

March 2021



**Helping smaller businesses and their owners
manage their accounting, business and taxation**

The Budget 2021

'being honest about challenges facing the country'



The Chancellor leaving No 11 to deliver the Budget. Copyright HM Treasury

A short guide written by All Paul Limited for our smaller
Owner-Managed Business clients on the taxation effects

Introduction

A year ago, Rishi Sunak delivered his first Budget just as the pandemic was starting. His £30 billion package sounded significant. Now, it pales into insignificance when compared to the £280bn spent in the UK.

He has now delivered his second Budget. He said he wants to be honest about challenges facing the UK. In normal times the state should not be borrowing to pay for everyday public spending. Is it right to help people through an acute public crisis. The country cannot allow debt to keep rising, even with lower interest rates. Should we invest in capital projects?

He continually promised to do whatever it takes to support businesses and workers through lockdown. It came as no surprise that both the furlough and SEISS schemes have been extended again.

The economy is forecast to return to pre-pandemic levels in the middle of 2022. Annual growth is set to reach 4% this year and grow by 7.3% in 2022. Unemployment is expected to hit 6.5% next year.

The government will borrow £355bn, about 17% of GDP, this year and is expected to borrow £234bn in 2021-22. UK borrowing is now at the highest peacetime level in history and comparable only with that during the two World Wars. It will be the work of many governments over many decades to pay back the huge debts of the country.

Key points

The key announcements were:

- Income tax rates, bands and allowances remain the same for another year.
- Corporation Tax on company profits above £250,000 to rise from 19% to 25% in April 2023.
- Corporation Tax rate to stay at 19% for 1.5m smaller companies with profits under £50,000.
- Furlough to be extended until the end of September. Employers to pay more from July.
- Support for the self-employed also to be extended until September with 2 more grants.
- Inheritance tax thresholds, pension's life time allowances and capital gains tax exemptions frozen at 2020-2021 levels until 2025-26.
- Super deductions of 130% on capital expenditure.



Coronavirus support

Furlough scheme

The furlough scheme was introduced in March 2020 and was due to end in April 2021. The scheme will now be extended until the end of September 2021.

The Coronavirus Job Retention Scheme has protected more than 11 million jobs since last March. Currently, about 4m employees are using the scheme. This is the highest level since summer 2020.

The eligibility of employees for the scheme has been amended. From 1 May 2021, newly eligible employees who were employed on 2 March 2021 can be included in the furlough scheme, so long as they were paid between 20 March 2020 and 2 March 2021 and their earnings were reported on a RTI payroll submission between those dates.

The furlough scheme will continue until 30 September, with no change of terms until 1 July. Employers will then have to contribute 10% for July and 20% in August and September towards the hours their employees do not work. Employee's net income will change but employers' contributions will increase starting in July. Employers will have to make up wages to the 80% of normal wages and so will have to pay the extra 10% and 20% themselves.

As before, employers can continue to choose to top up their employees' wages above the 80% amount.

The 'self-employed' who pay themselves mainly as dividends through their own company still cannot count their dividend income under the furlough scheme. This is a major blow to lots of our clients.



Self employed support

Self-Employed Income Support Scheme (SEISS)

Support for the self-employed will also continue until September 2021.

The fourth self-employment support grant will be available from late April. Eligibility will depend on whether a person experienced a significant financial impact from coronavirus between February and April 2021. It will continue to be worth up to 80% of three months' average trading profits, capped at £7,500. Claims for the fourth SEISS grant must be made by 31 May 2021.

For the first time, some of the relatively new self-employed, a further 600,000 people, will become eligible for help with access to the fourth grant. Business profits after March 2019 were not used in the calculation or eligibility criteria for the first three grants. More self-employed people will now be eligible for support.

Those that started self employment after March 2019 could not prove their income through their tax return and were excluded from the first three grants. Self-employed profits are now available following the filing of the Tax Return for 2019-20. So long as they filed their Tax Return by midnight on 2 March 2021 they become eligible.

A fifth grant and final SEISS grant was confirmed covering the period between May and September. Claims for the fifth grant will open in late-July for eligible people.

