Grant Thornton

Autumn Budget 2021

Impact on individuals

In his October 2021 Budget speech, the Chancellor, Rishi Sunak announced very little in the way of new measures for individuals, but a number of announcements have been made in recent weeks and months which will have an impact on individual taxpayers.

Freezing of personal allowances and income tax thresholds

As confirmed in the Spring Statement, the personal allowance of £12,570 will remain unchanged for 2022/23 and will remain frozen until April 2026. Income tax thresholds also remain unchanged from 2021/2022, in line with prior announcements to freeze the thresholds until April 2026.

National Insurance/ HSC Levy

The Government announced in early September that they would be introducing a new Health and Social Care Levy which will come into effect in April 2023. As a transitional measure, the rates of National Insurance for Class 1 and Class 4 will increase for both employees/self-employed and for employers by 1.25% from April 2022, before reverting when the HSC Levy comes in.

The key difference from 2023 when the new HSC Levy will be introduced is that those individuals above state pension age who are still earning (employed or self-employed) will now be subject to the charge over the relevant NIC threshold, where previously they have been exempt from paying national insurance once they are of state pension age. Employers will also be subject to the additional charge on their pensioner employees.

National Insurance – New Employer Reliefs

It was also previously announced that two new employer reliefs will be introduced from April 2022.

The Veterans Relief is available in respect of an individual who has served at least one day in the armed forces, for the first year of their first civilian employment, up to an annual Veterans Upper Secondary Threshold, currently £50,270 per individual. Basic training will qualify for the purpose of this relief.

There were also a number of measures introduced for businesses who qualify for Freeport tax site status. From a national insurance perspective, an employer NIC relief is available up to an annual threshold, currently £25,000, per qualifying employee for the first three years of employment. To be a qualifying employee, the individual must spend at least 60% of their working time at a single Freeport tax site where the employer has business premises. Unfortunately, there are currently no Freeport tax sites in Northern Ireland but the position is under review, with a paper released on 15 January 2021 reviewing the UK Freeport Policy and the Protocol on Ireland/Northern Ireland. It is likely to be some time before the position is concluded.

National Minimum Wage and National Living Wage

Just a couple of days before the Budget, the Government announced that the national living wage for individuals aged 23 and over will increase from £8.91 to £9.50 from April 2022. This is a welcome move and will go some way to alleviating the additional burden of the HSC Levy/NIC increase set to be introduced.

For an individual working 40 hours a week earning the national living wage, and taking into account the increase in NIC, they should be around £750 better off per annum. This ignores any entitlement to Universal Credit.

For people aged 21 or 22 the rate will increase from £8.36 to £9.18 per hour, and for those on the Apprentice rate, an increase to £4.81 from £4.30 will be implemented.

Universal Credit

Following the recent backlash on the removal of the £20 'Pandemic uplift' that was given to those who claim universal credit, the Government have announced on Budget Day a measure 'to make work pay' by substantially reducing the Taper rate at which the universal credit is reduced based on income. The current rate of 63% will be reduced to 55%, meaning, an individual will retain an extra £8 for every £100 of gross earnings. The Taper rate only affects those who are working.

Other Thresholds

The inheritance tax thresholds, the pensions Lifetime Allowance and the Annual Exempt Amount for Capital Gains Tax will be maintained at their existing levels until April 2026.

Dividends

At the same time as the new HSC Levy measures were announced, the Government also announced that they would be increasing the dividend rates of tax by 1.25% from April 2022, with a view to aligning the need to raise additional funds from earners and investors alike.

For many years, businesses have reviewed the benefit of dividend versus salary/bonus extraction planning with invariably dividends being the more tax-efficient extraction method when other matters such as R & D tax credits on employment costs are not in play. However, with the increase in dividend rates, introduction of the HSC Levy/NIC increase, and the increase in corporation tax rates from 19% to 25% set for April 2023, the maths is more closely aligned. Dividends may still provide a better answer, but it may be marginal, and so taking a wider review of remuneration planning and potentially looking at other methods of reward, such as salary sacrifice, low rate or tax-free benefits, and pension provision may result in more tax efficient options for the individual and business alike.

The £2,000 dividend allowance threshold will also remain, meaning an individual can earn a dividend income of up to £2,000 per tax year without suffering a tax charge.

As a side effect of the increase in dividend rates, s455 corporation tax which is payable if there is an outstanding participator loan at the end of the Company's accounting year which remains wholly/partially unsettled 9 months and 1 day after the year end. The rate is directly linked to the higher rate of tax for dividends, and therefore the rate of tax payable on the balance will increase from 32.5% to 33.75% with effect from April 2022. S455 tax is a cashflow tax, and repayable 9 months and 1 day following the end of the accounting year in which the debt is settled/written off.

Annual Investment Allowance

It was also welcome news that the AIA threshold of £1m will no longer cease at the end of December 2021, and is now being extended until March 2023 to encourage businesses to continue to invest in qualifying assets.

Pension Contributions

The Government have also concluded their review of the administration of pension relief and have released their response to a call for evidence. The issue related to lower earners who provide for their retirement by way of making pension provision and the inequality of tax relief between the two core methods of pension saving for employees.

There are two main ways in which individuals receive income tax relief when saving into a pension, a 'net pay arrangement' whereby the individual receives tax relief when pension contributions are taken out of their pay by their employer prior to the calculation of tax, and 'relief at source' where an individual makes pension contributions out of the post-tax pay, and the pension scheme claims tax relief at the basic rate of tax. For the lowest earners, being in a net pay arrangement means they may not be getting the same 20% tax relief that a relief at source arrangement provides.

The Government have therefore announced a system of top-up payments which is aimed at aligning the position between the two schemes. The payments will be made directly to the low-earning individuals who are making pension savings using a net pay arrangement with effect from 2024/25. The top up payments will be paid after the end of the relevant tax year, with the first payments being made in 2025/26 and continuing thereafter.

Please let us know if you have any questions or would like to discuss any of the above with our tax specialists. We would be happy to arrange a call.

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