

VATTax

# BUDGET 2021 Special



**A supplement to VATTax, the official Newsletter and Information Service of the City Council's VAT & Taxation Advice Office.**

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## ***Spring Budget 3 March 2021***

On 3 March 2021, Chancellor of the Exchequer Rishi Sunak delivered his Spring 2021 Budget (it is anticipated that an Autumn 2021 Budget may well follow) in most unusual circumstances.

Ordinarily the House of Commons is packed to the rafters with MPs eager to hear the Chancellor's Budget Speech but against the background of the ongoing COVID-19 pandemic it was a strangely sparsely populated House (albeit most MPs were there virtually by video-links).

And, as widely anticipated, it was COVID-19 that dominated the Budget with the Chancellor outlining a three-part plan to recovery: (i) the Government will continue to do whatever it takes to protect jobs, keep businesses afloat and help families get by for the duration of the pandemic, (ii) once on the way to recovery the Government will begin 'fixing' the public finances, and (iii) the Government will begin building for the future economy after COVID-19.

*(i) The Government will continue to do whatever it takes to protect jobs, keep businesses afloat and help families get by for the duration of the pandemic*

Noting predictions by the Office for Budget Responsibility that the economy should be back to pre-COVID-19 levels by mid-2022, the Chancellor reiterated the Government's priority to protect jobs, keep businesses afloat and help families get by. To this end, he announced the following measures:

- the Coronavirus Job Retention Scheme (CJRS) or 'furlough' will be extended on its current terms to 30 September 2021 subject increased contributions from employers from July 2021 as businesses start to recover;
- the Self-Employed Income Support Scheme (SEIS) will similarly be extended to 30 September 2021 and will be extended to encompass those self-employed workers who filed a 2020/21 Tax Return by 2 March 2021; there will though be a taper reduction as businesses recover;
- the temporary uplift in Universal Credit will continue for a further six months and an equivalent uplift to Working Tax Credit claims will be given as a one-off £500 award;
- the National Minimum Wage National Living Wage will increase to £8.91 per hour from 1 April 2021 when it will be payable to all workers aged over 23;

- various measures will encourage employment and upskilling, including a doubling of the Apprenticeships Grant to £3,000 for every new apprentice hired;
- Restart Grants will be available from April 2021, worth £6,000 or £18,000 for the hospitality sector, to enable businesses to re-open ;
- the Business Rates ‘holiday’ will be extended to 30 June 2021 and thereafter Business Rates bills will be subject to a two-thirds discount subject to taper reduction as businesses re-open;
- the VAT lower-rating for the tourism and hospitality sector is extended to 30 September 2021 and will then be followed by a temporary interim-rate of 12.5% until 31 March 2022;
- the SDLT ‘holiday’ - the temporary increase in the SDLT threshold for residential purchases to £500,000 - will be extended until 30 June 2021 when the threshold will be lowered to £250,000 until reverting to £125,000 from 1 October 2021.

Taken together with previous announcements, the Chancellor observed that these measures are worth £407billion.

*(ii) Once on the way to recovery the Government will begin ‘fixing’ the public finances*  
With current record borrowing levels clearly unsustainable, the Chancellor committed to getting the public finances on to a sound footing, especially noting the catastrophic impact an increase in interest rates or inflation would otherwise have.

The Chancellor, therefore, made three points: (i) revenue spending should not ordinarily be paid for by borrowing, (ii) the public debt cannot go on rising, but (iii) it is right to take advantage of low interest rates to fund infrastructure projects for the longer-term.

On specific measures, not unexpectedly the Chancellor announced a freeze in the Income Tax thresholds; the personal allowance will increase to £12,570 from 6 April 2021 as planned and the higher-rate threshold will similarly increase to £50,270 but these thresholds will then be frozen until 5 April 2026.

The Capital Gains Tax and Inheritance Tax thresholds will similarly be frozen as will the VAT-registration threshold at £85,000 until 31 March 2026.

A surprise, however, was the Chancellor’s announcement that Corporation Tax (CT) will be increased from 19% to 25% from 1 April 2023. The Chancellor justified this as still being the lowest in the G-7 and also mitigated the impact by reintroducing the small profits rate of CT, maintained at 19% for companies with profits of less than £50,000pa and a taper on higher profits such that the full 25% rate will not be payable until profits exceed £250,000pa (which the Chancellor asserted will be only around 10% of companies).

