

Budget 2021 – Personal tax issues (Lecture P1246 – 22.41 minutes)

Rates and allowances for 2021/22

The personal allowance will increase to £12,570 and the basic rate limit to £37,700 in 2021/22. These levels will continue up to and including 2025/26. The additional rate threshold remains at £150,000. This applies equally across the UK, except that Scotland has its own income tax rate bands on general income set by the Scottish Parliament.

For National Insurance Contributions the thresholds are:

- LEL remains at £120 per week
- Primary threshold increased to £184 per week (£183)
- Secondary threshold increased to £170 (£169)
- UEL increased to £967 (£962)

The transferable marriage allowance increased to £1,260 (2020/21: £1,250).

The maximum married couples allowance (MCA) tax reducer increased to £9,125 (£9,075) and the minimum amount claimable is £3,530 (£3,510). MCA is reduced by 50% of the taxpayer's income above a certain limit. This limit has increased to £30,400 (£30,200).

The starting rate for the savings limit will remain at £5,000 and the ISA, junior ISA and child trust fund limits are unchanged for 2021/22.

The link to the CPI increase for the pension lifetime allowance has been removed for five years, so the allowance remains at £1,073,100 for 2021/22 to 2025/26.

The capital gains tax annual exemption will remain at £12,300 up to and including 2025/26.

Inheritance tax thresholds, rates and the nil rate band are unchanged until April 2026.

CJRS extension and other COVID-19 measures

CJRS

The furlough scheme is extended to 30 September 2021.

It continues in its current form until 30 June 2021. Employees will receive the same amounts as now, at least 80% of their regular pay which can be topped up to 100% by the employer.

From July, the maximum grant drops to 70% of salary for unworked hours, but the employer must still pay the employee 80% (up to the maximum £2,500).

For August and September, the maximum grant drops to 60% of salary for unworked hours, but the employer must still pay the employee 80% (up to the maximum £2,500).

As now, the NIC and pension costs will be borne by the employer, as it is now.

Home office equipment expenses

Legislation was introduced in 2020 to provide that there is no charge to tax for an amount reimbursed to an employee on or after 11 June 2020 (backdated to 16 March 2020 by concession) and before 6 April 2021 in respect of home office equipment expenses. 'Home office equipment expenses' are expenses incurred by the employee in respect of equipment obtained for the sole purpose of enabling the employee to work from home during the coronavirus (COVID-19) pandemic. There must be no significant private use. The exemption applies equally to NIC. These exemptions will now be extended to cover the 2021/22 tax year.

Employer-provided coronavirus tests

Legislation is already in place to ensure that the provision of coronavirus antigen tests (but not antibody tests) to employees by employers do not attract tax and NIC for 2020/21. These exemptions will be extended to cover 2021/22 as well.

Employer-reimbursed coronavirus tests

Finance Bill 2021 will introduce a retrospective income tax exemption for payments that an employer makes to an employee to reimburse them for the cost of a coronavirus antigen test for 2020/21. A corresponding NIC exemption has already been put in place by regulations. A similar exemption will be introduced for 2021/22 for both income tax and NIC.

Enterprise Management Incentives (EMI)

Where employees are furloughed, working reduced hours or taking unpaid leave due to coronavirus, they may not be able to meet the committed working time requirement of EMI. Finance Act 2020 included legislation to ensure that a disqualifying event does not occur purely as a result of any such occurrence. This has effect in relation to the period 19 March 2020 to 5 April 2021 inclusive, but it will now be extended until 5 April 2022.

As previously announced, Finance Bill 2021 will legislate to ensure that new EMI options issued to employees who have not met the working time requirement as a result of coronavirus will be qualifying EMI options. This will have effect throughout the period 19 March 2020 to 5 April 2022.

