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BUDGET NEWS 2021

A word of warning

The information given below is based mainly on the Chancellor's budget speech and associated press releases. Therefore, I cannot accept responsibility for the accuracy of such information. I have covered the parts of the budget which have the widest effect on taxpayers; it is not an exhaustive account. On any individual tax problem, there is no substitute for taking specific advice.

The Budget in General

Tax receipts have been better than forecast, giving the chancellor scope to increase government spending or reduce taxation. He chose to increase spending, but the government is still having to borrow eye-watering amounts, just not as much as expected.

There was very little on personal taxation which was expected as the allowances, Income Tax rates and National Insurance rates for 2022/23 had already been announced. More surprisingly, there was no tinkering with VAT, which would now be much easier outside the EU.

Capital Gains Tax

Since last year, sales of residential property which are liable to CGT (generally second homes and rental properties) have to be reported to HMRC and the tax paid within 30 days. As I know from experience, the system has not worked smoothly, mainly because of teething problems with the reporting system set up by HMRC, which requires a new online account just for that purpose, even if the taxpayer already has a Personal Tax Account. I saw one case where the taxpayer was unable to set up the new account, even with telephone help from HMRC. In the end, they sent him a paper form to complete, which is not supposed to be allowed!

With immediate effect, the time limit has been increased to 60 days, which will help everyone.

AIA

The Annual Investment Allowance lets businesses claim a deduction from profits for the full amount of expenditure on plant and machinery during the year, up to a limit. That limit was temporarily increased to £1 million and was due to revert to £200,000 on 1 January 2022. It will now remain at £1m until 31 March 2023.

This is academic to most small businesses, who would never spend more than £200,000 on equipment in one year, anyway.

Fuel Duty

Fuel Duty will be frozen until 31 March 2023, which is a relief to drivers after recent increases in petrol and diesel prices.

Excise Duties

- Tobacco** duties are increased immediately by between 2% and 6% over the rate of inflation.
- Alcohol duties are frozen for now, but the government is consulting on proposals to radically reform the system from February 2023. They want to simplify the system, so that the rate of duty more accurately reflects the strength of the drink. Stronger wines, fortified wines and strong ciders would pay a higher rate of duty than now, while lower strength wines, liqueurs and beers would pay less. The separate rate of duty for sparkling wines, which is higher than the duty on still wines, would be abolished.

The chancellor also proposed a lower rate of duty on draught beer, with the aim of helping the pub trade.

Benefits and Expenses

The Covid pandemic has shown that it may be desirable, during a national emergency, to exempt certain benefits and expenses to employers which would normally be taxable. At present, that would require parliament to change the law, so new legislation will allow temporary changes to be made by ministerial direction.

Universal Credit

The chancellor did not bow to public pressure to keep the temporary £20 a week uplift in UC, but has instead reduced the “taper rate” for claimants who are working. That is the amount by which UC reduces when someone starts work or earns more. At present it is 63p for every £1 of wages after tax, but will be reduced to 55p. The working allowance, which is the amount a claimant can earn before the taper applies, will also increase by £500 a year, making it £334 a month if housing support is received, or £556 if not.

Changes to UC rules are normally only made at the start of a tax year, but these will apply from 1 December 2021.

Basis Period Reform

Changes in the tax year 2023/24 will affect businesses which have an accounting year which is not 31 March or 5 April. I will explain the consequences of those changes with individual clients over the next few years, as the effects will be different for everyone.

Business Rates

The government will continue to support the retail, hospitality and leisure sectors, with 50% rates relief in 2022/23, capped at £110,000. Additionally, all businesses will benefit from a rates freeze in 2022/23 and will be allowed to improve properties without the rates immediately rising.

Air Passenger Duty

Air Passenger Duty is payable by each passenger on a flight leaving a UK airport. That meant that passengers on domestic flights paid twice, because both the outward and return flights take off from UK airports. That anomaly has now been removed, so that domestic flights will be charged only once, the same as international flights.