Also of some surprise, in order to encourage investments, First-Year Capital Allowances will be given at 130% of expenditure for the tax-years 2021/22 and 2022/23.

Finally, the Chancellor advised that Alcoholic Liquor Duty and Hydrocarbon Oil Duty (‘Road Fuel Duty’) will be both be frozen at their current rates.

*(iii) The Government will begin building for the future economy after COVID-19*  
The Chancellor made a number of more generic announcements to help build the economy longer-term.

These included the establishment of an Infrastructure Bank to invest in ‘green’ infrastructure projects, be they public or private, a new ‘Green’ Retail Savings Bond, various training

programmes for executive development and digital skills enhancement, and there is to be a new migration visa route to attract highly skilled international talent to work in the UK.

Finally, the introduction of freeports was confirmed with simpler planning regimes, access to infrastructure grants and tariff-free trade, the first eight to include East Midlands Airport.

The rest of this *VAT Tax Budget Special* outlines the key tax and related changes arising from the Budget, particularly as they affect the Council and its staff.

## **VAT**

Apart from an ongoing freeze in the VAT-registration threshold at £85,000 until 31 March 2026 (and the equivalent freeze in the de-registration threshold at £83,000), the only notable VAT announcement in the 2021 Budget was the not unexpected extension of the temporary lower-rating for the tourism and hospitality sector.

The lower-rate of VAT (5%) will thus continue to apply to -

- catering supplies (hot and cold food and non-alcoholic drinks sold for consumption on the premises, and hot takeaway food and non-alcoholic drinks),
- overnight accommodation in a hotel or similar, such as guest-houses and bed-and-breakfast, camping sites and caravan sites,
- admissions to tourist attractions (theatres, circuses, fairs, amusement parks, theme parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities, unless subject to the cultural exemption rules when exemption from VAT takes precedence), until 30 September 2021.

More surprising, the Chancellor announced that thereafter such supplies will be liable to a temporary 'interim-rate' of VAT at 12.5% until 31 March 2022. The Chancellor seems unaware of the administrative effort needed to update systems for a brand-new rate of VAT and that for only six months; it remains to be seen whether lobbying may result in a change of mind!

## **Income Tax**

As widely expected the Chancellor announced a freeze in the Income Tax thresholds; the personal allowance will increase to £12,570 and the higher-rate threshold to £50,270 from 6 April 2021 but these thresholds will then be frozen until 5 April 2026, the impact being as follows:

personal allowance <sup>2,3,5</sup>	£12,570 <sup>1,4</sup>
basic rate (20% <sup>3</sup> )	£1 to £37,700 <sup>2</sup>
higher-rate (40% <sup>3</sup> )	£37,701 to £150,000
additional-rate (45% <sup>3</sup> )	over £150,000

<sup>1</sup> The personal allowance is subject to taper at £1 for every £2 that income exceeds £100,000

<sup>2</sup> An additional tax-free 'personal savings allowance' applies to interest of:

- £1,000 for basic-rate taxpayers,
- £500 for higher-rate taxpayers, and
- £0 for additional-rate taxpayers.

In addition, the first £5,000pa of interest is taxed at 0% where the aggregate of such savings income and non-savings income does not exceed the personal allowance plus £5,000.

<sup>3</sup> An additional tax-free 'dividend allowance' applies to dividends of £2,000 above which dividend income is taxed at:

- 7.5% for basic-rate taxpayers,
- 32.5% for higher-rate taxpayers, and
- 38.1% for additional-rate taxpayers.

*In addition, the first £5,000pa of dividend income is taxed at 0% where the aggregate of such savings income and non-savings income does not exceed the personal allowance plus £5,000.*

<sup>4</sup> *Up to 10% of the personal allowance, ie £1,570 in 2021/22, can be transferred to a basic-rate taxpayer spouse or civil partner if unused, ie to the extent taxable income is less than the personal allowance, up to 10% of the balance can be added to the spouse's or civil partner's personal allowance.*

<sup>5</sup> *Two additional allowances also apply under which no Income Tax is due on trading income or property income of less than £1,000pa.*

The **ISA and Junior ISA Limits** remain unchanged for the tax-year beginning 6 April 2021, the ISA limit for tax-free savings being £20,000pa, of which £4,000pa can be invested in a Lifetime ISA; the Junior ISA limit remains £9,000pa. The **Child Trust Fund** limit also remains £9,000pa from 6 April 2021.

