Budget 2021

The Chartered Institute of Payroll Professionals (a company incorporated by Royal Charter)

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CIPP summary of Budget 2021

When the Chancellor of the Exchequer, Rishi Sunak, stood up in the House of Commons with his maroon briefcase to deliver his first ever Budget on 11 March 2020, nobody could have predicted what would lie in store for the remainder of the year. The coronavirus pandemic has wreaked havoc, not only in the UK but has impacted almost every element of ordinary life for individuals all over the globe. Mr. Sunak had only been in post from February 2020, replacing his predecessor Sajid Javid, but has since become a very familiar face in UK politics, making frequent public appearances and regularly taking to social media to announce additional Government measures to help both businesses and individuals through the turbulent times that the country has faced over the past 12-months.

As always, prior to a Budget, speculation has been rife as to what Mr. Sunak planned to unveil, but one thing we definitely knew was that the level of Government support to be offered under the fourth instalment of the Self-Employment Income Support Scheme (SEISS) would be confirmed. It was also suggested that a fifth grant would be announced. Rumours circulated that the Coronavirus Job Retention Scheme (CJRS) would be extended and possibly tapered. Today, we had confirmation of the extended support that these schemes will provide up to and beyond the removal of coronavirus restrictions (hopefully) in June 2021.

The traditional format of the Budget will not be followed as such this year, as we have had confirmation that 23 March 2021 will be known as 'Tax Day'. A number of consultations and calls for evidence, which are an integral part of the Government's ten-year tax administration strategy, will be published on that date. Any announcements that impact the Government's finances, that need to be included in the Office for Budget Responsibility's (OBR) economic and fiscal outlook, or that need to be legislated for in the Finance Bill would be made on Budget day, as usual.

This is what we knew ahead of midday on 3 March 2021. Without further ado, let's look at the announcements made within the Budget that will impact the work carried out by payroll professionals, and other key areas of interest.

The current economic climate

It was easy to predict that the current economic climate would not be particularly positive, given the substantial dent to the funds available to the Treasury, and to wider Government, as a result of the schemes introduced to protect businesses and individuals through the outbreak of coronavirus. However, it has been confirmed that economic growth was stronger towards the latter end of 2020 than the OBR was anticipating. The output at the end of the year was 6.3% lower than the level observed in February 2020, which was around one percentage point higher than initially expected. It is predicted that growth will return from the second quarter of 2021, increasing by 3.9% in the second quarter, and subsequently by 3% and 3.3% in the third and fourth quarters. The OBR now expects Gross Domestic Product (GDP) to return to levels seen prior to the outbreak of coronavirus earlier than it originally expected.

It is anticipated that the unemployment rate will reach its highest level in the fourth quarter of 2021, and will equate to 6.5% but, again, this is one percentage point below than estimated in the OBR forecast, published in November 2020. The unemployment rate is expected to decrease to 4.4% as 2024 draws to a close.

Coronavirus measures

As Boris Johnson confirmed when he addressed the nation on 22 February 2021, lockdown restrictions will be eased gradually to continue the fight against coronavirus and to curb its spread. Within the Budget, the Chancellor assured businesses and individuals that support measures would continue to be implemented to support the phased exit from lockdown and to ensure continued protection for both businesses and employees.

Extension to the CJRS

It was no surprise when the Chancellor announced a further extension to the CJRS, so that it will now close at the end of September 2021. This is an additional five months after the end of April 2021 when it was intended to close.

Employees will continue to receive at least 80% of their standard wages for usual hours not worked, with the Government funding the full 80% and employers only expected to pay employer National Insurance Contributions (NICs) and employer minimum Automatic Enrolment (AE) pension contributions on furlough pay, through May, April and June 2021. In July 2021, employers will be required to contribute 10% of the employee's 80% furlough pay, with the Government paying for 70%. In August and September 2021, it will be mandatory for employers to contribute 20% while the Government will contribute at a rate of 60%.

As always, the devil is in the detail and the revised CJRS guidance has confirmed that, under the extension to the scheme, there will be an amendment to eligibility. For claim periods commencing on or after 1 May 2021, employers will now have the option of including employees that were not previously eligible, due to Real Time Information (RTI) submissions being sent after 30 October 2020. All employees who have had a Pay As You Earn (PAYE) RTI submission made for them between 20 March 2020 and 2 March 2021 can now be included in claims relating to periods starting on 1 May 2021, onwards. The eligibility criteria for the periods of March and April 2021 remain unchanged.

