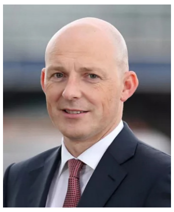
KPMG

Autumn Budget & Spending Review 2021

What does this mean for you and your business?

Your Partner For What's Next



Today's Autumn Budget 2021 was set in the context of a much improved fiscal outlook, primarily due to a faster than previously anticipated recovery in economic activity and the labour market across the UK. While acknowledging the challenges from ongoing global supply chain issues and labour shortages (inevitably leading to inflationary pressures over the short term) the Chancellor took the opportunity to highlight that the UK economy is performing strongly and now expected to regain its pre-pandemic size by the turn of the year.

Given the two significant revenue raising measures already announced this year, namely the increase in the main corporation tax rate to 25% from 2023 and the announcement of the NIC increases and new Health and Social Care Levy coming into effect in April 2022, businesses will welcome the lack of any additional revenue raising measures. Apart from some relieving measures aimed at low income households, there was very little in today's Budget in the area of employment taxes or individual taxation more generally (with no changes to income tax or capital taxes rates).

Of the various tax related measures announced today, the most noteworthy are:

- **Amendments to the current R&D Tax credit regime** to (i) expand the definition of qualifying expenditure to include data and cloud computing costs; (ii) ensure that relief is focussed on R&D activity actually taking place in the UK rather than third countries and (iii) measures to target abuse of the regime and improve compliance. Further details will be provided in the Finance Bill 2022-23 and these changes will take effect from April 2023.
- A substantial **reform of the UK's tonnage tax system** effective from April 2022 to encourage businesses to re-base their headquarters in the UK.
- Confirmation that the new **Residential Property Developer Tax**, effective from April 2022 has been set at 4% on annual profits exceeding £25 million (in addition to the main corporation tax rate).
- Confirmation that the **Bank Corporation tax surcharge** will be set at 3% from April 2023 (in addition to the main corporation tax rate).
- Extension of the temporary £1 million level of the **Annual Investment Allowance** to 31 March 2023.
- Improvements to several existing tax reliefs applicable to organisations within the **Arts & Culture sector**.
- The introduction of a new reduced domestic band for **Air Passenger Duty** covering flights within the UK along with a new ultra-long-haul rate band covering longer destinations.
- A fundamental **reform of the UK Alcohol Duty System** to align duty rates going forward to the level of alcohol content.
- An interim arrangement measure to extend the existing **second-hand margin scheme** for car imports to NI from GB.

KPMG Belfast's tax team has prepared a concise overview of the main tax items in today's Budget affecting businesses and individuals, all of which will have application in Northern Ireland unless indicated otherwise.

If you require any further information please do not hesitate to get in touch with me or your usual KPMG contacts.

Johnny Hanna
Partner in Charge and Head of Tax,
KPMG in Northern Ireland

Private Client

Kevin Bell
Partner

Susan Smyth
Director

There was, once again, considerable speculation regarding changes to the existing Capital Gains Tax (CGT) and Inheritance Tax (IHT) regimes. Some viewed the current economic situation as an opportunity to be bold. However, the Chancellor has refrained from making material changes in these areas and also made no announcement regarding the introduction of a wealth tax.

Individual taxpayers do, however, need to take note of changes coming in and other announcements made in the Autumn Budget.

Tax bands and rates

As previously announced, tax bands, personal allowances and the CGT annual exemption will remain frozen at current levels until 5 April 2026.

Personal tax rates generally remain unchanged but, as announced on 7 September 2021, the rates of income tax applicable to dividend income will increase by 1.25% with effect from 6 April 2022.

The basic rate of tax on dividend income will increase to 8.75%. The higher rate will increase to 33.75% with the additional rate set at 39.35%. These changes will affect the rates of tax for individuals, estates and trusts.

Prior to this rate increase, when considering income extraction by a shareholder in a family company, it was generally the case that dividend income resulted in a lower effective rate of tax than salary. The increased rate of tax on dividends will close the gap but dividends are likely to remain the more tax efficient method of extraction.