Both the **Pension Lifetime Allowance** and **Pension Annual Allowance** are frozen for the tax-year 2021/22. The Lifetime Allowance, the absolute maximum amount that can be contributed tax-free to a pension pot to fund retirement income, thus remains £1,073,100 for 2020/21. And the Annual Allowance, the maximum that can be contributed annually tax-free to a pension fund, remains £40,000 subject to taper reduction at £1 for every £2 that income exceeds £240,000 of adjusted income (ie including pension accrual); the minimum Annual Allowance remains £4,000.

#### **National Insurance Contributions (NICs)**

The NICs rates and thresholds for 2021/22 are:

	per week	per month
Lower Earnings Limit (LEL)	£120	£520
Primary (Employees) Earnings Threshold (PET)	£184	£797
Secondary (Employers) Earnings Threshold (SET)	£170	£736
Upper Earnings Limit (UEL)	£967	£4,190
Rates of Primary Class 1 NIC's (employees):		
- on earnings between LEL and PET		0%
- on earnings between PET and UEL		12%
- on earnings above UEL		2%
Rates of Secondary Class 1 NIC's (employers):		
- on earnings between LEL and SET		0%
- on earnings above SET		13.8% <sup>1</sup>

<sup>1</sup> *Secondary Class 1 NICs are payable at 0% on -*

- *earnings between the SET and the UEL for employees aged under 21, and*
- *earnings between the SET and the UEL for apprentices aged under 25.*

The rate of Class 2 NICs, payable by the self-employed, is frozen at £3.05 per week for 2021/22, with the small earnings exception (below which Class 2 NIC's are not compulsory) increased to £6,515pa.

In line with Class 1 NICs, the Lower Profits Limit (LPL) for Class 4 NICs is increased to £9,568pa and the Upper Profits Limit (UPL) to £50,270pa (to align with the Income Tax higher-rate threshold) for 2021/22. Class 4 NICs remain payable at 9% on profits between the LPL and UPL and at 2% on profits above the UPL.

Class 3 NICs (voluntary contributions to boost an otherwise inadequate NICs record) increase from £15.30 to £15.40 per week from April 2021.

### ***Capital Gains Tax (CGT) and Inheritance Tax (IHT)***

The annual exempt amount for **CGT**, ie the value of capital gains that can be made before becoming liable to CGT, is frozen at £12,300 for 2021/22. CGT is payable as top-slice income, at 10% (or 18% for residential property not subject to Private Residence Relief) on capital gains above the annual exempt amount to the extent the aggregate of income and capital gains is below the Income Tax higher-rate threshold and 20% (or 28% for residential property not subject to Private Residence Relief) above that.

The **IHT** exempt-amount remains frozen at £325,000, though this threshold can be enhanced on the death of the second partner by any unused proportion of their former partner's allowance. Also, where the deceased's estate includes their home a further Residence Nil-Rate Band applies of £175,000 applicable to the value of the home, increasing the normal exempt amount by up to £175,000 to cover the value of the deceased's home (and note the Residence Nil-Rate Band continues to apply if the deceased disposed of their home in order to go into care or 'down-size' to a smaller home within the previous seven years).

Otherwise IHT is levied at 40% on death (or 36% if at least 10% of the estate is left to charity) or 20% on chargeable lifetime gifts.

### ***Child Benefit and Guardians Allowance***

Child Benefit is increased for 2021/22:

- from £21.05 per week to £21.15 per week for the first child, and
- from £13.95 per week to £14 per week for subsequent children.

Guardian's Allowance is increased from £17.90 per week to £18 per week for 2021/22.

### ***Corporation Tax and Bank Levy***

The rate of **Corporation Tax** payable by companies (and certain other corporate bodies) on their profits remains 19% from 1 April 2021. However, to help fund the public debt resulting from the COVID-19 measures, this will increase to 25% from 1 April 2023 subject to a small profits rate of 19% on companies with profits of less than £50,000pa and a taper on higher profits such that the full 25% rate is not payable until profits exceed £250,000pa.

