BUDGET BRIEFING

March 2021

Boom Now, Pay Later

As the country emerges from the pandemic crisis, the Chancellor's unacknowledged strategy in his second Budget appeared to be to engineer a boom in order to catapult the country back to economic health, and then to follow this with large tax rises in one to two years' time when the economic recovery is well established, with many of these tax rises yet to be announced including, in particular, personal tax rises on the wealthy (of which there was no mention).

Rishi Sunak's economy boosting measures included the introduction of a government guarantee scheme until December 2022 for 91%-95% mortgages of up to £600,000, and extending the stamp duty land tax holiday by three months until June 2021, which could well bolster the current boom in the housing market. He also announced a 130% super tax deduction for plant and machinery expenditure incurred by companies until March 2023, which is intended to create a business investment boom over the next two years, although it will cost the Government £25 billion in lost corporation tax.

Mr Sunak also announced the creation of eight English "Freeports", although in reality they are neither ports nor tax-free. They are instead geographical areas of up to 27 miles across where businesses can benefit from enhanced tax reliefs such as no property taxes on new buildings, and no National Insurance Contributions on staff salaries. This is likely to create an economic boom in these areas, including the new Freeports at Tilbury and Dagenham in south Essex and the landlocked East Midlands airport, as happened with the similar Enterprise Zone scheme in the 1980s, the most famous zone being Canary Wharf in East London.

These measures, as well as the cost of the pandemic, will of course need to be paid for eventually, as the Chancellor acknowledged. He therefore announced two significant tax rises to help achieve this: an increase in the rate of corporation tax from 19% to 25% from April 2023, and the freezing of the income tax personal allowance and the higher rate 40% threshold from April 2022. Mr Sunak no doubt chose these tax rises because they are relatively politically easy to sell as they will only impact on individuals by stealth, either via inflation or via a reduction in the value of their pensions or investments. They will nevertheless leave the country's tax burden from 2023 at the highest it has been in modern times.

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The announced tax rises will, however, not be sufficient to pay for the cost of the pandemic on their own, and so further large (and politically more difficult) tax rises must be anticipated in future, but not surprisingly the Chancellor made no mention of these in his speech. In particular, conspicuous by their absence was any mention of personal tax rises on the wealthy (including no rise in the rate of capital gains tax, despite much press anticipation), and so there must be a strong suspicion that future tax rises will fall here. A clue to the direction of tax rises may, however, be revealed in three weeks' time when the Government issues a 'Command Paper' on its future tax policies.

The Budget also included further Covid support and relief measures, including the extension of the furlough scheme until 30 September. This new date implies that the Government is assuming that many businesses will be unable to trade freely without the burden of certain pandemic restrictions until October. This could include the continued imposition of social distancing for the hospitality and leisure sectors, and working from home for many office workers.

Finally, Mr Sunak's 'Boom Now, Pay Later' Budget strategy, combined with the Prime Minister's plan to repeal the Fixed Term Parliaments Act in May, offers an intriguing window in which to call an early election. Could Boris Johnson be tempted by the feel-good factor of a post-vaccination, Roaring Twenties, party-filled, boom period to call a General Election, before the Chancellor's tax rises take effect? Further tax rises would then be much easier to implement politically in the early years of the next parliament, particularly with an election manifesto commitment.

Throughout his political career, Mr Johnson has been willing to take big gambles that paid off, and of course he engineered an early election less than 18 months ago when he forced the dissolution of parliament to call the December 2019 election. Could an early election therefore be the real strategy behind Mr Sunak's Budget?

A. Personal Tax Rates and Thresholds

Although one could argue that freezing thresholds amounts to an increase in tax, given the cost of the Covid measures, many will be surprised to see that the anticipated increases to the rate of Capital Gains tax, National Insurance Contributions and the higher rates of Income tax were not announced (despite the Government's manifesto pledge).

The Income Tax Personal Allowance and basic rate limit will remain at their 2021/22 levels up to and including the tax year ending 5 April 2026. It will set the Personal Allowance at £12,570 and the basic rate (20%) limit at £37,700 for 2021/22 to 2025/26. The higher rate (40%) threshold will be £50,270 for these years.

The Income Tax Personal Allowance will continue to be removed on a tapered basis for individuals with income in excess of £100,000. The 45% additional rate of income tax is also unaltered and will apply for individuals with income exceeding £150,000.

The band of savings income that is subject to the 0% starting tax rate will remain at its current level of £5,000 for 2021/22.