The amount of the fifth grant will be determined by how much turnover reduces. Where turnover falls by at least 30% they can apply for a grant of up to 80% of average business profits, up to a total amount £7,500. If business turnover falls by less than 30% they can apply for up to 30% of average trading profits, capped at £2,850.

The first three grants were based on profits for the three tax years from 2016-17 to 2018-19. The fourth and fifth grants will take into business profit for 2019-20. The grants will now be calculated based on the four tax years from 2016-17 to 2019-20.

Business losses

Businesses that incur trading losses in 2020-21 and 2021-22 will have more flexibility to carry back their losses for three years rather than the current one year. The new relief will be available for both incorporated (sole traders and partnerships) and unincorporated (limited company) businesses.

Recovery Loan Scheme

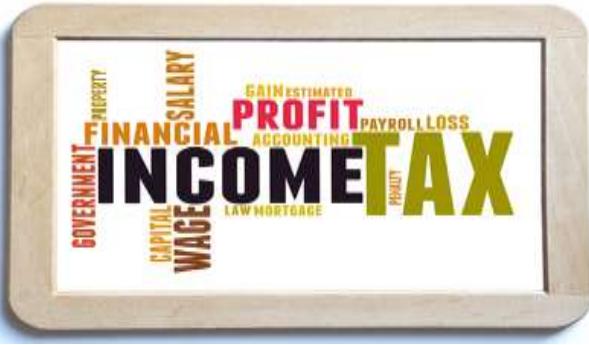
From 6 April 2021, a new loan scheme will replace the Bounce Back Loan Scheme for small businesses, and also the CIBLS and CLBLS for larger businesses. The schemes were to end on 31 March 2021.

The new version will provide banks with a government guarantee of 80% on loans between £25,000 and £10m. The new scheme may be used for 'any legitimate business purpose, including growth and investment. The new scheme will remain open until 31 December 2021. Businesses can still use the new scheme even if they have already received support under the existing 100% government guaranteed loan schemes.

Few banks may be willing to offering these new loans with only an 80% guarantee.

Contactless card payment will increase to £100

The transaction limit on contactless card payment will increase to £100 later this year. The pandemic has caused a greater move away from cash, with shoppers being encouraged to use contactless technology in shops for public safety reasons. A year ago the limit was £30 and then increased to £45.



Business tax

Corporation tax rate increase

The largest of UK companies will pay Corporation Tax at 25% from April 2023 giving time for the economic recovery to set in. The 25% rate will apply if companies have profits over £250,000. The UK will still have lowest corporation tax in the G7.

The small profit and the main rates of Corporation Tax will make a come-back, along with marginal rate relief. It is around decade ago that we had marginal relief and more than one rate of Corporation Tax.

Only around 10% of all UK companies will pay the full higher rate of Corporation Tax at 25%.

An estimated 1.5 million smaller companies generating profits of less than £50,000 will continue to pay their Corporation Tax at 19%.

However, companies with profits exceeding £50,000 but not over £250,000 will pay tax at a tapered rate. This new rate will be greater than the new 25% so as to ‘pull back’ the full tax rate of 25% on profits under £50,000. This means that company profits between £50,000 and £250,000 would be taxed at marginal rate of 26.5%.

The £50,000 and £250,000 limits will be proportionately reduced for short accounting periods and where there are associated companies. A company is associated with another company at a particular time if, at that time or at any other time within the preceding 12 months (i) one company has control of the other, or (ii) both companies are under the control of the same person or group of persons. Therefore, watch out with group companies and ‘groups’ of associated family companies.

Personal tax

Income tax allowances, rates and bands the same

There will be no changes to the rates of income tax, just the bands. The rates of income tax will remain the same at 20%, 40% and 45%.

The income tax personal allowance will increase on 6 April 2021 from £12,500 to £12,570. The higher rate starting band increases from £50,000 to £50,270.

The Budget announced that the personal allowance of £12,570 and the higher rate income tax starting band will also be frozen at £50,270 until 2026.