Basis period reform

This reform will affect self-employed traders, partners in trading partnerships and other unincorporated entities with trading income, including trusts and estates. The intention of the reform is to simplify the current basis period rules.

The effect of the reform will be that assessable profit will comprise the actual profit arising in the tax year ended 5 April regardless of accounting periods adopted for other purposes.

The new rules will come fully into force from 6 April 2024 but specific advice will be required on how tax payments will be impacted by the reform, including complex transitional rules which will apply in 2023/2024.

Delay to Making Tax Digital for Income Tax Self-Assessment

The government will give sole traders and landlords with income over £10,000 an extra year to prepare for Making Tax Digital. MTD for ITSA will now be introduced from 6 April 2024. General partnerships will not be required to join MTD for ITSA until 6 April 2025.

CGT payment on property disposal time limit extension

The deadline for UK residents to report and pay CGT after selling UK residential property will increase from 30 days after completion to 60 days. For non-UK residents disposing of any type of property in the UK, the deadline will also increase from 30 days to 60 days.

Employment Taxes

Eunan Ferguson
Director

Sinead McCavera
Manager

There were relatively few employment tax changes in the Autumn Statement but the Chancellor did announce the well-trailed increase in the National Living Wage. This, combined with the Health and Social Care Levy announced in September will have an impact on businesses' wage bills who will be looking to see what they can do to manage these costs.

National Living Wage (NLW) and National Minimum Wage (NMW)

The Chancellor has announced an increased in the NLW from April 2022. For workers aged 23 and over, the NLW will increase by 6.6% from £8.91 to £9.50 per hour. Alongside the NLW increase announced today, the Commission have also recommended significant rises in the NMW rates for younger workers. The 21-22 year old rate will increase to £9.18, narrowing the gap with the NLW and leaving this age group on course to receive the full NLW by 2024. NMW rates for 18-20 and 16-17 year olds will also increase in line with underlying wage growth. The minimum wage for apprentices will increase by 51p, bringing it in line with the 16-17 year old rate.

Health and Social Care Levy (HSC Levy)

As previously announced on 7 September 2021, the government will legislate for a new 1.25% HSC Levy. The HSC Levy will apply UK wide, to the same population and income as Class 1 (employee, employer) and Class 4 (self-employed) National Insurance contributions (NIC), and to the main and additional NIC rates. The Levy will not apply to Class 2 or Class 3 NIC.

The government's proposals are as follows:

- From **6 April 2022**, there will be a temporary 1.25% increase in Class 1, 1A and 1B NIC rates to 15.05% for employers, and in Class 1 NIC rates for employees to 13.25% (below the NIC Upper Earnings Limit) and to 3.25% (above that limit); and
- From **6 April 2023**, the new HSC Levy will apply to both employers and employees (including those above the state pension age) at a rate of 1.25% percent (i.e. a combined rate of 2.5%) – Class 1, 1A and 1B NIC rates will then revert to their current levels.

We would encourage employers to assess the likely implications of the NLW/NMW and the NIC/HSC increases for their employees, contingent labour and businesses. Larger employers should reflect on whether it would be beneficial to undertake a communication exercise for employees and off-payroll workers to highlight these changes; covering their overall impact and drawing out broader consequences such as potential salary sacrifice savings.

Given these additional costs, the proposed HSC measures may renew some businesses' focus on salary sacrifice as a means of cost-efficient remuneration. Many employers already offer pension contributions, bikes for work and childcare on this basis where possible. However, for those who do not – and are able to do so – the government's proposals may provide reason to reassess employee benefit offerings. Additionally, given the 2% benefit-in-kind rate will apply to fully electric cars from 2022-23 until 2024-25, the current peaks in the cost of fuel and half of drivers are now considering switching to a fully electric car, employers may also wish to consider providing electric cars under a salary sacrifice arrangement to open up company car provision to more employees whilst also achieving significant tax and social security savings under existing benefit rules.