Cycle to Work scheme

Firming up a statement made to Parliament in December 2020, new legislation will introduce a time-limited easement to disapply the condition that states that bicycles and cyclist safety equipment, where obtained through a Cycle to Work scheme, must be used mainly for qualifying journeys (to or from work or in the course of work). Due to lockdown, it will not be possible in many cases for that condition to be met. Employees who joined a Cycle to Work scheme and were provided with a bicycle or cycling equipment on or before 20 December 2020 will not now have to meet the qualifying journeys condition until after 5 April 2022. However, employees who join a scheme on or after 21 December 2020 still need to meet all the conditions for the exemption.

Coronavirus support scheme: working households receiving tax credits

A one-off support payment of £500 is being made under a coronavirus support scheme to working households in receipt of tax credits. It will cover a six-month period from April to September 2021. Legislation to be included in Finance Bill 2021 will exempt this payment from income tax.

Car and van benefits

The amount to which the appropriate percentage is applied in determining the taxable benefit of company car fuel is £24,600 for 2021/22 (£24,500 for 2020/21).

The cash equivalent of the benefit of a company van for 2021/22 is £3,500 (£3,490 for 2020/21).

The cash equivalent of the benefit of van fuel for 2021/22 is £669 (£666 for 2020/21).

As announced at Budget 2020, the Government will legislate in Finance Bill 2021 to reduce the van benefit charge to zero for 2021/22 onwards for vans that produce zero-carbon emissions.

The following percentages have been confirmed for calculating car benefits:

- Cars registered before 6 April 2020
 - Zero-emission cars: 1% for 2021/22 then 2% from 2022/23 to 2024/25
 - Other cars: frozen until 2024/25
- Cars registered from 6 April 2020
 - All rates increase by 1 percentage point in 2021/22 and again in 2022/23 then frozen until 2024/25

The maximum figure to use remains at 37%.

Late filing and payment penalties

A new regime is to be introduced for late filing and late payment penalties for VAT and income tax self assessment (ITSA):

- For VAT, the regime will apply for accounting periods beginning on or after 1 April 2022;
- For ITSA, it will apply for accounting periods beginning on or after 6 April 2023 for taxpayers within the Making Tax Digital regime (those with business or property turnover of over £10,000 per year) and 6 April 2024 for other self assessment taxpayers.

The measure is no surprise as it has been developed through three consultations starting in 2016, but nothing more had happened since 2018.

Late filing or submission penalties

A points-based system will come into effect. When a taxpayer misses a submission deadline, they will incur a point. Points accrue separately for VAT and for ITSA. A taxpayer becomes liable to a fixed penalty of £200 upon reaching the points threshold. The points threshold depends on the taxpayer's submission frequency: annually = two points; quarterly = four points; monthly = five points. Penalty points accrued will automatically expire after 24 months provided the taxpayer remains below the threshold. After the threshold has been reached, all points will expire after the taxpayer has met their return obligations for a set period of time based on their submission frequency: annually = 24 months; quarterly = 12 months; monthly = six months.

If the taxpayer continues to miss deadlines after they have reached the points threshold and have been issued with a penalty, they will become liable for a further fixed rate penalty for each additional missed obligation. A taxpayer will not be liable to a point or penalty if they had a reasonable excuse for not submitting on time and will have right of appeal against both points and penalties.

Late payment penalties

There will be no penalty at all if the taxpayer pays the tax late but within 15 days of the due date. The first penalty will be set at 2% of the outstanding amount if payment is made between 16 days and 30 days after the due date. It will be set at 4% of the outstanding amount if there is tax left unpaid 30 days after the due date. A second late payment penalty is then chargeable at 4% per annum, calculated on a daily basis on the total unpaid tax from day 31.

To avoid or reduce penalties, the taxpayer can approach HMRC to agree a time to pay arrangement.

Interest harmonisation

The VAT late payment interest rules will change and will be similar to those that already apply for ITSA. When an amount is not paid by the due date, late payment interest will be charged from the due date to the date the payment is received. Late payment interest will apply in relation to VAT returns, VAT amendments and assessments and VAT payments on account. HMRC will normally pay repayment interest either from the last day the payment was due to be received or the day it was received, whichever is later, until the date the repayment to the taxpayer is authorised or offset.