The increase in bands is around 0.5%, far less than general and wage inflation. More people will therefore pay more income tax over the next few years as their wages and salaries slowly increase resulting in higher income tax revenues for the UK.

Company cars

The appropriate percentages for company cars for the 2021/22 tax year have already been announced. The car fuel benefit charge multiplier will increase from £24,500 to £24,600.

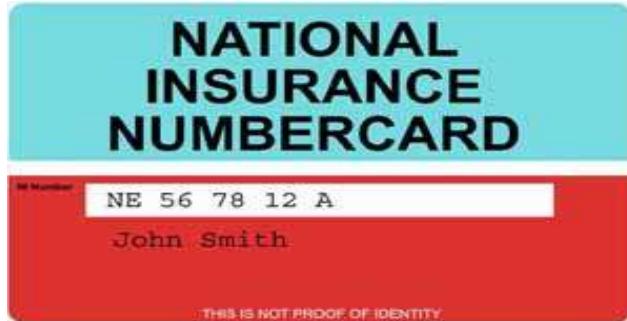
The percentage for zero-emission cars increases to 1% regardless of the date the car was registered.

The percentages for cars first registered before 6 April 2020 remains the same for 2021/22. However, the percentage for cars first registered on or after 6 April 2020 is increased by 1% for 2021/22 (max 37%).

Company vans

In 2020/21, electric vans were taxed at 80% of the full charge, i.e. at £2,792. From 6 April 2021, the benefit in kind charge for company vans, made available for an employee’s private use, with zero carbon emissions will reduce to zero.

For 2021/22, the benefit in kind charge for non-electric vans made available for employee’s private use will increase to £3,500. For 2021/22, where company van fuel is used for private journeys the fuel benefit charge will increase to £669.



National Insurance

National Insurance for the employed

The lower earnings limit (LEL) will remain the same at £120 (£520 per month, £6,240 per year) for 2021/22. This is the level when state benefits e.g. SSP and pensions start to accrue.

The level of the primary threshold, at which employees start to pay National Insurance, will increase from £9,500 to £9,568 pa i.e. £183 pw (£792 pm) to £184 pw (£797 pm).

The secondary threshold, for employer's National Insurance, will increase from £8,788 to £8,840 pa i.e. from £169 pw (£732 pm) to £170 pw (£737 pm).

For owner-managed businesses, this will mean more money can be drawn personally from the company's profits before national insurance is payable. For most owner managed limited company shareholder-directors, where we typically run their monthly payroll, their optimum monthly salary will increase from £732 pm to £737 pm from April 2021. Those with limited other taxable income, below the personal allowance, may wish to increase their salary from £792 pm to £797 pm from April 2021.

Employee's National Insurance contributions remain payable at a notional zero rate on earning between the lower earnings limit (£6,240 pa) and the primary threshold (£9,568 pa) and they will continue to receive one of their 35 qualifying years towards their state pension entitlement.

The primary rate of Class 1 National Insurance stays at 12% with the additional rate at 2% and the employer's and Class 1A National Insurance rate remaining at 13.8%.

National Insurance for the self employed

Class 2 contributions will stay the same at £3.05 pw in 2021-22 where business profits exceed the small profits threshold of £6,515 pa. Class 2 National Insurance costs a self-employed trader £159 pa. Each qualifying year accrued is worth around £250 of extra state pension from state retirement age.

Where profits are below this level, including loss making businesses, the self-employed can elect to pay Class 2 in order to preserve their entitlement to the state pension and other contributory benefits. This is a very cheap method of accruing a state pension for a self-employed trader with low profits.

For 2021/22, Class 4 contributions is payable at 9% on business profits between £9,568 and £50,270 with an additional 2% on profits over £50,270.

Voluntary Class 3 contributions

Class 3 contributions can be voluntarily paid to boost a person's National Insurance record and their state pension. In 2021/22 the rate is £15.40 pw.

Employment allowance remains at £4,000

Businesses will continue to not pay employer's NIC on the first £4,000 of their annual bill. The allowance must now be claimed each tax year! Businesses can make a claim for the allowance for up to four years after the end of the tax year.