VAT

Frankie Devlin
Partner

Jennifer Upton
Director

Despite a lot of media coverage and pressure from interested parties, there was no change to the unwinding of the reduced rate of VAT for the tourism and hospitality sector. The rate is currently 12.5% and will revert to 20% on 1 April 2022. This puts NI businesses at a disadvantage compared to similar businesses in the Republic of Ireland where the reduced rate of 9% was recently extended to 31 August 2022.

There has also been a lot of media coverage on VAT on domestic fuel given the recent price rises. Although the Chancellor referred to the hardships being experienced, there was no reduction in the VAT rate on such supplies and they continue to be subject to VAT at the reduced rate of 5%.

The government did make a number of VAT announcements as part of their continuing efforts to minimise the impact of the Northern Ireland Protocol in certain cases where it undermines trade between GB and NI.

VAT second-hand margin scheme – interim arrangement for Northern Ireland

Following previous announcements on this area since the start of this year, in this latest announcement, the government will extend the VAT margin scheme to apply in Northern Ireland on a limited basis in respect of motor vehicles sourced from Great Britain for the period until the Second-hand Motor Vehicle Export Refund Scheme is implemented. As a result, motor vehicles first registered in the United Kingdom prior to 1 January 2021 will be available to sell under the VAT margin scheme in Northern Ireland. This measure needs to be agreed with the EU and would apply retrospectively from 1 January 2021, which should bring more certainty to this area.

Second-hand Motor Vehicle Export Refund Scheme

It is proposed that businesses who buy used motor vehicles from GB that are removed for resale in NI or the EU may be able to claim a refund equivalent to VAT on the price paid under the second hand motor vehicle export refund scheme. This will ensure that Northern Ireland motor vehicle dealers will remain in a comparable position as those applying the VAT margin scheme elsewhere in the UK.

These announcements will help those specifically affected by the measures over the short term while the UK and EU negotiating teams continue their work on seeking to reach a jointly agreed position on more sustainable and longer term solutions to the issues arising in practice on certain GB-NI trade.

Other indirect taxes

In his speech the Chancellor made great play of the flexibility available now the UK is outside of the EU, in particular in relation to Alcohol Duty and Air Passenger Duties.

Alcohol Duty

All alcohol duty rates have been frozen again this year and the government has also published a consultation on its detailed proposals for alcohol duty reform with the rate of duty being linked to the alcoholic strength of the beverage. However, the Northern Ireland Protocol will mean that the application of any reforms to Northern Ireland will need to be discussed and agreed with the EU.

Air Passenger Duty (APD)

The government is also introducing a package of APD reforms that include a 50% cut in domestic APD aimed at boosting UK connectivity and making travel across the UK more accessible. This will be particularly valuable to Northern Ireland where there are fewer travel alternatives. In addition, a new ultra-long-haul distance band for APD will be introduced. These changes will take effect from April 2023.

Environmental Taxes

David Nelson
Partner

Harriet Porter
Director

With the COP26 summit only days away, it was easy to imagine there might have been headline 'green' tax announcements in line with the government's environmental strategy. The measures that were announced focussed more on green spending rather than green taxation and build on those set out earlier this month as part of the Net Zero strategy to 'build back greener'.

In relation to the tax changes that were announced for some, such as the reduction of 50% to Air Passenger Duty (APD) rates for domestic flights from 1 April 2023, the freezes in fuel duty, Aggregates Levy rate and Carbon Price Support rates, it could be argued that they go against the green agenda but these were set out as a response to the current economic situation. The reduction in domestic APD will also be accompanied by a new rate of APD on 'ultra-long haul' flights (flights of 5,500 miles or more) on the basis that these flights are more polluting so the duty should be higher.

Plastic Packaging Tax

The government is also pressing ahead with the Plastic Packaging Tax rules (to be introduced from 1 April 2022) and has made some amendments to the rules refining the meaning of a 'plastic packaging component' to ensure the tax is properly targeted and captures businesses that manufacture or import plastic packaging. Businesses need to consider whether they are affected by this new tax to ensure they have time to adopt appropriate systems and controls.