Individual Savings Account (ISA) annual subscription limit for adults will remain unchanged at £20,000 for 2021/22, when the Junior ISA and Child Trust Fund annual subscription limit will also remain unchanged at £9,000 for 2021/22.

The National Insurance Contributions Upper Earnings Limit and Upper Profits Limit will remain aligned to the higher rate threshold for these years.

The Capital Gains Tax annual exemption will remain at the 2020/21 level of £12,300 for individuals, personal representatives and some types of trusts and £6,150 for most trusts until 2025/26.

The rate of Capital Gains Tax is unchanged at 20% for higher / additional rate tax payers, with the continuing exception of gains relating to residential property or carried interest, which are taxed at 28%.

The standard Lifetime Allowance for pensions will remain the same from 2021/22 to 2025/26. This measure removes the annual link to the Consumer Price Index increase for the next 5 fiscal years and so maintains the standard lifetime allowance at £1,073,100 for 2021/22 to 2025/26.

In addition, the Inheritance Tax nil rate band and residence nil rate band thresholds will remain unchanged from 2021/22 to 2025/26. This measure maintains the tax-free threshold (£325,000) and the residence nil rate band taper (£175,000) available for Inheritance Tax at their 2020/21 tax year levels. This means qualifying estates can continue to pass on up to £500,000 and the qualifying estate of a surviving spouse or civil partner can continue to pass on up to £1 million without an Inheritance Tax liability.

It was announced that Social Investment Tax Relief will be extended by 2 years to 6 April 2023. Social Investment Tax Relief was introduced in 2014, and provides Income Tax and Capital Gains Tax Reliefs for investors in eligible social enterprises - charities, community benefit societies and community interest companies that meet certain conditions.

A minor clarification will be made in respect of the Capital Gains Tax holdover provisions, confirming that they do not apply to a transfer of an asset by a non-UK resident individual to UK company controlled by the individual.

B. Business Taxes

Corporation Tax Increase

The Chancellor explained that as businesses had benefited significantly from Covid-19 related support; it was appropriate that they bore some of the resultant tax increases.

Accordingly, it was announced that Corporation Tax would be increasing from the current rate of 19% to 25% from April 2023, by which point it is expected that many companies will have returned to pre-Covid levels of activity. The early announcement of this increase was to provide some mid-term certainty for companies.

The Government expect that this increase in the Corporation tax rate could raise over £47bn between now and 2026.

Further, it was noted that the smallest companies, with profits below £50,000 would continue to pay Corporation Tax at 19%, whilst companies with profits between £50,000 and £250,000 would pay tax at a tapered marginal rate of tax between 19% and 25%. It is expected that only the largest 10% of companies will pay Corporation tax at the full 25% rate. It should be noted that the lower rate will not apply to close investment holding companies, so family investment companies, for example, are unlikely to benefit from the lower rate of tax.

These thresholds are to be divided across group companies and also 'tax associates'. Tax associates are broadly defined where companies are controlled by one another, or where two companies are under the control of the same person.

The Bank Surcharge of 8% will be reviewed in the autumn to ensure that the taxation of banks remains competitive.

Extended Loss Carry Back

Businesses can normally carry back trading losses one year and offset them against trading profits in that prior year.

However, in order to provide additional support to both incorporated and unincorporated businesses, which are generally profitable but have been hit by the Covid-19 pandemic, the Government will allow losses of up to £2 million per year to be carried back up to three years.

This applies to losses made in accounting periods ended between 1 April 2020 to 31 March 2022 for companies and for trading losses made by unincorporated businesses in tax years 2020/21 and 2021/22.

Companies which have the capacity to carry back losses in excess of £200,000 will be subject to a group wide cap of £2 million.

This measure should help businesses to obtain tax relief more quickly for losses incurred during the Covid-19 pandemic. However, with the spectre of increased Corporation tax rates from April 2023, economically strong businesses may instead prefer to carry trading losses forward to offset against future profits.

Capital Allowances – Super Deduction and Annual Investment Allowance ('AIA')

The Chancellor announced, with great fanfare, the super-deduction for investment by companies into plant and machinery between 1 April 2021 and 31 March 2023.

This measure was billed as being an innovative stimulus for companies that have been successful during the pandemic to invest in capital expenditure. This measure is forecast to cost the Government £24 billion between now and 2026, and therefore is expected to be a significant tax incentive to encourage capital expenditure.

The super-deduction will allow companies to take a 130% deduction for the cost of 'main pool' plant and machinery capital expenditure against taxable profits. Such expenditure could include items such as computer equipment, furniture or machinery.