The allowance is available only where the Class 1 NIC bill of the business was below £100,000 in the previous tax year.

Employment allowance restriction

The Employment Allowance cannot be claimed by company directors if they are the only employee of the company or if no one else is paid above the secondary (employer's NI) threshold of £170 pw.

From 6 April 2020, the Employment Allowance is now only available where the business's total Class 1 NI liability is below £100,000.

Restrictions also apply for persons employed in household or domestic work and under 'IR35 rules'.



Capital Allowances

A business cannot claim the cost of new equipment as a Profit and Loss Account cost in the year of purchase.

Similarly, the depreciation charged to the Profit and Loss Account cannot be claimed for tax purposes. Instead, a business claims what are known as capital allowances in lieu of the equipment cost.

A business can claim capital allowances when it buys assets that it will be to use in its business, e.g. for

- equipment
- machinery
- business vehicles, like cars, vans or lorries.

This type of expenditure is known as plant and machinery even if it relates to office equipment.

You can deduct some or all of the value of the item from your profits before you pay tax.

The special lower rate of writing down allowances, on a reducing balance basis, on pool expenditure has already reduced from 8% to 6% on 6 April 2019. The main rate of 18% remains the same.

Capital allowances - Annual Investment Allowance

The £1m of Annual Investment Allowance for expenditure incurred on plant and machinery between 1 January 2019 and 31 December 2020 has been extended to 31 December 2021.

The temporary £1m cap was due to revert to £200,000 on 1 January 2021.

Capital allowances - New super deduction relief

To offset the higher rate of Corporation Tax and encourage business spending, a new 'super deduction' relief will be introduced where companies will be able to save 130% on the cost of new purchased plant and machinery.

For qualifying expenditures incurred between 1 April 2021 and 31 March 2023, companies can claim:

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

Used and second-hand purchases will be excluded. The rate of the super-deduction will be apportioned if an accounting period straddles 1 April 2023.

Disposal receipts should be treated as balancing charges (taxable profits), instead of being taken to pools. The calculation rules will treat only part of the disposal receipt as a balancing charge, if part of the original expenditure is claimed using the allowances.

Capital allowances - business vehicles

The government previously announced that it was consulting on bringing forward the ending of sales of new petrol, diesel and hybrid cars and vans to 2035.

To encourage businesses to purchase more environmentally friendly (lower CO₂ emission) vehicles, the availability of First Year Allowances (FYAs) has been extended to April 2025. It was due to end from April 2021.

100% FYAs will continue to apply for business cars acquired from April 2021 with CO₂ emissions of 0g/km i.e. pure electric vehicles.

Business cars with CO₂ emissions up to 50g/km will be eligible for tax allowances at the main rate of 18% while cars with CO₂ emissions over 50g/km will be eligible for allowances at the special rate of 6%.

The new 50g/km threshold will also be used when determining the lease rental cost restriction of 15%.



Home working

Flat-rate deduction for homeworking increases

Employees who have to work from home on a regular basis can claim tax relief for their extra costs of certain bills, such as business telephone calls, gas and electricity. However, fixed costs such as rent, council tax and broadband where these costs represent both personal and business use cannot be included in a claim. This only applies where an employee does not have a place of work provided by their employer e.g. owner-managed businesses.

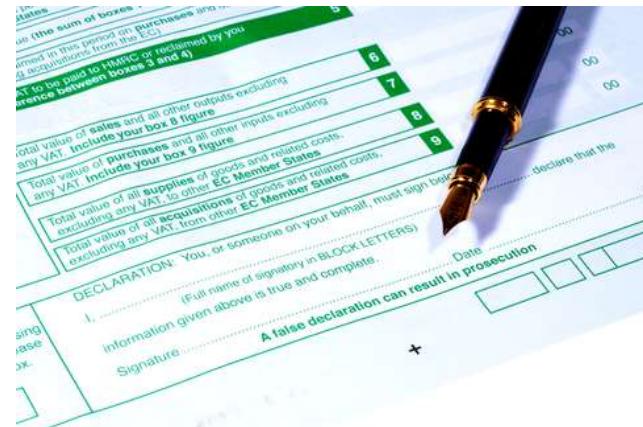
A flat-rate deduction of £4 pw is available to employees to cover additional household expenses. From April 2020, this increased to £6 pw where they work at home under homeworking arrangements. No records of actual costs incurred need to be kept.

