

Spring Budget 2021

Grant Thornton

5 March 2021



Introduction

Peter Legge

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Director | Covid-19 supports |
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Economic overview

Andrew Webb
Chief Economist

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From Chaos to Calm?

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More light than
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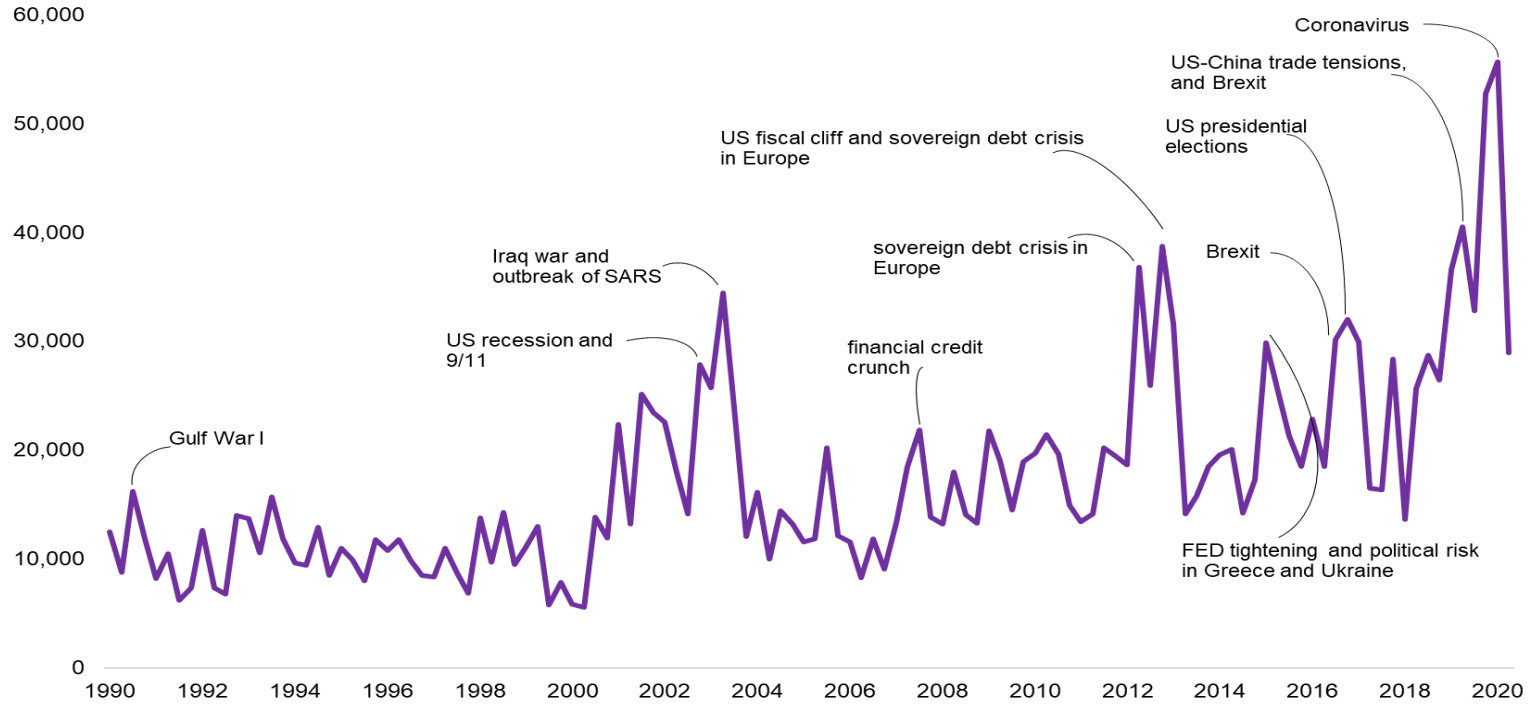
The start of the
recovery?

04

Public Finances

Global context

The world uncertainty index – are we seeing a return to relative calm?



Source: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo

More light than tunnel?

