



Budget 2021: an overview

COMMENTARY BY [JIA WEI LEE](#), 4TH MARCH 2021

The Chancellor of the Exchequer delivered his Budget yesterday afternoon. A number of tax measures were introduced to ease the financial burden on businesses and individuals. Some were simply extensions of short-term tax relief, including a holiday on business rates for 3 months, maintaining the £500,000 SDLT nil-rate band, and a freeze on alcohol and fuel duties. In this update, I focus on some longer-term measures designed to promote a post-Covid rebound.

Corporation tax

The Chancellor announced a significant increase in corporation tax beginning April 2023. At the same time, he introduced capital allowances intended to encourage investment, the most eye-catching of which is a 2-year "super-deduction", which provides first-year allowances of 130% of the value of plant or machinery acquired after 1 April 2021. A lower, 50% allowance applies for special rate assets. [The draft legislation](#) makes it clear that certain expenditures will be excluded from the allowance, however, including for expenditure on second-hand assets and expenditures on contracts entered into before 3 March 2021 (even if the expenditures themselves are incurred after April 2021).

Personal tax

Tax thresholds for CGT, IHT and income tax have been frozen in the tax years up to and including 2025/26:

- a. the income tax personal allowance is set at £12,570, and the basic rate limit at £37,7000;

- b. the nil-rate band for inheritance tax continues at £325,000, and the residence nil-rate band at £175,000;
- c. the CGT Annual Exempt Amount remains at £12,300 for individuals, personal representatives, and some types of trusts for disabled people, and at £6,150 for trustees of most settlements;
- d. the standard lifetime allowance for pensions is fixed at £1,073,100.

Outside of these threshold freezes, there were few significant changes to personal taxes. This is unsurprising, given the Conservative commitment to a “triple tax lock”. Nonetheless, there are two issues to note in respect of CGT.

First, there had been speculation about whether the Budget would introduce sweeping changes to the CGT regime. This followed the Office of Tax Simplification’s report, published in November 2020, which recommended aligning CGT rates with income tax rates, the abolition of the CGT uplift on death, and the abolition of business asset disposal relief in favour of a more retirement-focused regime (trust and private client practitioners interested in the impact of these changes can read [this excellent primer by my colleague Emily Campbell](#)). However, the 2021 Budget was probably too early to expect any changes. The OTS is set to publish a further report dealing with technical and administrative issues in 2022, and one can expect any major policy shifts to follow its publication.

Second, the Finance Bill 2021 will contain a minor amendment to s167(2) of the Taxation of Chargeable Gains Act 1992. The current legislation disapplies entitlement to business gift hold-over relief where the transferee is a person not resident in the UK, and connected with the person making the disposal. The Finance Bill 2021 will include a clarification ensuring that the rule applies where the transferor controls the transferee. Draft legislation is yet to be published, but on its face, any changes will only address a relatively minor ambiguity.

Tax administration and anti-avoidance

The Budget document sets out a number of policies for tackling tax avoidance and non-compliance. Very few represent substantial policy moves. Of most significance is the announcement that a new penalty regime will be introduced for VAT and Income

Tax Self-Assessment. [The new regime](#) imposes a financial penalty of £200 only after the taxpayer reaches a points threshold (which varies depending on the taxpayer's submission frequency).

Two other anti-avoidance measures are given brief mention, but represent a portent of things to come. First, in July 2020, the government proposed a series of changes to the DOTAS legislation, which would have given HMRC expanded powers to issue information to suspected promoters of tax avoidance schemes, and widen the definition of a "promoter" to capture individuals utilising corporate structures. The government did not, in the 2021 Budget, commit to implementing this proposal, but has published [a summary of responses to its consultation](#). These proposed changes to the DOTAS regime are potentially extensive, and worth keeping an eye on.

Second, despite significant public criticism of HMRC's continued use of the loan charge legislation to pursue claims against individuals for historic use of disguised remuneration schemes, the Budget commits to providing HMRC resources to continue its compliance work on the loan charge. It is clear that notwithstanding the negative press, HMRC will not relent in its enforcement of these highly controversial retrospective charges.

Conclusion

The draft legislation effecting the policies announced by the Chancellor today will be published over the next few days, and will no doubt reward careful reading. In the meantime, the tax measures introduced by the 2021 Budget, while themselves relatively modest, may foreshadow more structural reforms in the months and years to come. We may learn more on 23 March 2021, when the Government publishes a number of tax consultations.

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