Autumn Budget 2021

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A review of the key points from the Autumn Budget 2021

Personal tax
Tax rates and allowances for 2022/23

As already legislated for, the personal allowance of £12,570 and the basic rate limit of £37,700 are frozen up to and including 2025/26. Basic rate, higher rate and additional rate income tax will remain at 20%, 40% and 45% respectively for 2022/23. The additional rate threshold will remain at £150,000. The capital gains tax annual exempt amount will remain at £12,300 up to and including 2025/26. Capital gains tax rates are unchanged for 2022/23.

The main income tax rates and bands apply equally across the UK, except that Scotland has its own rates and rate bands, to be set for 2022/23 by the Scottish Parliament at its Budget on 9 December 2021, and the Welsh Parliament could also modify income tax rates for Welsh taxpayers at its Budget on 20 December 2021.

The starting rate for savings limit (applicable throughout the UK) will remain at £5,000 for 2022/23, and the starting rate itself at 0%. The personal savings allowance also remains unchanged.

Inheritance tax thresholds and rates are unchanged, and the nil rate band is fixed unti l April 2026.

Dividend tax rates

The three income tax rates applied to dividend income will each increase by 1.25 percentage points for 2022/23 onwards to 8.75% (basic rate band); 33.75% (higher rate band); and 39.35% (additional rate band). These rates have effect throughout the UK. The dividend allowance will remain unchanged at £2,000.

It is now confirmed that the dividend trust rate will also increase from 38.1% to 39.35%. The main trust rate is unchanged at 45%. It is also confirmed now that the increased dividend upper rate will apply for charging tax under Corporation Tax Act 2010 s 455 on loans to participators in close companies.

NICs rates and thresholds

The government will use the September Consumer Price Index (CPI) fi gure of 3.1% as the basis for uprating National Insurance limits and thresholds, and the rates of Class 2 and 3 National Insurance contributions, for 2022/23.

However, as previously announced, the upper earnings limit and upper profits limit will be maintained at 2021/22 levels, in line with the higher rate threshold for income tax.

The government has already legislated for a 1.25% health and social care levy from 6 April 2023, which will apply to all income to which Class 1 (both primary and secondary), Class 4, Class 1A and Class 1B NIC is charged, as well as to earnings of those over the state pension age. For 2022/23, the relevant NIC rates will be raised by 1.25% for one year, except for those over the state pension age.

Van benefit charge and fuel benefit charges for cars and vans

The van benefit charge will increase to £3,600 and the van fuel benefit charges will increase to £688 for 2022/23. The multiplier for the car fuel benefit will increase to £25,300.

Income tax treatment of household support fund payments

Household support fund payments will help vulnerable households with essentials over the coming months, as the country continues its recovery from the coronavirus pandemic. The government will legislate in Spring 2022 by Statutory Instrument to clarify that payments made through the fund, and through similar schemes in the devolved administrations, will be exempt from income tax. No income tax will be collected on payments made from October 2021.

Increase in normal minimum pension age

Legislation to be included in Finance Bill 2022 will increase the normal minimum pension age, the earliest age at which most individuals can access their pensions without incurring an unauthorised payments tax charge, from 55 to 57. The increase will have effect from 6 April 2028.

Business tax

Residential property developer tax

The government had previously announced a new residential property developer tax as part of its measures to address unsafe cladding on high-rise buildings. It will apply with effect from 1 April 2022 to the relevant profits arising on or after this date of companies undertaking residential property development activities. It was confirmed in the Budget that the tax will be charged at 4% on profits exceeding an annual allowance of £25 million.

Capital allowances

The annual investment allowance (AIA) had previously been increased temporarily from £200,000 to £1 million, but this was due to end on 31 December 2021. The increase will now extend for a further 15 months until 31 March 2023 for both income tax and corporation tax. As always when the AIA changes, there will be transitional rules to determine the AIA available for accounting periods spanning the date of change, now 1 April 2023.

Research and development

From April 2023, research and development tax reliefs will be reformed to support modern research methods by expanding qualifying expenditure to include data and cloud costs. These changes will be legislated for in Finance Bill 2023 and take effect from April 2023. Further details of these changes and the next steps for the review will be set out in due course.

Corporate loss relief

Legislation will be introduced (to apply retrospectively for accounting periods beginning on or after 1 January 2019) to ensure that companies adopting IFRS 16 continue to benefit from the exemption from the loss carry forward restriction for companies in financial distress.