Current Position

Population
(2019)

1,893,700



GVA
(2018)

£40.1bn



Total Employment
(2020 Q4)

841,000



Unemployment rate -
16-64 (2020 Q4)

3.6%



Inactivity Rate -
16-64 (2020 Q4)

28.0%

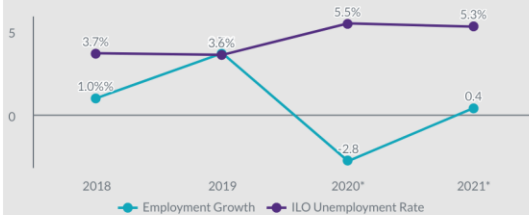


Forecast Outlook

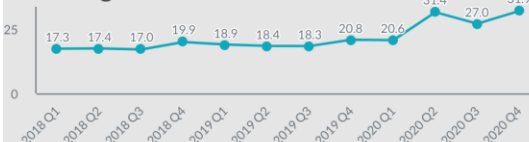
Total Population: 2040 population = 1,983,000



Labour Market:



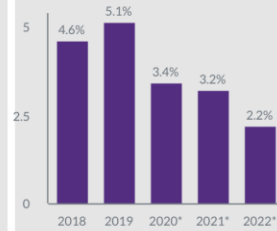
% Change in Internet Sales:



Real GVA Growth:



House Price Growth:



UK GDP OECD Covid-19 Forecast:



Inflation:

2019	2.2%
2020*	0.7%
2021*	1.2%



'Our recovery begins today'

