ALVAREZ & MARSAL TAXAND UK

View on the Autumn Budget and Spending Review 2021

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UK Chancellor Rishi Sunak has delivered his Autumn Budget, focusing his announcements on plans to rebuild the economy post-Covid against a backdrop of growing pressures on businesses and families stemming from rising inflation.

With growth this year revised to 6.5% from 4% previously, the Chancellor boosted his spending plans for transport, health and education, while extending tax reliefs and support to the sectors most affected by the Covid-19 crisis. He also unveiled new measures to support families amid growing concerns around living costs, alongside reforms to alcohol, tonnage and R&D tax systems.

Fiscal responsibility was front and centre in his speech, which outlined a new charter for Budget responsibility and the need for a “smaller state” as the country heals from the pandemic shock.

As expected, the Chancellor fell short of delivering a major overhaul to the business rates regime, focusing instead on discounts to targeted industries such as hospitality and leisure, incentives to green investment by retailers and developers as well as changes to the frequency of revaluations. The hospitality sector should also be one of the main beneficiaries of the alcohol duty reform.

A big change to universal credit, with the taper rate reduced by 8 percentage points to 55%, was among some of the measures aimed at tackling the looming living cost crisis, together with an increase in the National Living Wage and the cancellation of a planned fuel duty rate rise.

As part of the government’s Net-Zero strategy, the Budget included allocations of up to £30 billion to advance green investments, including in electrification of vehicles and their supply chains. The aviation sector has also received support through the introduction of a lower passenger duty for domestic flights.

There was little in the way of significant tax changes, with increases to corporation tax rates and National Insurance Contributions having already been announced earlier in the year. As expected, the banking surcharge will be lowered to 3% from April 2023 to reduce the overall burden on banks once the main rate of tax goes up to 25% in 2023. There were some important changes of policy in terms of how the R&D tax credit regime will operate going forward and these will have implications for many companies entitled to claim.

In the following article we analyse these and other key measures from the 2021 Budget and highlight the implications for your business.

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BUSINESS TAXES

CORPORATION TAX

An increase in the main rate of corporation tax to 25% from April 2023 had already been announced in the Spring Budget and there were no further changes to that. As expected though the government today announced a reduction in the banking levy from 8% to 3% from the same date.

The current surcharge on banks' profit would render the total taxation burden uncompetitive when compared with other financial centres once the main rate of corporation tax goes up. *Financial services is one of the UK's strongest exports and in a post-Brexit environment it is no surprise that tax policy will be to ensure that the UK remains competitive when benchmarked against its rivals.* There was also an increase in the surcharge allowance from £25 million to £100 million which is the level at which the surcharge kicks in, which should encourage challenger banks.

CAPITAL ALLOWANCES

The government has announced an extension to the temporary £1 million Annual Investment Allowance which permits companies to claim a 100% deduction for the first £1 million of capital expenditure each year. *The £1 million limit was due to expire at the end of this calendar year and this extension will be welcomed by smaller businesses.*

RESEARCH & DEVELOPMENT (R&D)

The Chancellor has announced that following the consultation launched at Spring Budget 2021, R&D tax reliefs will be reformed to target abuse and improve compliance. These changes will take effect from April 2023. The scope of the relief will be widened to include data and cloud costs as qualifying expenditure.

The government also pledged to focus R&D reliefs on innovation conducted domestically from April 2023. This means the cost of R&D funded or led from the UK but performed overseas may no longer qualify for relief. While reform to target abuse is overdue, this change will undoubtedly impact UK companies legitimately using a global R&D resourcing model to support UK-led R&D projects. *As a result, this change has the potential to adversely affect large international groups and smaller groups leveraging resources in lower-cost economies and, depending on how it will be introduced, could add an administrative overhead in preparing claims.* Coming on top of earlier reforms to cap the benefits for R&D projects with a lower UK contribution, it is not clear how effective this change will be to preventing further abuse.

Further details of these changes are still to emerge, but by aligning with less beneficial international R&D regimes, one of the most attractive features of the UK regime is being removed.

Offset against these changes to R&D tax reliefs and in line with trailed intentions to invest in innovation, the Budget reflected a shift from a market-led approach to more directed grants and funding for targeted communities. This included increased funding for bodies including the UK Research and Innovation (UKRI), Advanced Research and Invention Agency (ARIA); Aerospace Technology Institute (ATI), as well as for National Science and Technology Council-supported technologies such as advanced nuclear R&D, Quantum Computing, Artificial Intelligence, Bioinformatics and Space. The new policy also aims to encourage those outside the country's Greater South East and those collaborating with the EU's Horizon programme.