An employee is at liberty to calculate their own additional costs of working from home and to claim these against their taxable employment income. Records and calculation would need to be kept. Employees do not have to use the £4 or the new £6 pw allowance. This is a measure to simplify a claim. The rates only apply to employees, including directors of their own limited companies.

The self-employed have a system to claim £2.30, £4.15 or £6.00 pw, depending on the number of hours they work from home each month. See [here](#).

Employer reporting exemptions

Employers will not be required to report reimbursed expenses on Forms P11D when employees need to buy business equipment to work from home.



Value Added Tax

VAT threshold frozen

The UK has one of the highest VAT thresholds in the EU. The VAT registration threshold will remain at £85,000 until 2024 therefore bring more businesses into VAT as turnover increases with general inflation.

The main rate of 20% will stay the same.

Hospitality businesses – 3 VAT rates in a year

The temporary 5% rate of VAT, for hospitality businesses and tourist attraction, will be extended until 30 September 2021.

The rate was due to revert to 20% from 1 April 2021. From 1 October 2021, a new interim rate of 12.5% will apply for the six months to 31 March 2022. It will return to the full rate of 20% on 1 April 2022.

The special rate applies to food and drinks (hot or cold) served in premises and also to hot take away food and drinks. Alcoholic drinks are excluded in all cases. Cold takeaway food is generally zero rated and therefore not affected by the concession. The reduced rate also applies to hotel and holiday accommodation, including guest house and caravan and camp sites and to admission fees to tourist attractions like zoos, theatres, fairs, amusement parks etc. Therefore, be careful until 31 March 2022 when calculating recoverable input VAT when purchasing food and drink whilst out on business.



Property

Business rates

The 100% business rates holiday in England, that was due to end in April, will now be extended until June 2021 when a transitional 66% discount will come into effect for properties with a value up to £2m for closed businesses, with a lower cap for those that have been able to stay open.

Grants for retail, hospitality and leisure

There will be a new Restart Grant in April to help businesses reopen and get going again.

Non-essential retail businesses due to re-open in April will receive grants of up to £6,000 per premises.

Hospitality, leisure and personal care provider businesses will receive grants of up to £18,000.

Stamp Duty

The planned stamp duty cut on house purchases under £500,000 in England will be extended. The zero rate band of £500,000 for Stamp Duty was extended from 31 March to 30 June 2021. The nil rate band will then be set at £250,000 from 1 July to 30 September 2021.

The extension means that all residential property purchases, involving a main home, completed on or before 30 June 2021 for a price of up to £500,000 will pay no Stamp Duty.

Similarly, residential property purchases completed on or before 30 September 2021 for a price up to £250,000 will pay no Stamp Duty.

From 1 October 2021, the normal rates of Stamp Duty will apply to purchases above £125,000.

The concession also benefits investment properties, like holiday homes and buy-to-let properties. However, these property purchases are subject to the extra 3% Stamp Duty rate which applies to the whole purchase price and not just above the £500,000 and £250,000 limits.

Capital taxes

There will be no changes to inheritance tax rates or bands, the lifetime pension allowance or capital gains tax allowances.

Capital Gains Tax

The Capital Gains Tax annual exemption remains at £12,300 for the tax year 2021-22 and up to and including 2025-26.

Inheritance Tax

The Inheritance Tax nil-rate band stays at £325,000 and the residence nil-rate band at £175,000 until 2026. The NRB is available to all in respect of their death estate and can be set against all assets. The RNRB is available to those passing on a qualifying residence on death to their direct descendants.

Pension lifetime allowance

The pension lifetime allowance has been frozen at £1,073,100 up to and including 2025-26. This may sound like a relatively minor issue aimed at the wealthiest in society. However, a large proportion of middle Britain is now at risk of being affected. High-earners, like doctors, lawyers and consultants with sizeable pensions will be among those hit by the frozen allowance.