With the progressive phasing out of Bank Levy, the **Corporation Tax Bank Surcharge** remains 8% but **Bank Levy** itself is reduced from 0.07% (0.14% for short-term liabilities) to 0.05% (0.10% on short-term liabilities) from 1 January 2021.

### ***Hydrocarbon Oil Duty ('Road Fuel Duty')***

Once again there was no increase in 'Road Fuel Duty', the last being in March 2011.

However, as announced in the 2020 Budget, entitlement to use 'Red Diesel' and rebated bio-fuels will be severely restricted with effect from 1 April 2022 to agriculture (including horticulture and pisciculture), rail vehicles, non-commercial heating and power generation, travelling funfairs and circuses, amateur sports and golf courses, and all commercial boat operators.

### ***Air Passenger Duty (APD)***

APD remains frozen on short-haul flights, with the rates of APD on long-haul flights increased in line with inflation; with effect from 1 April 2021 the rates of APD are:

Band (based on distance to capital city of country of destination):	Class	Rate of APD
A (0-2,000 miles)	Economy <sup>1</sup>	£13
	First/Business <sup>2</sup>	£26
	Higher <sup>3</sup>	£78
B (over 2,000)	Economy <sup>1</sup>	£82
	First/Business <sup>2</sup>	£180
	Higher <sup>3</sup>	£541

And from 1 April 2022 the rates are:

Band (based on distance to capital city of country of destination):	Class	Rate of APD
A (0-2,000 miles)	Economy <sup>1</sup>	£13
	First/Business <sup>2</sup>	£26
	Higher <sup>3</sup>	£78
B (over 2,000)	Economy <sup>1</sup>	£84
	First/Business <sup>2</sup>	£185
	Higher <sup>3</sup>	£554

<sup>1</sup> *The reduced-rate of APD is payable by the lowest class of passenger carried on the flight unless that class has a seat-pitch in excess of 1.016m (40 inches) - typically 'all business class' flights - when the standard-rate applies.*

<sup>2</sup> *The standard-rate of APD is payable by all classes of passenger carried except the lowest class (unless the latter has a seat-pitch in excess of 1.016m (40 inches) when the standard-rate applies to all classes).*

<sup>3</sup> *The higher-rate of APD applies primarily to private business jets, defined as any turbine-powered aircraft with an authorised take-off weight of 20 tonnes or more but with fewer than 19 seats; the higher-rate of APD is set at six times the lower-rate as applicable to economy class.*

Note that children under the age of 16 on economy flights are now exempt from APD.

### ***Landfill Tax***

With effect from 1 April 2021, the standard-rate of Landfill Tax is increased from £94.15 to £96.70 per tonne (and then to £98.60 per tonne from 1 April 2022) and the lower-rate from £3 to £3.10 per tonne (then £3.15).

### ***Aggregates Levy***

Aggregates Levy remains frozen at £2 per tonne.

### ***Alcoholic Liquor Duty***

For the second year running, Duty on spirits, wine and made-wine, beer and cider is frozen.

### ***Tobacco Products Duty***

Duty on cigarettes, cigars and hand-rolling tobacco remains frozen.

### ***Stamp Duty Land Tax (SDLT) and Annual Tax on Enveloped Dwellings (ATED)***

As anticipated, the SDLT 'holiday' - the increase in the SDLT threshold for residential purchases to £500,000 - is extended until 30 June 2021 when the threshold will be lowered to £250,000 until reverting to £125,000 from 1 October 2021.

The rates of SDLT are, therefore, as follows.

On residential property purchases -

(i) until 30 June 2021:

- on the first £500,000 - 0%
- on the amount between £500,000 and £925,000 - 5%
- on the amount between £925,000 and £1.5m - 10%
- on the amount over £1.5m - 12%

(ii) from 1 July to 30 September 2021:

- on the first £250,000 - 0%
- on the amount between £250,000 and £925,000 - 5%
- on the amount between £925,000 and £1.5m - 10%
- on the amount over £1.5m - 12%

(iii) from 1 October 2021:

- on the first £125,000 - 0%
- on the amount between £125,000 and £250,000 - 2%
- on the amount between £250,000 and £925,000 - 5%
- on the amount between £925,000 and £1.5m - 10%
- on the amount over £1.5m - 12%

In each case these rates are subject to -

- a further 3% 'premium' where (i) the property is a second home, or (ii) the purchaser is a corporate body (including a local authority), and
- a further 2% 'premium' where the purchaser is not UK-resident.