ABOLITION OF CROSS-BORDER GROUP RELIEF

The government has announced that it will legislate in the Finance Bill to abolish cross-border group relief with effect from 27 October 2021. This is not surprising now that the UK has left the EU as the ability to claim losses from EU affiliates only happened following successful claims taken by taxpayers on the grounds of freedom of establishment. In any case the circumstances in which group relief could be claimed were quite limited and so it is unlikely to affect many taxpayers.

CORPORATE RE-DOMICILIATION

As a further demonstration of the UK being open for business, the government has launched a consultation on permitting overseas incorporated companies to redomicile to the UK This would bring the UK in-line with a number of other major economies, including Canada, Australia and several U.S. states. *The aim is, of course, to attract companies seeking all the benefits of the UK professional services and capital markets such that they bring with them increased investment and the spending power of their employees.* The consultation is open until 7 January 2022.

ONEROUS LEASE PROVISIONS

The government announced a subtle yet potentially important change to the exemption from the rules which restrict the use of brought forward losses where profits arise from reversals of onerous lease provisions resulting from a corporate rescue. The change in the way leases are accounted for under IFRS 16 means that the narrow wording of that exemption does not currently apply to companies that are required to adopt the new standard. *As the economy emerges from the pandemic, we are likely to see an increased number of lease renegotiations that result in a rent reduction which require the reversal of some or all of the onerous lease provision.* Absent this relief, which will apply retroactively, groups with profits exceeding £5 million would otherwise suffer a 'dry' tax charge.

ASSET HOLDING COMPANIES

Following a series of consultations, the government has confirmed that from it is introducing a regime for the taxation of qualifying asset holding companies (QAHCs) from April 2022.

A QAHC is an investment company that must be at least 70% owned by diversely-owned funds, or certain institutional investors. The regime will include wide ranging exemptions that switch-off or amend many existing UK rules in respect of the taxation of income and gains realised by the QAHC and the treatment of distributions made by it. *The proposals are far reaching and designed to increase the UK's competitiveness as a holding company location for investment funds.*

TAX RELIEF FOR CREATIVE SECTORS

Relief for museums and galleries ("MGETR") will be extended until March 2024. At the same time, the headline rates for MGETR, Orchestra Tax Relief and Theatre Tax Relief will increase until April 2023, before returning to previous levels in April 2024, at which point MGETR will end. Furthermore, from April 2022, these reliefs will become better targeted to prevent abuse. Lastly, from April 2022, production companies will be able to switch between reliefs to ensure either Film Tax Relief and High-End TV Tax Relief are not lost if distribution methods are changed halfway through a project.

TONNAGE TAX REFORM

The Chancellor has announced major reforms to the Tonnage Tax Regime from April 2022, aimed at bringing more ships under the UK flag. The lock-in period will be reduced from 10 to 8 years and HMRC will obtain more discretion to admit companies beyond the initial period. At the same time, the limit for secondary income will increase from 10% to 15%. There will also be a review of guidance on qualifying vessels and operations, aimed at more closely aligning the regime with the current shipping market.

FREEPORTS

At the Spring Budget the government announced the creation of 8 freeports in England. There was scant additional detail in today's press releases other than to note that the first tax advantaged sites will be Humber, Teeside and Thames and that they will be able to begin operation from Novembe rthis year.

REAL ESTATE TAXES

BUSINESS RATES

The government announced what it claimed to be the biggest cut in business rates for 30 years. This relief for business comprises a number of components:

- 50% discount in rates for businesses in the retail, hospitality & leisure sector, up to a maximum of £110,000 which will apply until April 2023;
- A cancellation of the inflationary increase next year;
- A move to 3-yearly revaluations;
- A business rates relief for property improvements from 2023; and,
- A relief for businesses adopting green technologies.

Whilst any reduction in business rates in particular for the High Street is undoubtedly welcome, the system still needs reform. Some of the above measures were previously announced and others do not help occupiers enough given their limited scope.

RESIDENTIAL PROPERTY DEVELOPMENT TAX

The tax – now called the "Building Safety Levy" – was announced in February and the government had consulted with the industry. The Chancellor confirmed the rate today – 4% to be levied on developers with profits over £25 million.

