for companies or groups of companies with profits over £250k. Small companies' rate is 19% for profits £50k or lower. There's a marginal relief rate for companies with profits between the two thresholds.	Marginal relief works by effectively calculating a marginal rate of corporation tax for those companies with profits between £50k and £250k. Generally, companies with profits closer to £50k will have a rate closer to 19%, whereas companies with profits closer to £250k will have a rate closer to 25%. The £50k and £250k thresholds apply to standalone companies and would need to be shared equally between groups of associated companies.	Our **Finance Act Update** course will detail the practical implications of this rise in Corporation Tax.
More capital allowances	We expected some more capital allowances to help soften the blow of the increase in corporation tax rate. The intention to extend the £1million Annual Investment Allowance to 31 December 2022 had already been announced. In his speech, the Chancellor announced one of his headline measures - the Super Deduction. This First Year Allowance is only available to companies and will give an enhanced deduction of 130% of qualifying capital expenditure from 1 April 2021 until 31 March 2023.	Most plant and machinery, other than cars and integral features will qualify for a first-year allowance of 130% of the asset cost. Another first-year allowance has been introduced to give 50% relief for integral features, but this will only be beneficial to companies that have used all their available annual investment allowance.	Coming soon, our Capital Allowance Essentials Pack will support you and your team in checking the eligibility of an AIA, SBA, the Super-Deduction and the 50% FYA on Integral Features, together with some interesting considerations to be take into account before claiming the Super-Deduction which will include balancing charges. The pack will include a video for your virtual reception/website, a client letter, and a crib sheet to help junior team members get to grips with eligibility.

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Reform to Research and Development (R&D) tax credits	The government have consulted since the spring of 2019 on the most effective way to prevent fraud and abuse by SME's claiming the payable tax credit in respect of R&D expenditure. The announcement of the cap of £20,000, plus three times the companies "expenditure on relevant workers" was no surprise.	The term "expenditure on relevant workers" means the company's PAYE and NICs for the period. Importantly this is not limited to those engaged in the R&D work but is the companies own PAYE and NIC's plus any PAYE and NIC of connected persons undertaking subcontract R&D for or supplying workers to the company. The Finance Act 2021 confirms the only companies exempt from this cap will be companies where the employees create or actively manage Intellectual Property (IP) and do not spend more than 15% of qualifying R&D expenditure on subcontracting R&D to, or the provision of externally provided workers by, connected persons. This measure is not intended to be restrictive but to ensure those companies who have low employment costs with IP arising from an R&D project, gain the full tax relief for their innovation. Evidence to support their claims will be expected in the form of board minutes, business plans, license agreements for the IP, staff information – payroll etc.	R&D is an area where innovative clients may well be missing out on valuable tax reliefs. We will be updating both our **R&D Essentials Pack** and our **Research and Development – A Complete Practical Approach** CPD course to help you calculate and claim R&D relief for your clients.