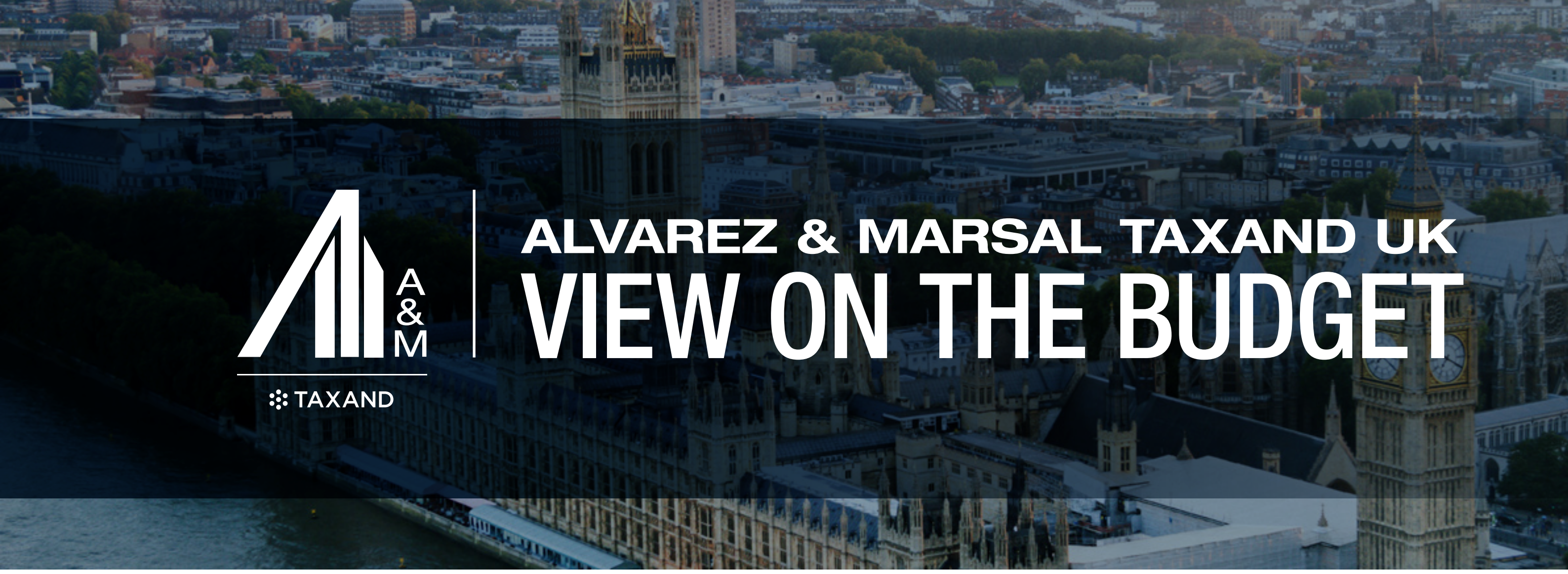

ALVAREZ & MARSAL TAXAND UK
VIEW ON THE BUDGET

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The Chancellor delivered continued support to much of the UK economy that has been battered over the last 12 months. As we have called for, he also recognised that the payment for the c£400 billion in support is a generational responsibility akin to a 'war'.

The uplift in corporation tax was expected. We had called for an increased focus on government policies to increase investment in infrastructure (capital allowances and freeports meet this need) and increase the breadth of qualifying research and development ('R&D') to attract innovative and high growth businesses to this country. Again, he delivered on this.

Against this, the slightly baffling part is that GDP growth forecasts remain below 2% despite these policies. Looking a little deeper, the data reveals a net reduction in government spending. It is still surprising that the consumer, business investment, and expansionist post-Brexit policies do not deliver a greater return. One might expect these forecasts to be revised upwards in the years ahead.

Overall, the Budget Statement showed some much-needed long-term thinking in government fiscal policy. Britain is open for business.

CORPORATION TAX

The two most significant measures announced are the corporation tax rate and significant enhancements to the capital allowances regime. Other than these, few things have been announced that change the tax base.

It should be noted, though, that this year the government has announced additional consultations and proposals announced separately from the Budget in a "Command Paper" entitled 'Tax policies and consultations (Spring 2021)', which is due to be published on 23rd March 2021. We can only assume this will set out changes and potential areas where further tax can be raised.

CORPORATION TAX RATES

The most significant measure to be announced by the government is an increase in the corporation tax rate to 25%. These changes will take effect from 1st April 2023. This change reflects an 8% increase on where businesses thought they would be this time last year when the proposed reduction in rate to 17% was shelved, and the current 19% rate was maintained. This is a huge increase and is estimated to raise an additional £47.7 billion for the Exchequer by the end of 2025/26 and is by far the largest revenue-raising item announced in the Budget.