Details of the fourth and fifth SEISS grants announced

The long-awaited details of the fourth SEISS grant were confirmed in the Budget, accompanied by the announcement of a fifth and final grant.

The fourth SEISS grant will be paid at 80% of three months' average trading profits, which, as before, will be made in a single instalment and capped at £7,500 in total. This grant will cover the period from February 2021 to April 2021, and eligible applicants can make a claim from late April 2021. The eligibility for the fourth grant differs to that previously in that self-employed individuals must have filed a 2019-20 Self Assessment tax return in order to be eligible. This will mean that over 600,000 individuals may now be

newly eligible for SEISS, including many new to self-employment over the course of tax year 2019- 20. All other eligibility criteria will remain the same as the third grant, with further details being published in due course.

The Government announced that there will be a fifth and final SEISS grant which will cover the period from May 2021 to September 2021. Unlike the previous grants, the value of the grant will be determined by a turnover test, in a bid to ensure that support is targeted at those who need it the most. Individuals whose turnover has fallen by 30% or more will continue to receive the full grant of 80% of three months' average trading profits, again capped at £7,500. However, those whose turnover has fallen by less than 30% will receive a reduced grant of 30% of average trading profits, capped at £2,850. Applications for the fifth and final grant can be made in late July 2021.

Vaccine funding

The Government has confirmed that it is allocating a further £1.65 billion to continue the vaccine deployment programme in England in 2021-22, with additional funding being provided to the devolved administrations on the basis of the Barnett formula. It has been confirmed that, between 8 December 2020 and the end of February 2021, the COVID-19 vaccination programme has provided more than 20 million people in the UK with their first dose of a vaccine, with some receiving both doses. It is the Government's intention for the first dose of the vaccination to be given to anyone who is aged 50 or over, or who is identified as being at risk or vulnerable, by no later than 15 April 2021. All individuals aged 18 and above should have been offered the first dose by 31 July 2021.

Continuation of the Statutory Sick Pay (SSP) Rebate Scheme

This scheme, which allows small and medium-sized employers with less than 250 employees to reclaim up to two weeks' worth of SSP paid for coronavirus-related absence from the Government, will continue to be made available for those eligible businesses. The steps for ending this scheme will be announced in due course.

The Taxpayer Protection Taskforce

In order to combat the ever-increasing levels of fraud across all of the coronavirus support packages, particularly within the CJRS and SEISS, more than £100 million will be contributed towards establishing a Taxpayer Protection Taskforce, which will consist of 1,265 HMRC staff.

Income tax rates and thresholds

Income tax

So that employers and payroll software developers had enough time to prepare for the start of the tax year, HMRC published income tax parameters in early February. The Personal Allowance for tax-free income will increase to £12,570 and the Higher Rate Threshold (HRT), when higher earners start to pay 40% tax, will increase to £50,270.

Documents published alongside the Budget Statement confirmed these and other allowances for the 2021-22 tax year. The Marriage Allowance (also known as the Transferable Tax Allowance) will increase to £1,260 and the Blind Person's Allowance will increase to £2,520. The maximum Married Couple's Allowance will increase to a maximum of £9,125 (minimum £3,530) with an income limit of £30,400. UK income tax rates remain unchanged.

Income tax bands for rUK (UK excluding Scotland) will be:

- Basic rate: £1 to £37,700
- Higher rate: £37,701 to £150,000
- Additional rate: over £150,000.

At Budget 2021, the Chancellor announced that the Personal Allowance, income tax bands and the Higher Rate Threshold will be frozen at their 2021-22 levels for the following four tax years as part of the Government's plan to recover the UK's finances after the huge cost of the coronavirus pandemic response.

The basic rate limit and Higher Rate Threshold changes apply to non-savings, non-dividend income in England, Wales and Northern Ireland, and to savings and dividend income in the UK.

Devolved income tax

The Scottish Government's Budget for 2021-22 was recently approved by Parliament (25 February). The rates remain unchanged with only the starter and basic rate bands and the Higher Rate Threshold receiving an increase (in line with inflation), with the result that all Scottish taxpayers will pay a little less tax in 2021-22 than in 2020-21 on current incomes.

