Autumn
Budget
2021

Biggest rates cut in three decades

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Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

The information in this report is based on our understanding of the Autumn Budget 2021, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

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INTRODUCTION

> *"Today's Budget does not draw a line under COVID-19; we have challenging months ahead."*
>
> **Chancellor Rishi Sunak**

Chancellor Rishi Sunak resisted temptation to raise taxes to start paying for the emergency support schemes that kept so many businesses afloat during the pandemic in 2020/21.

Instead, Sunak continues to bask in the warm glow reserved for generous chancellors following his latest Autumn Budget speech, thanks largely to cutting the Universal Credit taper rate by 8%, bringing it down from 63% to 55%, from 1 December 2021 at the latest.

Sunak also boosted struggling businesses with premises by revealing a five-point plan to retain and revamp business rates in England, starting with cancelling the multiplier for 2022/23 and confirming revaluations will take place every three years from April 2023, instead of every five years.

Beyond that, the Treasury took the unusual step of announcing several key measures well in advance of the day itself.

We already knew that several key tax rates and thresholds were frozen last spring, up to and including 2025/26, while news of the national living wage increasing by 6.6% was already common knowledge long before today.

And, last month, we heard the triple-lock – a pledge to increase the state pension's value by at least 2.5% each year – would be suspended for a year as inflation continues to soar.

The Office for Budget Responsibility reckons inflation, as measured by the Consumer Prices Index, will average at 4% over the next year.

Then, in the guise of the health-and-social-care levy, a 1.25% National Insurance contributions (NICs) increase from April 2022 served to frustrate some company directors of owner-managed businesses, along with a corresponding 1.25% increase in tax on dividend income.

Directors felt they'd already borne the brunt of limited government support during the midst of COVID-19; now, they're being asked to cover the cost, through tax and NICs for themselves and their employees.

In his speech on 27 October 2021, the Chancellor also announced a residential property developers' tax will be levied on corporate developers with annual profits of £25 million or more at 4%.

Plenty of crowd-pleasers were also announced. Alcohol duties, for example, will be "radically simplified", while pub landlords will be toasting the new 'draught relief' which lowers duties applying to draught beers and ciders by 5%.

There was no real mention of climate change, aside from the surprising decision to introduce a cheaper, domestic band for air passenger duty – which will be sure to raise some eyebrows at next month's COP26 conference in Glasgow.

As ever, of course, there were a handful of policy changes not announced in the speech but instead squirreled away in background papers.

Our team of tax experts has been over those with red pens in hand and highlighted several items of note, such as changes to the reporting requirements, which will affect capital gains tax.

Overall, the Chancellor remains in spend mode, with little hint of what might be in store as the UK economy continues to recover and the national debt demands to be paid.

PERSONAL TAX

Rates & allowances

The tax-free personal allowance throughout the UK remains at £12,570 for the 2022/23 tax year.

The basic-rate band stays at £37,700, along with the higher-rate threshold at £50,270. The additional-rate band is unchanged at £150,000. Any changes to the thresholds in Scotland should be announced at the Scottish Budget in December 2021.

The 0% band for the starting rate for savings income is unchanged at £5,000 for the 2022/23 tax year and applies across the UK.

The personal savings allowance will remain at £1,000 for basic-rate taxpayers and £500 for higher-rate taxpayers. The allowance is not available to additional-rate taxpayers.

The transferable marriage allowance stays at £1,260 for the 2022/23 tax year.

Dividends

The dividend allowance remains at £2,000 for 2022/23, however, each of the three tax bands will increase by 1.25%. From 6 April 2022, the basic rate for dividends will rise to 8.75%, the higher rate will increase to 33.75%, and the additional rate will be 39.35%.

National living wage

The national living wage applicable to over-23s increases by 6.6% from £8.91 to £9.50 an hour, from 1 April 2022.

National Insurance contributions

The rates at which employees pay class 1 primary contributions and the self-employed pay class 4 National Insurance contributions (NICs) will rise by 1.25%.

From April 2022, the main class 1 NICs rate for employees will increase from 12% to 13.25% and the main class 4 NICs rate for the self-employed will increase from 9% to 10.25%. The higher rates for both class 1 and class 4 NICs will also increase from 2% to 3.25%.

From April 2023, this 1.25% health and social care levy will be formally separated out and at this point, the rates of class 1 and class 4 NICs will return to their 2021/22 levels.

The threshold for class 1 and class 4 NICs will rise from £9,568 to £9,880 for 2022/23, while the upper-earnings limit and upper-profits limit will stay at £50,270. At the same time, the class 2 NICs rate which applies to the self-employed will increase from £3.05 to £3.15 per week, while the self-employed small-profits threshold will rise from £6,515 to £6,725.