The current 19% tax rate will be maintained for businesses with profits of £50,000 or less (but close investment holding companies will pay at the full 25% rate), and businesses with profits between £50,000 and £250,000 will pay a marginal rate of tax between 19% and 25%. The last time corporation tax rates were comparable to this was in 2011/2012, although the thresholds were significantly higher than those (£300,000 and £1.5 million). There will, of course, be the usual reduction in thresholds for short accounting periods and associated companies.

A knock-on effect of the corporation tax rate increase is that the Diverted Profits tax rate will increase from 25% to 31% from 1st April 2023 to ensure these rules remain a deterrent taxpayers.

CARRY BACK OF LOSSES

The government has announced temporary changes to the carry back of trading losses for both corporation tax and income tax purposes. It will be effective for losses incurred in company accounting periods ending between 1st April 2020 and 31st March 2022.

Losses carried back to the immediately preceding year are still unlimited, but after carrying back to the preceding year, companies will now be able to carry back an additional maximum of £2 million to be used against profits of the same trade in each of the earlier two years (giving a maximum carry back of three years). This £2 million limit will effectively be shared where there is more than one company in a group with losses to carry back.

CAPITAL ALLOWANCES

The main giveaway in today's package was the announcement of a new capital allowance super deduction, designed to encourage and bring forward capital investment.

The timing of tax relief for qualifying capital expenditure will be significantly accelerated with an enhanced deduction in the year of incurring the expenditure as follows:

- 130% for main pool assets (broadly plant & machinery)
- 50% for special rate pool assets (long-life assets and integral features)
- 100% for part ring fence trades (with apportionment between the parts)

These rates are applicable to expenditure incurred on new assets between 1st April 2021 and 30th March 2023, under contracts entered into on or after 3rd March 2021. We believe that this will lead to an increase in investment activity, as businesses have a two-year window in which to act to secure a potential eightfold acceleration of allowances.

OTHER CORPORATE TAX MEASURES

RESEARCH & DEVELOPMENT

Today the government has launched a review of R&D tax reliefs, supported by consultation with a broad range of stakeholders. This promises to be a wide-ranging review of the UK R&D incentive regime, inviting responses to seventeen questions by 2nd June 2021. These are concerns about the complexity and administration of the scheme, its international competitiveness and its effectiveness in meeting its policy goals.

We believe that this is long overdue as it seems that the recent growth in the level of support provided (a combined £5.1 billion to 60,000 companies) is driven by a number of factors, including fraud and claims being poorly audited, to the extent that the incentive provides less 'value-for-money for UK taxpayers. We welcome this opportunity to improve R&D incentives such that the right companies are incentivised to undertake innovative activities.

INTEREST AND ROYALTIES DIRECTIVE

The domestic legislation that implemented the EC interest and royalties directive will be repealed and will no longer apply to payments made on or after 1st June 2021. Many UK subsidiaries with borrowings from their European parent companies will be affected by this measure, and where they have previously relied on the directive to make payments free of withholding tax, it will now be necessary to apply for a reduced rate/ exemption under the applicable double tax treaty.

HYBRID MISMATCHES

Following a consultation process over much of last year, the government has confirmed a number of revisions to the rules on hybrid mismatches to try and ensure that the regime is proportionate and operates as intended. Some of the nuances in the rules are to be amended retroactively to 1st January 2017, which is welcome news. The UK took a fairly heavy-handed approach to implement BEPS Action 2 ahead of the rest of the OECD.

We recommend that clients who have filed returns with any adjustments that relate to hybrid mismatches revisit the analysis and consider amending their filings were still in time to do so.

FREEPORTS

The government will legislate to enable tax sites within freeport locations to be designated and recognised in law as geographical areas where businesses can benefit from significant tax reliefs and specifically business in these areas will be able to benefit from a number of beneficial tax reliefs including:

- An enhanced 10% rate of Structures and Buildings Allowances for constructing or renovating non-residential structures and buildings (for corporation tax and income tax purposes);
- Enhanced capital allowances of 100% for plant & machinery and special rate assets for qualifying investment made until 30th September 2026;
- Full relief from Stamp Duty Land Tax on the acquisition of land or property within a tax site if the property is purchased before 30th September 2026 and used for a qualifying purpose;
- Full business rates relief will be available to new and certain existing businesses where they expand until 30th September 2026, and the relief will apply for five years from the date they first claim relief; and
- Subject to certain parliamentary approvals, there will be employer National Insurance Contributions relief for eligible employees from April 2022 until at least April 2026, with the intention to extend relief for up to a further five years to April 2031 subject to a review of the relief.

These are generous reliefs designed to encourage businesses to invest in areas where the government wants to incentivise investment and boost employment. The initial freeport areas will be East Midlands Airport; Felixstowe & Harwich; Humber; Liverpool City Region; Plymouth and South Devon; Solent; Teesside and, Thames.

