

Budget 2021 – Business tax issues (Lecture B1246 – 20.57 minutes)

Self-employment income support scheme

There will be a fourth Employment Income Support Scheme (SEISS) grant worth 80% of three month's average trading profits, paid out in a single instalment and capped at £7,500 in total. This grant will cover the period from February to April and can be claimed from late April. Individuals must have filed a 2019/20 tax return to be eligible for the fourth grant (with filing to have been done before midnight on 2nd March) which means that some 600,000 individuals may be newly eligible for SEISS (according to the press releases on the topic). All other eligibility criteria remain as for the third grant and further details will be published in due course.

A fifth SEISS grant will be given covering May to September 2021. The value of the grant will depend on the extent to which the business continues to be affected. 80% of average trading profits will be available for those who can demonstrate that turnover has fallen by 30% or more (capped at £7,500) with others who can show a fall of less than 30% getting a grant of 30% (capped at £2,850). This grant will be claimable from late July with full details being published in due course.

Only taxpayers whose businesses have been adversely affected by the pandemic in the period in question will be eligible, provided that they are still trading or intending to resume.

Taxation of payments under the SEISS

The FA2020 provisions relating to the SEISS indicated that payments received under that scheme would be taxed in the 2020/21 tax year, regardless of the date of taxation under normal principles. As this scheme is going to continue, legislation will be introduced to specify that future payments will be taxed as income in the tax year in which they are received.

Class 2 and 4 national insurance limits

Class 2

The Class 2 profit threshold increases to £6,515 from £6,475, while the weekly rate is unchanged at £3.05. Class 2 NIC can be paid even though profits are below the profit threshold and will be cheaper than having to make voluntary Class 3 contributions to ensure full entitlement to State benefits.

Class 4

The Class 4 upper profits limit will increase to £50,270 in 2021/22 (previously £50,000) and will remain at this level up to and including 2025/26.

The lower profit limit is increased to £9,568 (previously £9,500) and will be subject to annual review in future.

The 2% and 9% rates remain unchanged.

Apprenticeships

For apprentices that are hired between 1 April and 30 September 2021, incentive payments are increased from £1,500 (£2,000 for under 25s) to £3,000 per person.

This payment supplements the existing £1,000 payment for 16 – 18 year-old apprentices and those under 25 with an Education, Health and Care Plan (EHCP).

Corporation tax rates

As widely anticipated, the Chancellor announced an increase in the rate of corporation tax but not for another two years.

For 2021 and 2022, the main rate of corporation tax (for non-ring-fenced profits) will remain at 19%.

From 1 April 2023, this rate will increase to 25% for companies with profits over £250,000. Companies with profits of £50,000 or less will continue to be taxed at 19%. Where profits fall between £50,000 and £250,000, the tax rate will be 25%, but companies will be able to claim marginal relief.

The profit limits will be divided by the number of associated companies (not the number of 51% group companies). This change will also affect the profit limits for testing whether a company has to make quarterly instalment payments.

The limits are also reduced if the chargeable accounting period is less than 12 months.

The marginal relief fraction will be 3/200ths and the marginal rate of tax between the lower and upper limit will be 26.5%.

The '51% group company test' which replaced the associated company provisions when a single rate of corporation tax was introduced will itself be repealed and a new associated company rule introduced. A company is associated with another company at a particular time if, at that time or any time in the preceding 12 months:

- One company has control of another;
- Both companies are under the control of the same person or group of persons.

There are no further details about the attribution of rights of associates in determining control. It has been confirmed that close-investment holding companies will not benefit from the small companies' rate with the Budget notes stating that the definition will 'follow' the definition previously found at section 34 CTA 2010. This is likely to catch family investment companies, although this will need to be confirmed when the draft legislation is published.

The diverted profits tax rate will also be increased to 31% from 1 April 2023 (currently 25%), maintaining the 6% differential between it and the main rate of corporation tax.

Extension to carry back of trading losses

The period over which trading losses can be carried back is to be temporarily extended from 12 months to three years. This temporary extension applies for trading losses incurred by companies in

accounting periods ending between 1 April 2020 and 31 March 2022 (tax years 2020/21 and 2021/22 for unincorporated businesses).

The losses will be carried back against later years first.

This extended carry back is not without restriction though. For companies there is no limit on the amount of trading losses that can be carried back to the preceding year, but, after that, a maximum of £2 million of unused losses are available for carry back against profits of the same trade for the earlier two years. This £2 million limit applies to each loss-making accounting period falling within 1 April 2020 to 31 March 2022.

For individuals claiming trading loss relief there is a similar regime. The amount of trading losses that can be carried back to set against profits of the preceding year remains unlimited, and the current restrictions to carry back losses from a trade against general income will remain. There is however a separate £2 million cap that will apply to the extended carry back of losses made in each of the tax years 2020/21 and 2021/22.

Capital allowances

For companies within the charge to corporation tax, increased allowances for expenditure on plant and machinery will apply temporarily.

For qualifying expenditure incurred from 1 April 2021 up to and including 31 March 2023, companies will be able to claim:

1. a super-deduction providing a first year allowance of 130% on most new plant and machinery investments that ordinarily qualify for 18% main rate writing down allowances;
2. a first year allowance (FYA) of 50% on most new plant and machinery investments that ordinarily qualify for 6% special rate writing down allowances.

The relief will not apply to contracts entered into prior to Budget day (3 March 2021).

The general exclusions in CAA 2001, s 46 will apply (cars, zero-emission goods vehicles, electric vehicle charging points etc.) and there will be exclusions for used and second-hand assets. The rate of the super-deduction will require apportioning where super-deduction expenditure is incurred in an accounting period that straddles 1 April 2023.

Finance Bill 2021 will confirm the extension of the annual investment allowance (AIA) to 31 December 2021. Companies incurring expenditure on special rate pool assets between 1 April 2021 and 31 December 2021 might prefer to allocate the AIA to these assets and claim 100% relief instead of the 50% FYA.

On disposal of a super-deduction asset, the proceeds will be grossed up to 130% and treated as a balancing charge, rather than being deducted from the general pool.

Disposals of 50% FYA special-rate pool assets will similarly give rise to a balancing charge so the tax written down value of these assets needs to be kept separate from the pool.

Temporary SDLT nil rate band

The temporary increase in the stamp duty land tax (SDLT) nil rate band for residential property in England and Northern Ireland that was due to end on 31 March 2021 will be extended. The nil rate band will continue to be £500,000 for the period to 30 June 2021. From 1 July 2021 until 30 September 2021, it will be £250,000, and it will return to the standard amount of £125,000 from 1 October 2021.

VAT registration / deregistration thresholds

The current VAT thresholds for registration and deregistration (£85,000 and £83,000 respectively) will be maintained until 31 March 2024.

Reduced rate for the hospitality extended

The reduced rate of 5%, which currently applies to certain supplies relating to hospitality, hotel and holiday accommodation and admission to certain attractions, will be extended until 30 September 2021. A new reduced rate of 12.5% will then apply until 31 March 2022, after which the standard rate will apply.

The following businesses qualify:

- Hospitality: supplies in the course of catering including supplies of hot and cold food and non-alcoholic drink to be consumed on the premises and supplies of hot takeaway food and drink to be consumed off the premises;
- Accommodation: the provision of hotel and holiday accommodation, pitch fees for caravan parks and tents and related facilities;
- Attractions: admission to attractions not covered by the cultural exemption.

Regulation 55K of the VAT Regulations will be amended to ensure that businesses using the flat rate scheme will also benefit.