Corona wreaks havoc on public finances



Coronavirus Support



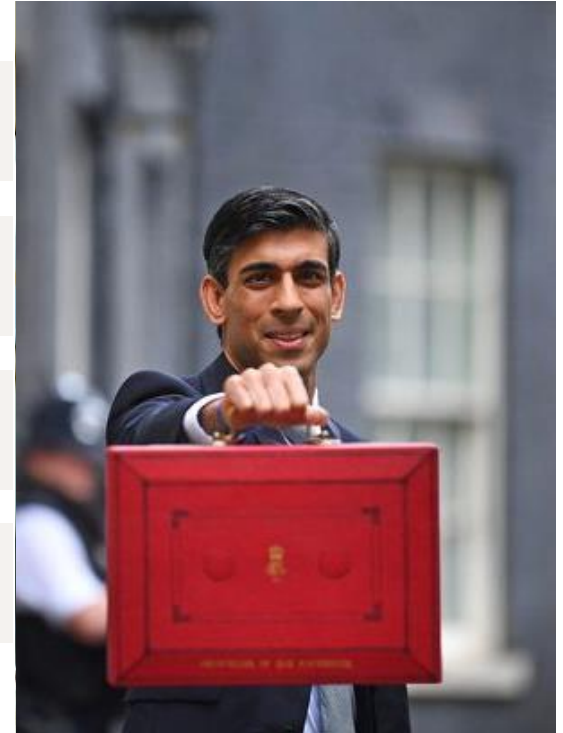
Protecting Jobs and Livelihoods



Strengthening the Public Finances

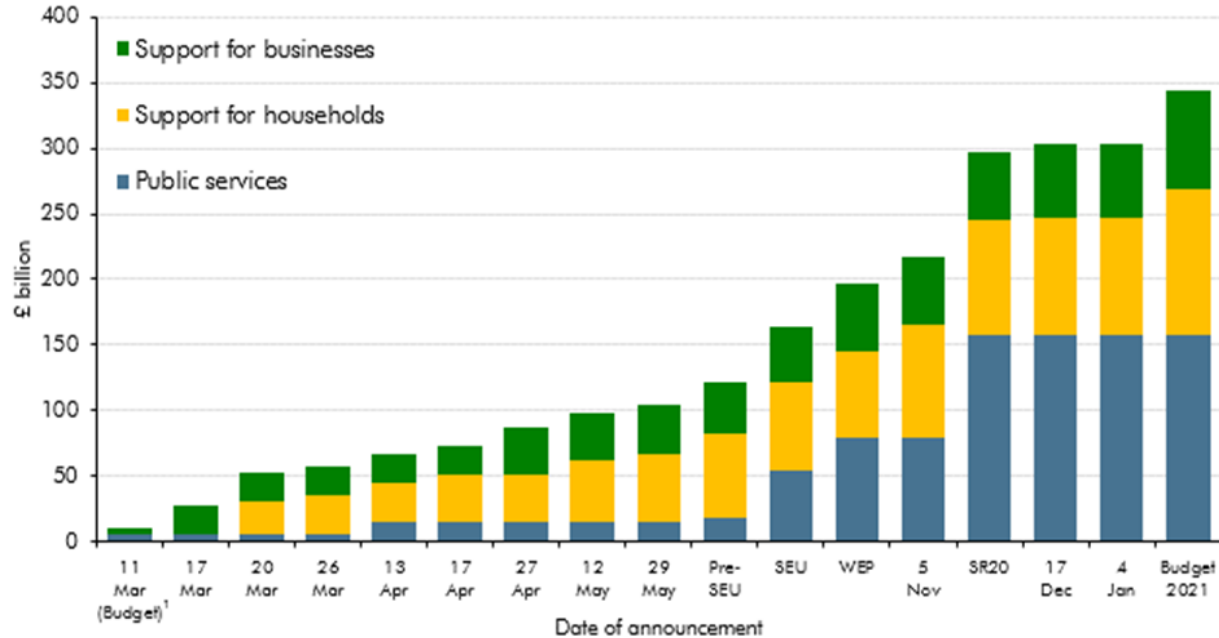


An Investment-led Recovery



OBR Economic and Fiscal Outlook

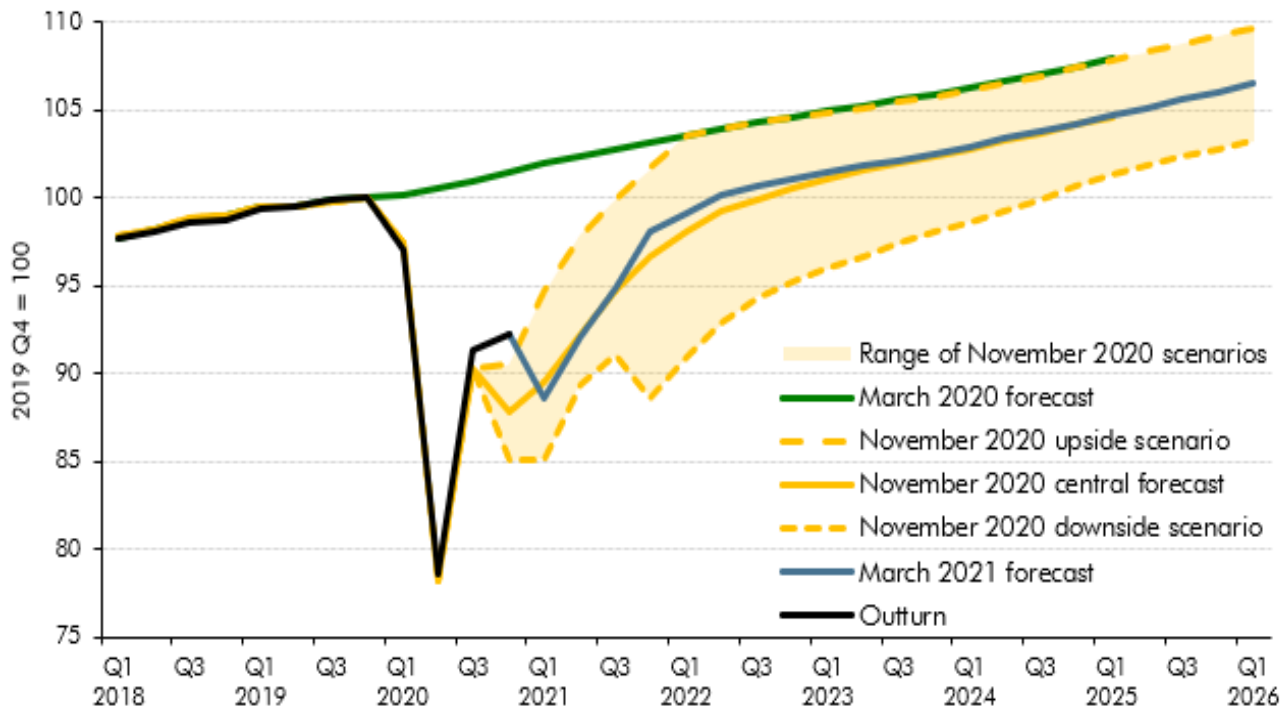
The evolving cost of the coronavirus policy response in 2020-21



¹ Cost based on figures announced by the Chancellor in SB20. Other costs based on outturn and our March 2021 forecast estimates.
Source: OBR