Income tax bands for Scotland will be:

- Starter rate (19%): £1 to £2,097
- Basic rate (20%): £2,098 to £12,726
- Intermediate rate (21%) £12,727 to £31,092
- Higher rate (41%): £31,093 to £150,000
- Top rate (46%): over £150,000.

The Welsh Government's Budget for 2020-21 has also been approved (2 March). In line with its commitment for the duration of the current term of the Senedd (parliament), the Welsh Government has set the Welsh Rates of Income Tax (WRIT) at 10p in the pound. Welsh rates are added to the UK rates after deducting 10p in the pound for each band, so the net effect for Welsh taxpayers is that they are subject to the same basic, higher and additional rates as taxpayers in England and Northern Ireland.

Company cars, vans and fuel

The Budget Statement confirms that the company car and van benefit charges increase in line with the Consumer Price Index (CPI). Figures previously published show that the multiplier for the car fuel benefit charge will increase to £24,600 (from £24,500), the flat-rate van fuel benefit charge will increase to £669 (from £666) and the flat-rate van benefit charge will increase to £3,500 (from £3,490).

The Company Car Tax appropriate percentage for 2021-22 are as previously announced. For the 2021-22 tax year, with the exception of the 0kg/km rate:

- Appropriate percentages for vehicles first registered before 6 April 2020 (NEDC) are frozen at their 2020-21 levels
- Appropriate percentages for vehicles first registered on or after 6 April 2020 (WLTP) are 1% below the corresponding NEDC percentage.

The 0kg/km rate increases from 0% to 1% for both NEDC and WLTP vehicles.

Documents published alongside the Budget confirm that, for tax year 2022-23, the 0kg/km rate will increase to 2% and WLTP rates will match NEDC rates. All rates are then frozen up to and including the 2024-25 tax year.

The van benefit charge for zero-emission goods vehicles reduces from 80% to 0% of the standard charge from April 2021 onwards, as announced at Budget 2020.

The diesel supplement for the Company Car Tax appropriate percentage remains at 4%, subject to a maximum appropriate percentage of 37%. Cars that meet the Euro 6d standard (also known as Real Driving Emissions Step 2, RDE2) are exempt.

National Insurance contributions

Limits and thresholds

National Insurance contribution limits and thresholds for 2021-22 were published in advance of the Budget by HMRC for the convenience of employers and payroll software developers. The weekly Lower Earnings Limit (LEL) is unchanged at £120, the weekly Primary Threshold (PT) increases to £184 (from £183) and the Secondary Threshold (ST) increases to £170 (from £169). The Upper Earnings Limit (UEL), Upper Secondary Threshold (UST) for under 21s and Apprentice Upper Secondary Threshold (AUST) for under 25s increase to £967 a week (from £962).

Budget 2021 includes an announcement that the NICs UEL will remain aligned to the tax Higher Rate Threshold; therefore, it will also be frozen at £50,270 (annual) until April 2026.

NICs rates remain unchanged.

Employment Allowance

The Employment Allowance is an annual amount that is available to businesses and charities (with some exclusions) to offset against their Class 1 secondary NICs bill. It remains at £4,000 for 2021-22.

Employer NICs holiday for veterans

As previously announced, employer's secondary NICs will be reduced to 0% on earnings up to the UEL for the first year of civilian employment for HM Armed Forces veterans. This temporary change applies for tax years 2021-22 to 2023-24.

- For tax year 2021-22, employers would pay the secondary NICs and then claim the relief back from April 2022
- For tax years 2022-23 to 2023-24, employers would claim the relief in real time, through PAYE, using an appropriate NI category letter.

Employer NICs holiday for Freeports

The Chancellor announced proposals to provide relief from employer's secondary NICs on the earnings of eligible employees to encourage job creation at the new Freeport tax sites within Great Britain. Subject to parliamentary approval, this would be available from April 2022 (or from the date when a site is designated as a Freeport tax site) until April 2026, with a possible extension to April 2031.

National Minimum Wage / National Living Wage

The Low Pay Commission (LPC) recommendations for 2021-22 were accepted in full. The rates that apply to pay reference periods beginning on or after 1 April 2021 are shown in this table.