PERSONAL TAXATION

The basic rate income tax threshold will increase to £12,570, and the higher rate threshold will rise to £50,270 next year as originally planned, but after that will remain at these levels until 2026.

Along with the hike in the corporation tax rate, this was the Chancellor major revenue raiser and is expected to net the Exchequer over £19 billion over the next 5 years.

EMPLOYMENT MATTERS

CORONAVIRUS JOB RETENTION SCHEME (‘CJRS’)

As anticipated, the Chancellor announced a further extension to the current CJRS. The scheme has been extended from 30th April 2021 to 30th September 2021. The current level of support of up to 80% of earnings capped at £2,500 per person per month will continue.

HMRC will also continue to fund the full level of support from now until 30th June 2021. Employers will be obliged to fund the employer NIC cost, apprenticeship levy if payable, and the minimum employer pension contribution funding as of now. From 1st July 2021, employers will be expected to help to contribute towards the funding at 10% for July 2021, which will increase to 20% for August and September. This will be similar to how funding was required over the summer of 2020, as restrictions were lifted.

POLICING CJRS CLAIMS

The welcome extension to CJRS came with a stark reminder that HMRC will investigate CJRS fraud, with HMRC setting up a dedicated task force and putting in place 1,265 additional compliance officers to look at Coronavirus support measures abuses.

IR35 – OFF-PAYROLL WORKING RULES

The long-heralded change to IR35 will still come into effect from 6th April 2021, covering the public sector and medium and large businesses in the private sector. Draft legislation has been published to correct some technical aspects of the current legislation enacted in the Finance Act 2020, to define intermediaries more clearly. The measures mainly impact agency and umbrella organisations, but the revisions should be read in conjunction with the enacted legislation. In particular additional measures have been adopted with regard to the supply of fraudulent information.

OTHER EMPLOYMENT TAX MEASURES

HMRC has also extended the temporary exemption on home office expenses through to 5th April 2022, and the easement was due to end on 5th April 2021. This measure enables employers to reimburse the cost to employees for appropriate home office equipment without income tax or national insurance applying. This covers items such as laptops, desks, and computer accessories if they are part of measures to enable employees to work from home as a result of COVID-19. Employers can also reimburse the costs of coronavirus antigen tests (but not antibody tests) tax-free for the 20/21 and 21/22 tax years.

ENTERPRISE MANAGEMENT INCENTIVE ('EMI') SCHEMES

The government has issued a call for evidence as part of its review of Enterprise Management Incentive ('EMI') Schemes 'to ensure that it provides support for high-growth companies to recruit and retain the best talent so they can scale up effectively'.

The legislation is complex, and many companies that EMI was intended for currently fail to meet the necessary qualifying conditions. There are certainly improvements that could be made to simplify and expand the qualifying conditions whilst still maintaining the objectives of the scheme. The objective of the Call for Evidence is to understand whether the original objectives of EMI schemes are still being met, particularly given the current conditions that must be met to grant EMI options.

The Chancellor also announced today that EMI option holders who have been furloughed or had their working hours reduced below the current statutory working time requirement as a result of COVID-19 would retain the tax benefits associated with their EMI options. This will apply until 5th April 2022.

VAT

The main VAT measures were as follows:

VAT REGISTRATION THRESHOLD

The Chancellor announced that the VAT threshold is maintained at the current level of £85,000 for a further three years until April 2024.

COVID DEFERRED VAT

The legislation is to be enacted covering the payment on account arrangements for COVID deferred VAT. Where companies previously deferred their March to June 2020 VAT payments, they will now have a choice of paying the amount deferred by 31st March 2021 or alternatively entering into a monthly payment plan.

REDUCED RATES FOR THE HOSPITALITY INDUSTRY

The reduced VAT rate of 5% for businesses in the hospitality, accommodation and attractions sectors will be extended until 30th September 2021. The rate will then be increased to 12.5% before returning to the regular standard rate of 20% from 1st April 2022.

ABOUT ALVAREZ & MARSAL TAXAND

Alvarez & Marsal Taxand, an affiliate of Alvarez & Marsal (A&M), a leading global professional services firm, is an independent tax group made up of experienced tax professionals dedicated to providing customized tax advice to clients and investors across a broad range of industries. Its professionals extend A&M's commitment to offering clients a choice in advisors who are free from audit-based conflicts of interest, and bring an unyielding commitment to delivering responsive client service. A&M Taxand has offices in major metropolitan markets throughout the U.S., and serves the U.K. from its base in London.

Alvarez & Marsal Taxand is a founder of Taxand, the world's largest independent tax organization, which provides high quality, integrated tax advice worldwide. Taxand professionals, including almost 550 partners and more than 2,500 advisors in 50 countries, grasp both the fine points of tax and the broader strategic implications, helping you mitigate risk, manage your tax burden and drive the performance of your business.

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