OBR Economic and Fiscal Outlook

Economic ~~guessing game~~ forecast



Source: ONS, OBR

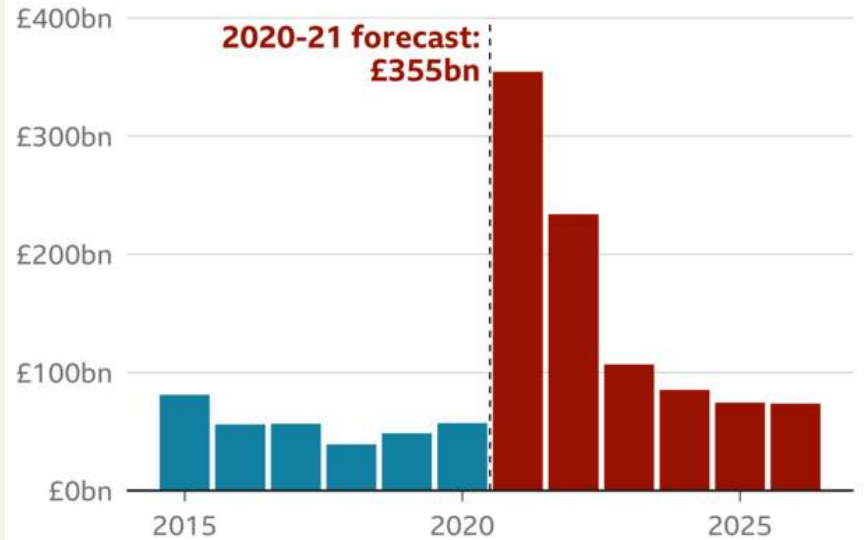
- Prospects for recovery are improving but the economy is expected to suffer permanent scarring – 3% smaller than it would have been in 2025

OBR Economic and Fiscal Outlook

The public finance picture

- Borrowing set to reach £355bn this year – a post war high
- An additional £2.4 billion for the devolved administrations for 2021-22 through the Barnett formula. This is an additional £410mn for the Northern Ireland Executive.
- The devolved administrations will also receive £1.4 billion of funding in 2021-22 outside the Barnett formula.
- Almost half of the £400m New Deal for Northern Ireland funding has been allocated, subject to business cases, to: new systems for supermarkets and small traders to manage new trading arrangements; building greater resilience in medicine supply chains; promoting Northern Ireland's goods and services overseas; and supporting skills development.

UK public borrowing forecasts



Source: Office for Budget Responsibility



Covid-19 supports

Lorraine Nelson
Director

Employees

CJRS Extension

- Extended to 30 September 2021
- 10% contributions July 2021
- 20% contributions August & September 2021
- Monthly claim
- 14 day claim limit

SSP

- SME Employers
- Under 250 employees on 28 February 2020
- Reclaim two weeks SSP
- £95.85 per week
- Self-isolation included

Home Office Expenses

- PAYE & Class 1 NIC exemption extended until 5 April 2022
- Employer reimbursed 'relevant' home office equipment

Self-employed

SEISS

- Fourth grant will cover February to April;
- Include individuals who became self-employed during the 2019/2020 tax year;
- Fifth grant based on the reduction of turnover during the 2020/2021 tax year;
- Covers May to September

80%

Average 3 monthly earnings, capped at £7,500

April 2021

Claims open for fourth grant

30%

Limit grant if less than 30% reduction in turnover, capped at £2,850

July 2021

Claims open for fifth grant

Other extensions

Stamp Duty Land Tax

- SDLT 'holiday' for residential properties extended and £Nil threshold band to reduce in phases;
- £500k until 30 June 2021;
- £250k until 30 September 2021; and
- Normal £125k again from 1 October 2021.

Temporary Reduced VAT Rate

- Rate applies to accommodation, food and non-alcoholic drinks from restaurants, pubs, bars, cafés and similar premises.
- Reduced rate of 5% continues until 30 September 2021;
- Interim rate of 12.5% from 1 October 2021 to 31 March 2022; and
- Returns to 20% from 1 April 2022 onwards.

Funding

New Recovery Loan Scheme will be in place from 6 April 2021 to 31 December 2021, with government providing 80% guarantees.

Finance available ▶

- Term loans and overdrafts will be available between £25,001 and £10 million per business; or
- Invoice finance and asset finance will be available between £1,000 and £10 million per business.

Eligibility ▶

- the business needs to be trading in the UK;
- is a viable business or would be viable business were it not for the pandemic;
- has been impacted by the coronavirus pandemic; and
- is not in collective insolvency proceedings.



Funding closing on 31 March 2021

- CBILS
- Large CBILS
- Bounce Back Loan

Corporate tax

Mark Bradley
Director

Corporation tax rates

“To balance the need to raise revenue with the objective of having an internationally competitive tax system...”