This will partly fund the removal and replacement of unsafe cladding. *Whilst the rate is at the higher end of expectations, the £25 million "allowance" before it applies is also relatively generous.*

PERSONAL TAXES

CHANGES TO BASIS PERIODS

The government has today confirmed the changes to the way individuals who are self-employed are taxed by reference to tax basis periods. *This measure changes the way trading income is allocated to tax years and will primarily affect self-employed traders including individuals with a profession or vocation and partners in trading partnerships.*

Previously, the tax basis period has been such that the profits charged for a tax year are based on the 12-month accounting period of the business that ends in the tax year being assessed.

From the tax year April 2024 to April 2025, the profits taxable will be the amount arising in the tax year itself (i.e. the period from April 2024 to April 2025), regardless of the accounting date of the business. Transitional rules will be needed to deal with issues such as pre-existing overlap relief. *Overall though this is a major change that will generally result in significant acceleration in the taxation of the profits of partners and other self-employed individuals.*

CAPITAL GAINS TAX PAYMENT ON PROPERTY DISPOSALS

The government is to extend the deadline for both residents and non-residents to report and pay Capital Gains Tax (CGT) payment after selling UK residential property from 30 days after completion to 60 days. This will ensure that taxpayers have sufficient time to report and pay CGT, as recommended by the Office of Tax Simplification. *There will not be any implication for disposals made by corporate vehicles as such disposals are now subject to corporation tax.*

EMPLOYMENT TAXES

HEALTH AND SOCIAL CARE LEVY AND DIVIDEND RATES:

The government confirmed the new 1.25% NIC (National Insurance Contribution) levy and 1.25% increase in dividend taxation rates announced last month to fund historic NHS investment. The increase in NIC applies to Classes 1 and 4,and between April 2022 and April 2023 it will simply be added to existing rates. From April 2023, apparently once HMRC's systems permit, the levy will be shown as a separate item with NIC rates technically reverting to existing levels.

In 2022-2023 alone, these measures are expected to bring around £18 billion into the Exchequer, with similar figures predicted for subsequent fiscal years.

BENEFITS IN KIND AND EXPENSES

There were some minor administrative changes made to allow the government to extend tax reliefs temporarily in disasters or emergencies of a national significance. These will permit them to extend tax reliefs or exemptions quickly, without needing a Finance Act. We saw a need for these types of steps when the government sought to exempt certain CJRS testing costs from taxation, and to enable the tax free supply of home office equipment for those working from home as a result of the lockdown measures.

The company car fuel benefit multiplier charge was also announced and will now be a staggering £25,300 from April 2022. *If employers have not already reviewed their fuel provision policy, now is a time to do so. The level of spend on fuel, despite recent pump price increases, has to be very high to warrant the tax cost of continuing to provide this as a benefit in kind.*

The company van benefit rate for 2022/23 has been increased to £3,600 and the van fuel benefit increases to £688. These remain relatively low benefit in kind values, especially when compared to traditionally fuelled company cars. *It is well worth employers examining their fleet and van provisions, to either take advantage of the tax exemptions available if private use is limited, or to provide vans rather than cars in suitable circumstances.*

INDIRECT TAXES

ALCOHOL DUTY

The government is launching a radical simplification of the operation of alcohol duty. In particular the number of different duty rates is to be reduced from 15 to 6 which should eradicate anomalies and moves towards beverages being grouped by alcoholic strength rather than by type.

To promote and provide some relief for pubs, duty on draught beer and cider is to be cut by 5%. It is estimated that this will reduce the cost of an average pint by three pence which should go straight to operating margin.

It wasn't all good news for the sector though. Despite industry bodies calling for the current reduced rate of VAT for businesses in the hospitality, accommodation and attractions sectors to be extended, the rate will return to the regular standard rate of 20% from April 2022 as planned.

AIR PASSENGER DUTY

From April 2023, there will be a new domestic band for Air Passenger Duty, covering flights wholly within the UK, for which the economy rate will be £6.50. This has been made possible by no longer being constrained by EU regulations and is apparently aimed at increasing connectivity within the UK. *This seems slightly at odds with the green agenda but environmental concerns will be partly addressed by a new ultra-long-haul (greater than 5,500 miles) rate of £91.*

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