Unless a 100% deduction is available via the AIA, or via one of the targeted reliefs for environmentally friendly plant etc., tax relief on such expenditure would normally be on an 18% per annum reducing balance basis. The super-deduction is likely to give profitable companies a tax saving of 25p per £1 spent.

'Special rate' plant and machinery, which normally gets tax relief on a 6% per annum reducing balance basis, could instead receive 50% tax relief in the first year. Special rate pool expenditure includes expenditure on integral features, such as lighting, air conditioning and electrical systems within buildings. Whilst this is also a welcome acceleration of tax relief, if available, it would generally be preferable to claim AIA instead on 'Special rate' plant and machinery and get 100% tax relief in the first year.

The rules do not apply to expenditure on contracts entered into before 3 March 2021 and only apply to new unused assets. There are also further rules applicable on the disposal of assets and for assets acquired under hire purchase and similar financing arrangements.

The Budget also confirmed the previously announced extension of the temporary increase in the AIA for businesses to £1 million per annum, which gives a 100% capital allowances deduction for qualifying expenditure on plant and machinery (with cars being a notable exception), until 31 December 2021. The AIA is available to all businesses, and not just companies.

Tax Associates – Impact on Quarterly Instalment Payments ('QIPs')

Currently companies which have taxable profits in excess of £1.5 million are required to pay their Corporation tax in QIPs, starting from month seven of the year in question. Where companies have taxable profits in excess of £20 million, these instalments are further accelerated to start in month three.

In contrast, a company which does not have to pay its Corporation tax under QIPs does not need to pay its Corporation tax until nine months and one day after the end of its accounting period.

At present, the thresholds above are divided across the 51% group companies whether UK resident or otherwise within the corporate group. However, as part of the increases to the Corporation Tax rate, the concept of tax associates has been restored to the tax rules and will replace the 51% group company test within the QIPs rules.

The concept of tax associates is wider, as it includes companies which control one another, as well as companies under common control of the same person, or groups of people. Therefore, this will mean that the QIPs thresholds for many companies may become lower, with the consequence of more companies having to pay their Corporation Tax in QIPs.

It should be noted that being in the QIPs regime does not increase the amount of Corporation Tax a company needs to pay, however it accelerates the date by which the Corporation Tax must be paid. In addition, it will also place a greater administrative burden on more companies, in respect of forecasting financial performance and expected Corporation Tax payments in advance.

Research & Development

Small and Medium Sized Enterprises ('SME') Scheme – Cap on Payable Tax Credits

The R&D scheme for SMEs is very generous, allowing for an additional 130% enhanced tax deduction for qualifying expenditure, and the ability to surrender the lower of the total tax losses and the enhanced R&D expenditure for a 14.5% tax credit. This can provide a benefit of up to 33p for every £1 spent on R&D.

However, the Government has been concerned that this scheme is being abused by companies that have a very limited UK footprint. Accordingly, a cap on the payable R&D tax credit under the SME scheme was announced in the 2018 Budget and HMRC consultations subsequently followed.

The cap will be introduced for accounting periods commencing on or after 1 April 2021 and has been set at £20,000 plus 300% of a company's total PAYE and National Insurance Contributions. There are exemptions from this cap where a company's employees are preparing or managing intellectual property and where the company does not spend more than 15% of its qualifying R&D expenditure on outsourcing R&D to connected persons.

R&D Consultation

The Chancellor announced that a consultation would be launched in respect of the R&D tax incentives offered by the Government.

The consultation will focus on two areas, being the structure of the R&D tax relief schemes and qualifying expenditure for R&D tax relief and the definition of R&D.

The Government is aiming to ensure that tax foregone via R&D tax incentives generates a proportionate amount of fiscal and non-fiscal benefits. This must be balanced against the need to remain internationally competitive and for the R&D tax reliefs to be appropriately targeted to the activities and expenditure currently being incurred by innovative businesses.

Some of the key areas which the consultation will consider are:

- whether the SME and large company (Research and Development Expenditure Credit) schemes should be unified;
- the impact of tax incentives on spending and investment decisions;
- whether R&D should continue to be administered through the Corporation Tax self-assessment system;
- the role of specialist R&D advisors in R&D claims;
- whether additional categories of costs, such as data and cloud computing, should be considered as qualifying expenditure for R&D;
- whether the definition of R&D remains fit for purpose and if it should be expanded; and
- whether R&D tax incentives could be used to incentivise certain locations and industries

Enterprise Management Incentive ('EMI') Scheme Consultation

The Government wants to make the UK the best country in the world to start and grow a business, and to encourage small innovative companies to thrive.