	1 April 21 – 31 March 23	1 April 23 onwards
Main rate	19%	25%
Small profits rate	N/A	19%
Lower threshold	-	£50K
Upper threshold	-	£250K

Lower and Upper thresholds will be proportionately reduced where those are associated companies or short accounting periods.

Extended loss carry-back

- Existing trade loss carry-back provisions extended from one year to three years
- Carried back against later year profits first
- Applies to losses from 1 April 2020 to 31 March 2022
- 12 month loss carry-back unrestricted
- Maximum of £2,000,000 per annum available for earlier two years
- £2,000,000 cap subject to group-level limit

Businesses will need to consider carrying back losses for repayment at 19% or carry-forward to use against future profits at higher corporation tax rate.

Extended loss carry-back

Example

A trading company has the following results:

- Y/E March 22 (£4,000K)
- Y/E March 21 (£1,000K)
- Y/E March 20 £1,500K
- Y/E March 19 £2,000K
- Y/E March 18 £2,000K

Old rules

Only relief for £1,000k in FY 2020 with £4,000K losses carried forward.

New rules

Full relief for FY 2020 and FY 2019. No relief in FY 2018 with £1,500K losses carried forward.

Capital expenditure reliefs

‘Super-deduction’ for plant and machinery

- Current position 18% writing down allowance
- 130% deduction on “main pool” plant and machinery expenditure incurred between 1 April 2021 and 31 March 2023.

‘Special-rate’ items

- Temporary first year allowance of 50% (to 31 March 2023)
- Existing 6% reducing balance rate applies to remainder

Annual Investment Allowance

- £1,000,000 to 31 December 2021



Caution

- Excluded assets
- Connected party transactions
- Disposal rules

Capital expenditure reliefs

Example

Manufacturing business in Financial year to March 22 acquires:

- Machinery £2,000K
- Special rate items £1,500K

Capital allowances claim

	Old rules	New rules
Special rate items (AIA)	£1,000,000	£1,000,000
Special rate items (6%/FYA)	£30,000	£250,000
Machinery (18%/130%)	£360,000	£2,600,000
Total claim	£1,390,000	£3,850,000

Research and development tax reliefs

- Cap on cash repayments for SMEs from 1 April 2021
- Limited to £20K plus three times employment taxes of the company
- Consultation has been published regarding effectiveness of regime
- Evidence suggesting HMRC reviewing the validity of claims in more detail and increase in enquiries

<u>SME CAP</u>	<u>Post Cap</u>	<u>Pre Cap</u>
Development expenditure (assume 100% R&D)	1,000,000	1,000,000
Consisting of:		
Subcontracted Costs	800,000	800,000
Staff costs (gross, inc Er's NIC)	200,000	200,000
Profit/(loss)	<u>- 1,000,000-</u>	<u>1,000,000</u>
Enhanced deduction	<u>- 1,936,000-</u>	<u>1,936,000</u>
Surrender @ 14.5% for payable credit	280,720	280,720
CAP (four employees @ £50k gross salary)	<u>168,040</u>	N/A
Amount restricted	<u>112,680</u>	-

Private client tax

Alan Gourley
Director

Private Client Update



Confirmation of rates and allowances



Impact of increase in corporation tax main rate to 25% from 1 April 2023



Employment taxes – IR35

Confirmation of rates and allowances

Income tax / NIC	2020/21 £	2021/22 and after £
Personal allowance	12,500	12,570
Basic rate band	37,500	37,700
Higher rate threshold – also upper earnings limit for NIC	50,000	50,270
Additional rate threshold	150,000	150,000

Confirmation of rates and allowances

Other rates and allowances	2020/21 £	2021/22 and after £
Capital gains tax annual exemption	12,300	12,300
ISA contribution limit - adult	20,000	20,000
IHT nil rate band	325,000	325,000
Residence nil rate band (tapered away if estate £2m+)	175,000	175,000

Confirmation of rates and allowances

Pensions allowances	2020/21 £	2021/22 and after £
Annual allowance (AA)	40,000	40,000
Threshold income	200,000	200,000
Adjusted income	240,000	240,000
Minimum tapered AA	4,000	4,000
Lifetime allowance	1,073,100	1,073,100

Impact of increase in corporation tax main rate to 25% from 1 April 2023

- Will make dividends less attractive for higher rate for additional rate taxpayers
- Salaries can also be eligible for R&D tax credits