On non-residential property purchases -

- on the first £150,000 - 0%
- on the amount between £125,000 and £250,000 - 2%
- on the amount over £250,000 - 5%.

SDLT Lease Rental Duty is payable at 1% of the net present value of the rental income stream between £150,000 and £5million and 2% above that.

With effect from 1 April 2021, where ownership of a residential property is vested in a limited company, **ATED** is payable at:

- £3,700pa on properties valued between £0.5m and £1m,
- £7,500pa on properties valued between £1m and £2m,
- £25,300pa on properties valued between £2m and £5m,
- £59,100pa on properties valued between £5m and £10m,
- £118,600pa on properties valued between £10m and £20m, and
- £237,400pa on properties valued at over £20m.

### ***Climate Change Levy (CCL)***

The rates of CCL are as follows:

	wef 1 April 2021	wef 1 April 2022	wef 1 April 2023
electricity	0.775p per k/wh	0.775p per k/wh	0.775p per k/wh
natural gas	0.465p per kw/h	0.568p per kw/h	0.672p per kw/h
LPG	2.175p per kw/h	2.175p per kw/h	2.175p per kw/h
other	3.640p per kg	4.449p per kg	5.258p per kg

The additional 'Carbon Price Support' CCL rates, applicable to fossil fuels used to generate electricity, remain as follows (based on a notional figure of £18 per tonne of CO<sub>2</sub>):

Gas	0.331p per k/Wh
LPG	5.280p per kg
coal and solid fuel	154.790p per gJ/t
fuel oil	5.711p per litre
gas oil	4.916p per litre

### ***Vehicle Excise Duty (VED)***

There is a general increase in VED rates on cars in line with inflation from 1 April 2021, VED then generally being payable at £155pa (though zero-emission cars pay nil VED).

VED on vans is generally increased to £275pa unless Euro IV or Euro V compliant when £140pa.

VED on motor-cycles also increases in line with inflation.

In order to support the haulage sector, however, VED on heavy goods vehicle is frozen and payment of Heavy Goods Vehicle Levy suspended until 1 August 2022.

### ***Plastic Packaging Tax***

As anticipated, a Plastic Packaging Tax on the manufacture or import of plastic packaging not at least 30% recyclable will come into effect from 1 April 2022 at £200 per tonne with a minimum threshold of 10 tonnes.

### ***Soft Drinks Industry Levy***

Soft Drinks Industry Levy increases in line with inflation from 1 April 2021 from 18p to 18.3p per litre on drinks with a sugar content of 5gm to 8gm per 100ml and from 24p to 24.4p per litre on drinks with a sugar content of 8gm per 100ml or more.

As anticipated, a Plastic Packaging Tax on the manufacture or import of plastic packaging not at least 30% recyclable will come into effect from 1 April 2022 at £200 per tonne with a minimum threshold of 10 tonnes.

### ***National Minimum Wage (NMW) and National Living Wage (NLW)***

With effect from 1 April 2021 the NMW/NLW rates increase as follows:

- National Living Wage (aged 23 and over) from £8.72 to £8.91 per hour;
- National Minimum Wage (21-22 year olds) from £8.20 to £8.36 per hour;
- National Minimum Wage (18-20 year olds) from £6.45 to £6.56 per hour;
- National Minimum Wage (aged under 18) from £4.55 to £4.62 per hour;
- Apprenticeship Wage from £4.15 to £4.30 per hour.

### ***Business Rates***

The Business Rates multiplier - used to determine the amount of Rates payable by reference to the property's Rateable Value - remains 51.2p in the Pound for 2021/22 and the small business multiplier 49.9p in the Pound.

However, the Business Rates 'holiday' is extended to 30 June 2021 and thereafter Business Rates bills will be subject to a two-thirds discount, subject to taper reduction as businesses re-open.