	Current	From April 2021	Increase
NLW 23 years+	**~**	**£8.91**	**2.2%**
NLW 25 years+	**£8.72**	**~**	**~**
21-22 year old rate	**~**	**£8.36**	**2.0%**
21-24 year old rate	**£8.20**	**~**	**~**
18-20 year old rate	**£6.45**	**£6.56**	**1.7%**
16-17 year old rate	**£4.55**	**£4.62**	**1.5%**
Apprentice rate	**£4.15**	**£4.30**	**3.6%**
Accommodation offset	**£8.20**	**£8.36**	**2.0%**

Note that, from April 2021, the NLW rate begins to apply from 23 years old, reduced from 25 years old. As a result, the 21 to 24 year old rate is replaced by the 21 to 22 year old rate. The second stage of the NLW age range changes will see the rate begin to apply from 21 years old by 2024.

The Government also accepted the LPC's recommendation that the Apprentice rate be aligned in value with the 16-17 year old rate with effect from April 2022.

The Chancellor confirmed the Government's continued commitment to a National Living Wage target of two-thirds of median earnings by April 2024, subject to economic conditions. This remains the LPC's recommendation, although in its last report it was unable to forecast progress with any accuracy due to the effects of the coronavirus lockdowns and the Coronavirus Job Retention Scheme on last year's pay data.

Pensions taxation

Lifetime Allowance

The Lifetime Allowance is the maximum amount someone can accrue in a registered pension scheme in a tax-efficient manner over their lifetime.

The Chancellor announced that this allowance will be frozen at its 2020-21 level – £1,073,100 – until April 2026.

Support for devolved nations

Further support will be provided to the devolved nations.

Individuals and businesses alike throughout Scotland, Wales and Northern Ireland will continue to benefit from the CJRS, the SEISS, loan schemes and cuts to VAT and business rates.

The Barnett formula, which is a tool utilised by the Treasury to automatically adjust the amounts of public expenditure provided to Northern Ireland, Scotland and Wales, has resulted in an additional £2.4 billion being allocated to the devolved administrations for tax year 2021-22. The breakdown is as follows:

- An additional £1.2 billion will be provided to the Scottish Government
- An extra £740 million provided to the Welsh Government
- An additional £410 million for the Northern Ireland Executive.

In addition to this, the devolved administrations will also receive £1.4 billion of funding in tax year 2021-22 which falls outside the Barnett formula.

Scotland

- £27 million will be invested in the Aberdeen Energy Transition Zone and £5 million in the Global Underwater Hub
- Three City and Growth Deals in Ayrshire, Argyll and Bute, and Falkirk to receive funding more quickly.

Wales

- £4.8 million to be provided to support the development of a demonstration hydrogen hub in Holyhead, Anglesey
- The Global Centre for Rail Excellence to receive up to £30 million
- Three City and Growth Deals in North-Wales, Mid-Wales and Swansea Bay to receive funding more quickly.

Northern Ireland

- The Northern Ireland Housing Executive, Northern Ireland's biggest landlord will be exempt from corporation tax
- Nearly 50% of the £400 million New Deal for Northern Ireland funding has been allocated, subject to business cases to:
  - New systems for small traders and supermarkets to manage new trading arrangements
  - Developing improved resilience in medicine supply chains
  - Promoting Northern Ireland's goods and services overseas
  - Supporting skills development
- £5 million in additional funding in tax year 2021-22 to extend the Tackling Paramilitary Programme.

Support for jobs - apprenticeships and traineeships

The Government recognises that the outbreak of coronavirus has impacted heavily on jobs and has disproportionately disadvantaged younger people. To try and combat this, several measures will be implemented to support them back into jobs or help them into newly created jobs.

The Government has confirmed that it will provide £126 million for the 2021-22 academic year, in addition to the £111 million provided in 2020-21, towards high quality work placements and training for 16–24-year-olds in England. Those employers who provide trainees with work experience can continue to benefit from a payment of £1,000 per trainee.

Employers in England who hire new apprentices between 1 April 2021 and 30 September 2021 will receive £3,000 per new hire. Previously, this was £1,500 for each apprentice hire, or £2,000 for each apprentice aged below 25. In addition, the Government continues to provide £1,000 for any new apprentices aged between 16 and 18, and for those under the age of 25 with an Education, Health and Care plan.

£7 million will be ploughed in to a new 'flexi-job' (portable) apprenticeship programme in England, which will allow apprentices to work with several employers in one sector, as opposed to just one employer.

New technologies will be piloted to assist people in finding jobs, and the Government will invest £1.3 million over the course of 2021-22 and 2022-23 to support them.