Capital gains tax (CGT)

The annual CGT exempt amount for individuals of £12,300 and £6,150 for trustees of settlements will be maintained at the current levels up to and including the 2025/26 tax year.

The lifetime limit on qualifying gains for business asset disposal relief will remain at £1m for 2022/23.

The lifetime limit for investors' relief will also be kept at the current level of £10m. The 10% tax rate remains unchanged for both reliefs.

Capital gains tax on UK property

The time limit to report and pay capital gains tax on the disposal of UK residential property will be increased from 30 days to 60 days.

This change applies to completion of property sales made on or after 27 October 2021 and will apply to both UK and non-UK residents.

Where a gain arises from a mixed-use property, only the portion of the gain that is residential property should be reported and paid. This measure is only available to UK residents.

ISAs

All of the annual subscription limits will be unchanged for 2022/23. For ISAs, this will be £20,000 and for Junior ISAs and child trust funds it will be £9,000.

Pensions

The lifetime allowance for pension savings will remain at £1,073,100 until the 2025/26 tax year.

From 6 April 2028, the normal minimum pension age where savers can access their pensions without incurring an unauthorised tax charge, will rise from 55 to 57 years old.

Making Tax Digital for income tax self-assessment

The requirement for sole traders and landlords with income over £10,000 to prepare for Making Tax Digital (MTD) has been delayed by one year and will now be introduced from 6 April 2024.

General partnerships will not be required to join MTD for income tax self-assessment until 6 April 2025.

Inheritance tax

The individual nil-rate band will stay at £325,000 and the residence nil-rate band will also remain at £175,000. The taper threshold for the residence nil-rate band continues to start at £2m.

Basis period reform for the self-employed

Currently, a business's profit or loss for a tax year is usually the profit or loss for the year up to the accounting date that ends within the tax year, called the 'basis period'.

With effect from 6 April 2024, a business's profit or loss for a tax year will be the profit or loss arising in the tax year itself, regardless of its accounting date. This measure removes the basis period rules and prevents any further overlap relief.

On transition to the tax year basis from 6 April 2023, all businesses basis periods will be aligned to the tax year and all outstanding overlap relief given.

Discovery assessments

Legislation will be passed to confirm that HMRC may use discovery assessments to recover tax charges relating to the high income child benefit charge, Gift Aid donations and certain pension charges.

Tax rates on income & dividends – England, Northern Ireland & Wales

2022/23	Taxable income*	Non-dividend income	Dividend income**
Basic-rate band	£1 – £37,770	20%	8.75%
Higher-rate band	Over £37,770 – £150,000	40%	33.75%
Additional-rate band	Above £150,000	45%	39.35%

*A tax-free personal allowance of £12,570 may be available in addition to the taxable income, however, this reduces by £1 for every £2 of income from £100,000 to £125,140.

**The first £2,000 of dividend income earned in 2022/23 is tax-free.

BUSINESS TAX

Business rates in England

The Government will:

- Freeze the business rates multiplier from 1 April 2022 until 31 March 2023, keeping the multipliers at 49.9p and 51.2p.
- Introduce a new temporary business rates relief for eligible retail, hospitality and leisure properties for 2022/23. Eligible properties will receive 50% relief, subject to a cap of up to £110,000 per business.
- Introduce a 100% improvement relief for business rates. This provides 12 months of relief from higher bills for occupiers where eligible improvements to an existing property increase the rateable value. The Government will consult on how best to implement this relief, which will take effect in 2023.
- Introduce targeted business rate exemptions from 1 April 2023 until 31 March 2035 for eligible plant and machinery used in onsite renewable energy generation and storage. A 100% relief for eligible heat networks will also be put in place to support the decarbonisation of non-domestic buildings.
- Increase the frequency of business rates revaluations so they take place every three years instead of every five, starting in 2023.
- Extend transitional relief for small and medium-sized businesses, and the supporting small business scheme, for one year. This will restrict bill increases to 15% for small properties (up to a rateable value of £20,000 or £28,000 in Greater London) and 25% for medium properties (up to a rateable value of £100,000), subject to subsidy control limits.

Corporation tax

The corporation tax rate will remain at 19% for 2022/23, as previously announced.

The Chancellor re-confirmed the UK's main rate of corporation tax will increase to 25% from April 2023.

A small-profits rate will be introduced for companies with profits of £50,000 or less, which will continue to be charged at 19%.

Companies with profits between £50,000 and £250,000 will pay tax at the main rate, but this will be reduced by a marginal relief creating a tapered corporation tax rate. The calculation and eligibility of the marginal relief will be subject to detailed rules and certain exclusions.