For every £100 of profit extracted by way of dividend or salary/bonus	Dividend £	Salary/Bonus £	LLP £
Higher rate taxpayer	50.63	50.97	58.00
Additional rate taxpayer	46.43	46.57	53.00

- A transparent entity (such as an LLP) may well be more tax-efficient than a company

Employment taxes

- New rules applying to off-payroll workers (IR35) from 6 April 2021 – only apply to medium or large companies
- Onus is on the hiring company to identify individuals who are providing their services through their own limited company or other intermediary and assess whether they should be taxed as an employee or contractor

Particular points to note:

- Large/medium companies will need to have a process in place to identify relevant individuals in the wider workforce on an ongoing basis
- Regular assessments will have to be made (can use HMRC CEST tool), retained and the outcome communicated to the contractor / agency
- PAYE must be applied to payments – or ensure PAYE is being applied by the agency

Indirect tax

Lee Squires
Director

VAT – Budget changes

- Extension of 5% reduced VAT rate for hospitality and tourism sector
 - Supplies of accommodation, food and beverages, and certain attractions
 - Extended by six months to 30 September 2021
 - 12.5% reduced rate from 1 October 2021 until 31 March 2022
 - Reverts to 20% standard rate on 1 April 2022
 - Consider tax points to ensure correct VAT is accounted for – refunds may be available
- New penalty regime from 1 April 2022 where returns submitted/tax paid late
- VAT registration threshold of £85,000 frozen until 31 March 2024

Recap on upcoming changes

VAT Deferral New Payment Scheme

1 March 2021

Domestic VAT reverse charge on building and construction services

1 April 2021

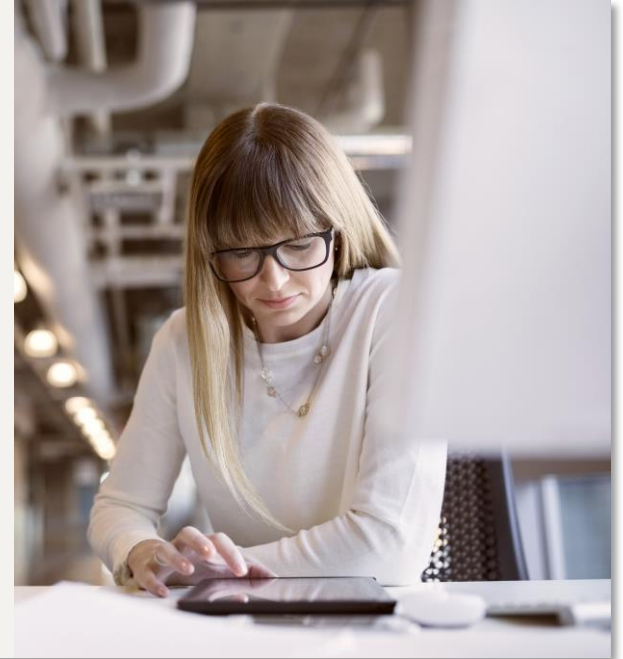
Making Tax Digital (MTD) for VAT digital links requirement

1 July 2021

New EU VAT rules for B2C supplies of goods

1 April 2022

New Plastic Packaging Tax



Stamp duty land tax (SDLT)

Residential nil rate band

- Temporary increase to £500K extended from 31 March to 30 June 2021
- 1 July 2021 to 30 September 2021 – residential nil rate band will be £250K
- Reverting to £125K from 1 October 2021

Non-residents surcharge

- From 1 April 2021, 2% surcharge for non-UK residents purchasing residential property

Duties

- Duties frozen for wine, spirits, beer, cider and also fuel
- No changes to customs or tariffs
- Freeports to be introduced in GB – NI to follow
- Import of steel into NI
 - EU says that imports of steel into NI cannot benefit from EU Tariff Rate Quotas (TRQs) for non-EU origin steel – so 25% safeguard duty applies
 - Steel originating outside EU and UK imported into NI may now benefit from UK safeguard quotas or equivalent tariff treatment provided open EU TRQ
 - Retrospective to 1 January 2021

Disputes & Investigations



- Investment in HMRC to increase tax revenues to target non-compliance and discourage avoidance schemes
- Strengthen legislation to tackle promoters of tax avoidance schemes
- Expecting increase in HMRC investigations and compliance activity

Questions

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