Retirement savings over the lifetime allowance are subject to a 55% tax charge if the savings are withdrawn as a lump sum or 25% if withdrawn as a taxed pension income, unless previous pension savings are covered by one of the past protection regimes.



Pensions

Contributions

The annual Budget concern that tax relief on pension contributions would be severely restricted did once again not transpire.

The higher rate tax relief on individual pension contributions and the amount that can be paid into money purchase pensions each year, currently £40,000, and which will attract tax relief did not change either.

State pension triple lock unchanged

The state pension will increase by 2.5% in 2021-22.

Savings

ISA allowances

The adult ISA annual subscription limit for 2021-22 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds was last increased to £9,000 in 2020-21.

Green savings bonds

'Green savings bonds' are to be launched by National Savings & Investments in the summer. Details will be made available in the near future.

The Chancellor said that the bonds 'will give all UK savers the opportunity to take part in the collective effort to tackle climate change'.

Other Budget provisions

National Living Wage

The National Living Wage will rise from £8.72 to £8.91 from April. More details for other age groups can be found [here](#).

First-time buyers will get a government guarantee on mortgages. They will be offered a wider range of mortgages that only require a deposit of 5%.

The temporary Universal Credit top-up of £20-per-week will be extended by six months.

Time to pay arrangement for outstanding tax

HMRC set up a phone helpline to support businesses and self-employed people concerned about not being able to pay their taxes on time due to the coronavirus.

The helpline allows any business or self-employed individual who is concerned about paying their tax due to coronavirus to get practical help and advice.

For those who are unable to pay due to coronavirus, HMRC will discuss your specific circumstances to explore agreeing an instalment arrangement, suspending debt collection proceedings or cancelling penalties and interest where you have cashflow or administrative difficulties contacting or paying HMRC immediately.

The helpline number is 0800 0159 559. The helpline is open from Monday to Friday 8am to 8pm, and Saturday 8am to 4pm (excluding bank holidays). Other HMRC business payment support contact details can be found [here](#).

A taxpayer who owes less than £30,000 can now set up a time-to-pay arrangement [online](#) by logging into their Personal Tax Account, so there is no need to speak to anyone over the phone and answer potentially intrusive questions over the ability to pay. Previously, this was limited to £10,000.

All Paul Limited

About us

All Paul Limited is a modern, independent and proactive firm of Chartered Certified Accountants based in north Leeds.

We provide all the usual essential services that you'd expect e.g. annual accounts, self-assessment tax return preparation, recordkeeping and payroll. In addition, we offer tax planning, business set-up and limited company formation as well as Sage 50 software training and support.

Our objective is simple; to be viewed by our clients as the first point of contact for all their financial, advisory and compliance needs. We achieve this by providing sensible advice and tailored solutions to help clients achieve their commercial and personal goals.

The firm is run by Paul Clifton FCCA who offers a wide range of accounting and tax expertise to local businesses. Paul has worked with smaller owner-managed businesses, through firms of Chartered Accountants, for over three decades.

He works with business owners providing them with practical help and advice on a day-to-day basis.



Our clients are located mainly in north Leeds, but they also come from the surrounding towns and some from overseas. They mainly operate as smaller limited companies and sole traders. Alongside all of the services we offer to the business, we always recognise the importance of the personal circumstances of the business owner.

If you have any questions about the implications of the above, either for you or your business, and would like further advice then please do give us a call. We provide out-of-hours flexible appointments.

We are happy to meet you in the evening when you may have more time. So call **All Paul Limited** today on 0113 225 2232 or email us at info@all-paul.co.uk. More details about our services can be found by visiting our website at www.all-paul.co.uk.

What our clients say about us

"A highly professional service, quick to respond, attention to detail and knowledgeable. I just know I'm in safe hands with All Paul Limited".
Nick S. YorTours, Harrogate

"Solid advice from All Paul Limited. Appointing Paul as my company's accountant was the single best business decision I've ever made"
Ian S. IPTAC Limited

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