Employers' National Insurance contributions (NICs)

The Government has legislated a new 1.25% health and social care levy. In 2022/23 only, employers' class 1 NICs will increase by 1.25% from 13.8% to 15.05%.

From April 2023, the levy will be separated out and will also apply to the earnings of individuals working above state pension age. Meanwhile, the employers' NICs rate will return to its 2021/22 level.

The employers' class 1 NIC secondary threshold has been increased from £8,840 to £9,100 per year from 2022/23.

Annual investment allowance extension

The temporary £1m annual investment allowance that was due to reduce back down to £200,000 on 1 January 2022 will extend until 31 March 2023.

Company car tax

As announced at Budget 2020, it was confirmed that the company car tax rates already announced for 2022/23 will remain frozen until 2024/25.

Company car fuel benefit

From 6 April 2022, the company car fuel benefit multiplier will increase in line with the Consumer Prices Index (CPI) rate of inflation from £24,600 to £25,300.

Company van tax

From 6 April 2022, the van benefit charge and van fuel benefit charges will both increase in line with CPI.

The van benefit charge will increase from £3,500 to £3,600 and the van fuel benefit charge will increase from £669 to £688.

Residential property developers' tax

It was confirmed a new tax will be introduced from April 2022 on the profits that companies and corporate groups derive from UK residential property development. The tax will be charged at 4% on profits exceeding an annual allowance of £25 million.

Research and development (R&D) relief

R&D tax relief reforms will take effect from April 2023, which will expand qualifying R&D expenditure to include data and cloud costs.

Similarly, changes will be made to target abuse, improve compliance and refocus the support towards innovation in the UK, rather than overseas. Further details of these changes will be released at a later date.

Annual tax on enveloped dwellings (ATED)

From 1 April 2022, the ATED annual charges will rise by 3.1%. While there are multiple ATED bands, the lowest ATED charge will increase from £3,700 to £3,800 and the highest from £237,400 to £244,750.

Diverted profits tax

From April 2023, the rate of diverted profits tax will increase from 25% to 31%.

Abolition of cross-border group relief

It was announced that legislation permitting UK companies in certain circumstances to claim group relief for losses in the European Economic Area (EEA) would be repealed.

The measure also amends the legislation that limits the amount of losses that an EEA resident company trading in the UK through a UK permanent establishment can surrender as group relief, to be aligned with the rules with companies elsewhere in the world.

This measure will have effect for accounting periods ending on or after 27 October 2021. Transitional arrangements will apply for accounting periods which straddle this date.

Cultural reliefs

From 27 October 2021, the rates of corporation tax relief that are collectively known as the ‘cultural reliefs’ will be increased.

The rate of relief will increase to 45% or 50% for the theatre tax relief, 50% for the orchestra tax relief and 45% or 50% for the museums and galleries exhibition tax relief. The rates will taper back down from 1 April 2023 before returning to their current levels from 1 April 2024.

The tax relief available for qualifying companies in the museum and gallery sectors has been extended to 31 March 2024.

Corporate re-domiciliation

The Government intends to make it possible for companies to move their domicile to the UK and make relocation easier.

DUTIES & OTHER

Landfill tax

Landfill tax is charged in England and Northern Ireland on material disposed of at a landfill site.

Standard and lower rates are being increased on 1 April 2022 as follows:

Material sent to landfill	Rates from 1 April 2022	Rates from 1 April 2023
Standard rated	£98.60/tonne	£102.10/tonne
Lower rated	£3.15/tonne	£3.25/tonne

Gaming duty

Gross gaming yield bands for gaming duty will increase in line with the retail prices index (RPI) rate of inflation from 1 April 2022.

Red diesel

From 1 April 2022, amendments will be made to the legislation to adjust the circumstances where use of red diesel will be allowed and will now specify the penalties that will apply, where the restrictions are contravened.

Vehicle excise duty (VED)

The Government has announced VED rates for cars, vans and motorcycles will increase in line with RPI from 1 April 2022.

Rates for heavy goods vehicles will remain frozen and the HGV levy will continue to be suspended for another 12 months from 1 August 2022.

The temporary extension to road haulage cabotage will be extended until 30 April 2022.

Tobacco duty

From 6pm on 27 October 2021, the duty rates on all tobacco products will increase by RPI plus 2%, on hand-rolling tobacco products by RPI plus 6% and the minimum excise tax to RPI plus 3% .

Aggregates levy

The Government will freeze the aggregates levy rate for 2022/23 but intends to return to index-linking in future.

Fuel duty rates

Fuel duty rates will remain frozen for 2022/23.

Alcohol duty rates

Alcohol duty rates remain frozen for 2022/23 but the Government announced its proposals for reform of this tax, with the aim of simplifying an outdated system.