Business Rate Relief

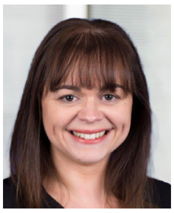
The government also announced business rate exemptions and relief in England for eligible green technologies to support the decarbonisation of non-domestic buildings. From 2023, they will be added to by exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a new 100% relief for eligible heat networks.

Among the significant government funding announced to 'build back greener' are investments to improve infrastructure for electric vehicles (charging points), public transport and funding for zero emission buses. The government's green financing programme has also recently come to fruition and the government has now issued two sovereign green bonds. In addition, the retail Green Savings Bonds have recently been made available via NS&I allowing UK savers to support the government's green spending initiatives.

Although there was little in the way of green tax announcements, the spending measures demonstrate the intent of reaching a net zero carbon position by 2050 by investing in green technologies and infrastructure and rewarding others for investing in the same.

Corporate Tax

Paddy Doherty
Partner



Michelle McKinley
Director

The Autumn 2021 Budget announced limited changes in terms of the UK Corporation Tax regime.

Tax Rates

Previous budgets introduced an increase for most businesses to the corporation tax rate from its current level of 19% to 25% with effect from 1 April 2023. The UK corporation tax rate is still one of the lowest within the G20. The increase in UK corporation tax rate from April 2023 should be considered in the context of the recent OECD announcements of a global minimum corporate tax rate of 15% for large multinational groups.

The limited corporation tax changes today are not unsurprising and have the benefit of providing some stability for businesses which will be welcomed by many given the turbulence and uncertainty caused by the pandemic.

Residential Property Developer Tax (RPDT)

In spring 2021, the government announced a consultation on a proposed RPDT and a second consultation on the notification of uncertain tax treatments by large businesses.

Following on from the consultation on RPDT, the Chancellor confirmed the rate of tax for the new RPDT will be 4%. This tax, effective from 1 April 2022, will be payable on profits arising from residential property developments in excess of £25 million per annum. Draft legislation on this measure was published recently. In effect, for transactions which fall within the remit of this legislation, the effective rate of tax from 1 April 2022 will be 23% and from 1 April 2023 will be 29%.

Uncertain Tax Positions

In addition, today's announcements confirmed large businesses will be required to notify HMRC if it has adopted an uncertain tax position which is either not in accordance with HMRC's known position or the business has included a provision in its accounts in relation to the uncertainty. From April 2022, the measures apply to companies with either an annual turnover of more than £200 million or balance sheet total over £2 billion with uncertainties in relation to Corporation Tax, Income Tax (including PAYE) and VAT filings resulting in a tax advantage exceeding £5 million. The government had previously considered a third trigger where there is a substantial possibility that a tribunal or court would find the taxpayer's position to be materially incorrect and whilst this measure has not be included at the moment, it still remains on the table.

Other Matters

As we continue to navigate through the post-Brexit era, there was a technical change with regards to the availability of cross-border group relief. With immediate effect, it will no longer be possible for NI/GB groups to utilise losses by way of group relief claims from non-UK group companies.

The Chancellor announced plans to shortly launch a consultation to continue to explore the potential introduction of an Online Sales Tax across the UK. This was not an unexpected announcement.

The government's main business tax focus was the introduction of further tax incentives in order to encourage investment and innovation. Further detail on the measures announced can be found in the 'Incentives' section of this edition of Taxing Times. However, the targeted incentives for creative industries and R&D are particularly good news for NI businesses, as we continue to set ourselves apart on the global stage as an ideal location for television and film production and promote our highly skilled talent pool.

Tax Incentives

Mat Scott
Partner

Andrew Reid
Director

Research and Development

Following several recent government consultations reforming the R&D Tax Relief schemes, there were murmurings before today's Autumn Statement that widescale changes may be coming. However, the government has again delayed any serious reform but has opted for measures to improve the efficiency and effectiveness of the schemes.

It was announced that the government will introduce measures later in the autumn to "tackle abuse" and "improve compliance" of the R&D tax credit schemes – which is hardly surprising given the difficult state of the public finances and the continued difficulties with policing the schemes.

