

BCU Student Tax Clinic

A summary of the main direct and indirect tax Budget announcements on 27 October 2021

Personal Allowance and income tax rate bands

There was no mention in today's autumn budget of changes to the personal allowance, the threshold for paying income tax. However, it was announced in the previous Budget speech on 3 March 2021 that the personal allowance would increase by £70 to £12,570 for 2021/22 but will be frozen until the end of 2025/26.

The level of income at which the personal allowance is withdrawn will stay at £100,000. Every £2 of income over that level reduces the allowance by £1. This will result in a marginal rate of 60% tax in the band of income £100,000 to £124,140 from 2021/22.

This will enable the Chancellor to keep the pledge of not increasing income tax but will let 'fiscal drag' increase the tax collected because of pay rises during that period. In 2025/26, as a result, the government expects to collect an additional £8 billion in Income tax.

Today's speech did not announce any changes to the income tax rate bands but again it was previously announced that the 2021/22 rates would also remain frozen until 2025/26 (except for dividend rates as mentioned below).

National Insurance changes and the Health and Social Care Levy

In an announcement published on 9th September 2021, the UK Government announced changes to National Insurance rates for the forthcoming tax year, as well as the introduction of a new tax which will come into effect in April 2023 "the Health and Social Care Levy".

The initial change will come into effect on 6 April 2022 and will see National Insurance rates increase by 1.25%. This however will be a temporary measure and will only be required for the tax year 2022/23. This increase will only apply to individuals who are below the state pension age. Furthermore, there will also be an increase of 1.25% on the tax rates on dividends, again from the 2022/23 tax year and this will be a continual charge for years to come.

In the tax year 2023/24 the temporary 1.25% increase in national insurance will cease and instead a new tax will be introduced called the Health and Social Care Levy. Health and Social Care levy is a new tax charge of 1.25% that will be taxed on earnings for employees, employers, self-employed including those over the state pension age. It will come into force for the tax year starting on 6 April 2023.

The levy will initially be raised to go directly towards the NHS.

Capital Gains Tax

The Spring Budget confirmed that the capital gains tax (CGT) rates will remain frozen with a main rate of 20% and 28% for residential property disposals. The annual exemption will stay at £12,300 for individuals and £6,150 for trustees until the end of 2025/26.

Today's Budget speech announced that the property disposal payment window for capital gains tax on residential property disposals will be increased from 30 days to 60 days. The 60 days payment window will only apply to the residential element of the property gain. This measure also clarifies the rules for mixed-use properties, which apply to UK residents only. This will ensure that taxpayers have sufficient time to report and pay CGT. This measure will have an immediate effect on disposals that complete on or after 27 October 2021.

There was much speculation at the possibility of aligning CGT rates with Income Tax but the Budget speech was silent on this point and did not mention anything about increased rates.

Inheritance tax

The Autumn Budget was silent on Inheritance tax.

The nil-rate bands for inheritance tax will remain the same until April 2026. This includes the nil-rate band of £325,000 and the Residential nil-rate band for a direct descendant of £175,000.

The residential nil-rate band was due to rise with inflation in April 2021 but both thresholds have been frozen until 2026. The threshold for tapered withdrawal of the residence nil-rate band will remain at its 2020-21 level until 2025-26. This is for the estates with a net value of more than £2m and the withdrawal rate of £1 for every £2 over this threshold.

Car fuel and Van Benefits in Kind

In the budget announcement, a few changes were made to the Car fuel, Van, and van fuel benefits in kind.

Firstly, the taxable flat rate Van benefit will increase to £3,600 from 6 April 2022. In addition to this increase, the van fuel benefit charge will also increase to £688, slightly up from the figure used in 2021/2022.

Also, the multiplier used to calculate the taxable car fuel benefit will change. From 6 April 2022, the multiplier used will increase to £25,300, which will mean a slight increase in the tax paid by beneficiaries of this benefit in kind.

The government forecasts that these changes will affect around 150,000 people for the fuel benefit changes, as well as a further 100,000 for the van benefit charge, and they will continue to review the charges on an annual basis.

Capital Allowances

The government today announced that it will continue to support UK businesses by extending the temporary £1 million level of the Annual Investment Allowance until 31 March 2023. This will provide businesses with more upfront support, encouraging them to bring forward investment, and making tax savings for any business investing between £200,000 and £1 million on qualifying equipment.

As announced last year, the capital allowances Super Deduction provides first-year relief for qualifying expenditure incurred from 1 April 2021 until the end of March 2023. Companies can claim 130% capital allowances on qualifying plant and machinery investments. The main rate of corporation tax is due to increase from 19% to 25% from 1st April 2023. Critics have said that the Super Deduction relief has been introduced to discourage companies from delaying new capital expenditure. A reduced Super deduction of 50% applies to special rate pool assets.

Research and Development

Following the consultation launched at Spring Budget 2021, R&D corporation tax reliefs will be reformed. This includes expanding qualifying expenditure to include data and cloud costs, to more effectively capture the benefits of R&D by focusing support towards innovation in the UK, and to target abuse and improve compliance. These changes will be legislated for in Finance Bill 2022-23 and take effect from April 2023.

Residential Property Developer Tax

A new tax will be introduced from April 2022, to help solve the UK's cladding crisis. As part of a 5-step plan to end unsafe cladding, Residential Property Developer Tax (RPDT) will provide the government with the necessary funds required to fully pay for the complete removal of unsafe cladding in all residential property buildings that are at least 18 meters or 6 storeys high. The government plans to raise £2bn over the next decade, by taxing the profits of UK residential property companies at the rate of 4% on all profits exceeding the annual allowance of £25m.

As opposed to the initial plan in February 2021, RPDT will only be payable by those developers who hold their property as trading stock. Property investors, namely those who buy to let, are currently excluded.

VAT

There were no significant changes to the VAT legislation.

Green and Environmental Taxes

Surprisingly, in view of the coming COP26 summit there appear to be few tax changes to tackle climate change. The freeze announced on fuel duty could be argued to be a missed opportunity.

In addition, the most eye-catching announcement was the halving of taxes on domestic flights, which are already far cheaper and more polluting than trains.

However, changes are to be made to the Business rate rules to reflect green property improvements by businesses.

Other announcements

Alcohol duty – significant reforms were today announced to the rules for calculating alcohol duties. In addition, a new draught beer relief was introduced and the small brewer reliefs were extended.

Universal credit - As of today, the taper rate on Universal Credit (UC) is 63% but, this is set to change following the backlash faced by the Chancellor for cutting the £20 uplift earlier in the year. From 1st December 2021, the new UC taper rate is set to be 55%, an 8 point decrease providing claimants with an additional £1,000 a year. On top of this, the Government will increase, by £500, the amount that a household with children can earn without having to pay the taper rate.

Note

This Budget summary is prepared for guidance only. We recommend that you contact a tax professional before acting on any information contained in this document and we cannot accept responsibility for any action taken without such advice.