The number of main duty rates are to be cut from 15 to six. The duty rate applicable will now relate to a drink's alcoholic strength rather than the type of drink – "the stronger the drink, the higher the rate".

A new draught relief will also be introduced applying a lower rate of duty on draught beer and cider, served from containers of 40 litres or over.

Proposals for a new small producer relief were also announced extending the principles of the small brewers' relief to include small cider makers and other producers making alcoholic drinks of less than 8.5% ABV.

The consultation ends on 30 January 2022 with the reforms taking effect in February 2023.

Tonnage tax reform

The Government announced a package of measures to reform the UK's tonnage tax regime to come into effect in April 2022.

This will include a preferential tonnage tax for a ship displaying the red ensign of the UK and remove the requirement for any ship in the regime to fly the flag of any EU country now that the UK has left the EU.

Air passenger duty

From 1 April 2023 flights between home nations will be subject to a lower 'domestic band' air passenger duty to support UK connectivity. A new ultra-long haul band, covering destinations with capitals located more than 5,500 miles from London, will also be introduced.

Reduced, standard and higher rates are being increased on 1 April 2022 as follows:

Reduced rate (lowest class of travel):

"Though increases in duty on long-haul flights are welcome, the cut to domestic duty sends an appalling signal ahead of COP26."

The Institute for Public Policy Research

Reduced rates (lowest class of travel):

Approximate distance in miles from London	From 1 April 2022	From 1 April 2023
Domestic (flights within UK)	N/A	£6.50
Band A (0 to 2,000 miles)	£13	£13
Band B (from 2,001 to 5,500 miles)	£84	£87
Band C (over 5,500 miles)	N/A	£91

Standard rate (other than lowest class of travel):

Approximate distance in miles from London	From 1 April 2022	From 1 April 2023
Domestic (flights within UK)	N/A	£78
Band A (0 to 2,000 miles)	£26	£26
Band B (from 2,001 to 5,500 miles)	£185	£191
Band C (over 5,500 miles)	N/A	£200

Higher rate (flights on aircraft of 20 tonnes and above, with fewer than 19 seats):

Approximate distance in miles from London	From 1 April 2022	From 1 April 2023
Domestic (flights within UK)	N/A	£78
Band A (0 to 2,000 miles)	£78	£78
Band B (from 2,001 to 5,500 miles)	£554	£574
Band C (over 5,500 miles)	N/A	£601

VAT

While the changes made to VAT have a limited impact, some of them relate to the problems caused by Brexit.

To ensure that motor dealerships in Northern Ireland have a level playing field with the rest of the UK, there were two announcements on second-hand cars.

The second-hand margin scheme for vehicles in Northern Ireland

If the EU agrees, the Government will provide interim rules for the continued use of the second-hand margin scheme on the sale of second-hand vehicles (previously registered in the UK before 1 January 2021). The rules would apply retrospectively from 1 January 2021.

If no agreement is reached with the EU, VAT will apply on the full selling price of vehicles bought from Great Britain.

The second-hand motor vehicle export refund scheme

To replace the proposed interim arrangements above, the Government intends to introduce a new scheme.

Businesses that buy second-hand vehicles from Great Britain to sell in Northern Ireland or the EU will be able to recover an amount equivalent to the VAT that could be included in the vehicle's purchase price.

This should mean that Northern Irish dealers account for a comparable amount of VAT to the amount dealers in Great Britain (who can still use the second-hand margin scheme) would account for on a similar sale.

Implementation of VAT rules in free zones

The most significant change to free zones is a new VAT charge for goods exiting the free zone and entering into free circulation within the UK.

The exit charge will not apply if a subsequent zero-rated supply is made within the free zone, or if a taxable supply is made within three months of entering free circulation.

VAT also becomes due if free zone customs procedure rules are breached. The legislation will differentiate the free zones from other warehousing regimes, and amend some of the existing legislation so that it is compatible with the VAT rules.

VAT exemption for the importation of dental prostheses

Currently, dental prostheses supplied by registered dentists, dental technicians, or other care professionals are VAT exempt.

This will be extended to include the importation of prostheses, too, and will apply to imports to all of the UK, including Northern Ireland.

Consultation on fund management fees

An upcoming consultation will look at simplifying the VAT treatment of fund management fees.

New VAT sanctions regime: points-based system for failure to submit

The Budget documentation reminds taxpayers of the new points-based penalty system as of 1 April 2022, as announced in the Spring Budget 2021.

VAT-registration thresholds

Earlier this year, the Chancellor announced plans to maintain the VAT-registration thresholds for two years from 1 April 2022.

This means the VAT-registration and deregistration thresholds should remain unchanged until 31 March 2024.

NOTES

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