The Chancellor also noted that, in line with many other countries, the UK R&D tax relief schemes will be refocussed to UK-based R&D activities only which may well remove the ability for UK companies to claim for costs of overseas parties assisting with R&D projects.

Importantly, the categories for qualifying expenditure will be widened to include certain data and cloud computing costs but, as noted in a previous consultation regarding same, we may well see certain other categories of expenditure restricted to balance these improvements.

The continued government funding support for R&D activities (especially the support for Innovate UK) is certainly welcomed but the government is clearly seeking to ensure that the R&D tax credit regimes are more closely aligned to the actual high-quality R&D activity it is hoping to promote. We expect to see further changes in the coming months.

Capital Allowances

Significant changes to the capital allowances regimes were not expected in this Autumn Statement after the March announcements on the Super Deduction, First Year Allowance and Freeports but the Chancellor did confirm that the Annual Investment Allowance will remain at the current £1 million rate until 31 March 2023 which will be welcomed by businesses.

The location of the tax sites within the Humber, Teesside and Thames Freeports were published separately today with maps and guidance available.

Other Measures

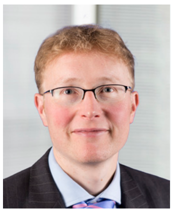
The lesser known Creative Tax Reliefs for Museums and Galleries, Theatres and Orchestras have been extended and rates increased on a temporary basis.

The Museums and Galleries Exhibition Tax Relief scheme has been extended to 31 March 2024 and the rates for the three aforementioned schemes will be temporarily increased from today to 1 April 2023 before being tapered back down.

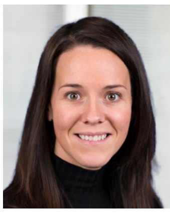
Also in the creative relief areas - from 1 April 2022, production companies will be able to switch between claiming film tax relief to high-end TV tax relief during production and so ensuring that relief is not lost should a company decide to change their model during the project.

These announcements are good news for a sector heavily affected by the pandemic.

Financial Services



Ian Lockington
Partner



Marie Farrell
Director

For the Financial Services sector this Budget continues in its aim to encourage investment into the UK, to simplify current regimes and associated tax law and introduce new regimes to enhance the UK's competitiveness as a location for all financial services but in particular for asset management and investment funds.

Asset Management

The UK government is introducing a new elective tax regime for qualifying asset holding companies (QAHCs). This measure is part of the government's wider review of the UK funds regime and could be a game changing regime for the location of funds and their asset holding companies. The broad aim is to ensure that UK investors are taxed as if they invested in the underlying assets directly and that asset holding companies pay no more tax than is proportionate to the activities they perform. These new rules, with benefits similar to those already available in Luxembourg and Ireland, should go some way to enhance the UK's attractiveness as a centre for asset management and investment funds.

Other Matters

The government also announced a number of other measures, again with the overall aim of increasing the attractiveness of the UK as a leading global financial services hub, to include:

- a reduction in the rate of the surcharge on banking companies from 8% to 3% and an increase in the surcharge allowance from £25 million to £100 million. This measure will have effect from 1 April 2023.
- the government is keen to ensure that the UK's Stamp Duty and Stamp Duty Reserve Tax (SDRT) rules contribute to maintaining the UK's position as a leading financial services centre, and thus will make technical changes to these rules to allow UK securitisation and insurance linked securities (ILS) arrangements to operate more effectively, while also increasing the flexibility of the government in responding to the evolving nature of the securitisation and ILS markets.
- as the number of UK real estate investment trusts (REITs) and the number of large institutional investors therein continues to grow, the government will make changes to the rules applying to REITs to remove certain constraints and administrative burdens which are no longer necessary, again making the UK more attractive as a location for the growing REITs sector.

As a collective, the measures announced in today's budget and recent budgets indicate that the UK government want to protect, develop and grow the financial services sector and the asset management industry, making it easier for companies to operate and thrive in the UK.

KPMG
The Soloist Building
1 Lanyon Place
Belfast, BT1 3LP
T: +44 (0) 28 9024 3377

kpmg.ie