Extension to Stamp Duty nil rate band and a new mortgage guarantee scheme

In a bid to turn 'Generation Rent' into 'Generation Buy', the Government will implement a new mortgage guarantee scheme and extend the temporary increase in the residential Stamp Duty Land Tax (SLDT) relief.

The SLDT nil rate band was increased to £500,00 across England and Northern Ireland until 31 March 2021. This has been extended until 30 June 2021. In addition to this, between 1 July 2021 and 30 September 2021, the nil rate band reduces to £250,000. It will not return to its original value of £125,000 until 1 October 2021. Funding is provided to the Scottish and Welsh governments for comparable support.

A new mortgage guarantee scheme is to be implemented from April 2021, up until 31 December 2022. This will allow individuals who have a deposit of 5% or above to secure a mortgage on a home up to the value of £600,000. Buyers will have the option of securing their original mortgage rate for a minimum of five years. It is hoped that the scheme will allow more people to buy their homes despite having only a small deposit.

Corporation tax

Corporation tax is a tax charged to all limited companies, which is payable against the profits a company makes. In the UK, corporation tax is currently charged at 19%, which is the lowest rate when compared with all other G7 countries.

The Chancellor announced that, from 2023, the rates will increase to 25% and stated that this will only affect 10% of companies, who will be required to pay at this increased rate.

The new higher rate will be part of a three-tier plan, alongside a new Small Profits Rate.

Those with profits of £50,000 or less will pay corporation tax at the current rate of 19%, and only when a company has profits of £250,000 or more will the 25% become applicable.

It is estimated that around 70% of companies will be completely unaffected by this change.

A new 'super-deduction' for investment

A 'super-deduction' will be introduced from 1 April 2021 to 31 March 2023 for companies investing in qualifying new plant and machinery assets.

In a bid to help companies grow, the Chancellor announced that, during this period, any company investing in qualifying new plant and machinery assets will be able to claim:

- 130% super-deduction capital allowance on qualifying plant and machinery investments
- 50% first-year allowance for qualifying special rate assets

The introduction of the 'super-deduction' will allow companies to reduce their tax bill by up to 25p for every £1 that they invest, to ensure that the UK capital allowances regime is amongst the world's most competitive.

This 'super-deduction's' aim is to encourage firms to invest in productivity-enhancing plant and machinery assets that will help them grow and urge them to make those investments imminently.

Other points of interest

To help individuals through the coming months, it has been confirmed that the temporary £20 per week increase to the **Universal Credit** Standard Allowance will be in place for an additional six months in Great Britain, and the Northern Ireland Executive will receive funding to mirror this uplift. In addition to this, a one-off payment of £500 will be offered to any eligible **Working Tax Credit** recipients.

The current **contactless payment** limit of £45 will be increased to £100 and cumulative payments will increase to £300. Contactless transactions allow customers to pay for goods without the need to enter their pin number. There is no prescribed date for when this will be implemented, but it will be at some point later this year.

A key Budget announcement every year, which everyone (ourselves included) waits to hear about, relates to the **duty rates** on alcohol. The Chancellor did not disappoint and announced that, to further support the hospitality industry, duty rates on spirits, wine, beer and ciders will be frozen for 2021-22. Additionally, the rates of duty on fuel will remain unchanged.

CIPP comment

The Budget certainly did not disappoint today, as we were presented with a flurry of information during the Chancellor's delivery of his speech.

Whilst we were expecting further information relating to the potential alignment of the liabilities paid by the self-employed with those applied to the earnings of individuals classed as employees, this could be something that emerges on what has now been dubbed as 'Tax Day' on 23 March 2021.

Additionally, there may be further indications as to the Government's future plans for pensions, with particular focus on how pensions tax relief may work going forward.

We welcome the continued support offered by the Government to keep businesses afloat and to support individuals in these unprecedented times, and also the range of measures introduced to incentivise employers to take on younger people, and similarly to encourage younger people into work.

Whilst future freezes to the tax and NICs thresholds may not have been necessarily welcome news, the rationale behind this decision is clear to see – there needs to be some route out of the economic disruption caused by coronavirus, and a way for the Exchequer to start balancing the books.

The Budget delivered today is just the start of the long journey towards economic recovery, and as Rishi Sunak stated, "It lays the foundations of our future economy".

We wait to see the content of the consultations and calls for evidence that will be published on 'Tax Day' and whether there will be an Autumn Budget for 2021.