Cross-border group relief

For accounting periods ending on or after 27 October 2021, the existing cross-border group relief rules relating to EEA-resident companies are repealed. Group relief rules relating to UK permanent establishments of EEA-resident companies are to be brought into line with those for non-UK companies resident elsewhere in the world.

Transitional arrangements will apply for straddling periods.

Diverted profits tax

Two changes relating to the administrative aspects of the diverted profits tax will have effect from 27 October 2021. First, DPT will now be included as a tax covered by the UK’s double taxation treaties, and so mutual agreement procedure (MAP) outcomes will be able to be implemented for companies that have sought relief from diverted profits tax under this procedure.

The interaction between the diverted profits tax review period and company tax return enquiries will also be rationalised by extending the period in which a company tax return can be amended where there is a diverted profits tax review to cover the whole of the review period, other than the final 30 days. It will also not be possible for a closure notice for an enquiry into a company tax return to be given until the end of the review period.

Real estate investment trusts

From 1 April 2022, changes will be introduced to enhance the attractiveness of the UK Real estate investment trusts (REIT) regime. Key changes include:

- removal of the requirement for REIT shares to be admitted to trading on a recognised stock exchange where institutional investors hold at least 70% of the ordinary share capital in the REIT;
- amending the rules requiring that at least 75% of a REIT's profits and assets relate to property rental business (the 'balance of business test') to disregard non-rental profits arising because a REIT has to comply with certain planning obligations, and to ensure the items currently specified as excluded from the profits part of the test are disregarded in all parts of the test; and
- introduction of a new simplified balance of business test so that, if group accounts for a period show that property rental business profits and assets comprise at least 80% of group totals, a REIT will not have to prepare the additional statements that would be required to meet the full test.

Creative industries

A range of measures were announced in relation to the three 'cultural' tax reliefs (theatre tax relief, orchestra tax relief and museums and galleries exhibition tax relief) to increase the rates temporarily from Budget Day until 31 March 2024 and extend museums relief until 31 March 2024. From 1 April 2022, film productions qualifying for film tax relief that change during production to instead meet the criteria for high-end television tax relief will be able to continue claiming film relief without losing their right to access tax relief.

Bank surcharge

The bank surcharge rate will be reduced to 3% (from 8%) from 1 April 2023 and the surcharge allowance will be increased to £100 million (from £25 million).

Asset holding companies

From 1 April 2022, a new tax regime for qualifying asset holding companies and some of the payments they make will be introduced. The regime will apply to certain asset holding companies that are used in a range of collective and institutional investment structures to hold investment assets. It will also apply to investment funds, institutions and individuals that invest in these structures.

The broad intention behind this regime is to ensure UK competitiveness as a location for asset management and investment funds. It operates so that investors are taxed broadly as if they had invested in the underlying assets and the intermediate holding companies pay no more tax than is proportionate to the activities they perform.

The regime will exempt from tax gains on share disposals and overseas property disposals and profits of an overseas property business, where they are subject to tax in an overseas jurisdiction. The share capital buy-back rules will treat premiums paid when a qualifying asset holding company repurchases its share capital from an individual, as capital rather than as income distributions.

VAT and indirect taxes

Implementation of VAT rules in free zones

This measure, which is to take effect from 3 November 2021, will affect VAT-registered businesses authorised to operate in the customs site (free zone) of a freeport. The main VAT benefit of operating in a free zone is that businesses selling goods within free zones can zero-rate their supplies, and services carried out on goods in those zones may also be zero-rated subject to conditions, which provides a cash flow advantage.

This measure will ensure that where goods leave a free zone and there is no qualifying onward supply of the goods, or where there is a breach of the rules of the free zone customs procedure, VAT will be due.

VAT treatment of fund management fees Autumn Budget 2021 included an announcement that there will be a consultation on options to simplify the VAT treatment of fund management fees in the coming months.

Air passenger duty

A new domestic band for air passenger duty covering flights within the UK will be introduced from 1 April 2023 with rates of £6.50 (economy) and £13 (other). There will also be a new ultra-long-haul band, covering destinations with capitals located more than 5,500 miles from London with rates of £91 (economy) and £200 (other).

Tax administration

Discovery assessments

Finance Bill 2022 will put beyond doubt with immediate and retrospective effect the fact that HMRC can raise valid discovery assessments in relation to the high income child benefit charge, or to recover gift aid and for certain pensions tax charges.