As part of a package of measures, the Government promised a review of the Enterprise Management Incentives ("EMI") Scheme to ensure that it provides support for high-growth companies to recruit and retain the employees they need to develop new ideas and exploit new technologies.

In outline, the EMI scheme is a tax-advantaged employee share scheme which enables eligible small growing companies lacking the financial resources to compete with larger, more established companies in attracting the best candidates by offering employees the opportunity to acquire an equity stake in the company in a tax efficient manner.

The Government is now seeking views on the effectiveness of the current EMI scheme, and whether it should be more widely accessible. In particular, the Government is seeking views from business owners and managers about various matters including:

- Use of the EMI scheme;
- The importance of the scheme in recruiting and retaining staff; and
- Whether the scheme should be extended to include more (possibly larger) companies.

The Government is inviting responses by 26 May 2021.

International Taxation

Diverted Profits Tax ('DPT')

The DPT is designed to subject profits which are diverted from the UK by large multinationals, through contrived arrangements which avoid the creation of a UK tax presence or through arrangements between connected entities, to a punitive rate of tax at 25%.

In order for the regime to remain a deterrent from attempts to divert profit away from the UK, it is necessary for the differential between the Corporation tax rate and DPT rate to be maintained. Therefore, the DPT will increase from 25% to 31% in April 2023, in conjunction with the increase in Corporation tax from 19% to 25%.

Interest and Royalties Directive ('the Directive')

The UK applies withholding tax of 20% on the payment of royalties and annual interest.

The Interest and Royalties Directive currently allows UK tax resident companies to reduce the withholding to nil where that payment is made to connected companies which are resident in an EU member state.

There was concern about the longer term applicability of the Directive over the course of Brexit. Whilst the Directive itself ceased to apply on 31 December 2020, it had been enshrined in UK domestic legislation, and so effectively would continue to apply despite Brexit.

However, the relevant sections of UK domestic legislation will be repealed from 1 June 2021, with any currently active exemption notices permitting the payment of interest without withholding tax also being deemed to cease on that date. The legislation will also include anti-forestalling measures to counter measures to accelerate payments before 1 June 2021.

From 1 June 2021, relief from withholding taxes on the payments of interest and royalties can only be reduced through the UK's network of double tax treaties. In the majority of cases, the double tax treaties should also allow for withholding tax on payments to recipients in EU countries to be reduced to nil, however the terms of a given treaty will need to be carefully considered and applications for treaty relief made if necessary.

Hybrid Mismatch Rules

The hybrid mismatch rules are aimed at situations where businesses exploit differences in the treatment of financing instruments or entities between the UK and other jurisdictions.

The rules were introduced in 2017 and the Budget includes a number of technical changes which are intended to ensure that the rules operate in the manner they were intended to.

C. Covid-19 Pandemic Reliefs

The Budget announced an extension and expansion of the existing Covid-19 reliefs. It is clear that these measures are aligned with the Government's goal of a gradual easing of the lockdown restrictions, whilst doing "whatever it takes" to protect jobs and business. The timing of these reliefs indicate that social distancing measures will remain in place until at least the end of September 2021.

Support for Individuals

Furlough Extension

In what is now a well-trodden path, furlough (the Coronavirus Job Retention Scheme) will be extended again to the end of September 2021. Previously, the furlough scheme was due to finish at the end of April 2021. As with the phasing out of furlough in 2020, the employer contribution will increase towards the end of the relief period. In April, May and June, the Government contribution will continue to be 80% of salaries (capped at £2,500) and for employers who choose not to top this up, the only employer contributions will be National Insurance Contributions and pension contributions. From July, the Government contribution will be reduced to 70% of salaries (capped at £2,187.50) and an employer contribution of 10% towards unworked hours will be required. From August the Government contribution will be reduced to 60% of salaries (capped at £1,875) and the employer contribution required will increase to 20% in August, until the end of the scheme in September.

Self-employment Income Support Scheme (SEISS)

Two additional SEISS grants have been announced for individuals who have filed a 2019-20 self-assessment tax return. The first of these can be claimed from late April 2021, which will be worth 80% of three months' average trading profits and capped at £7,500.

An additional SEISS grant (based on three months' average profits) can be claimed from late July 2021 (to cover the period from May to September), however this grant will be subject to a turnover test and therefore focuses support on individuals that have not seen a recovery in their income levels. For individuals whose turnover has fallen by at least 30%, they will receive the full 80% grant. For individuals who have not seen a turnover decrease to such a level, they will receive a 30% grant capped at £2,850.

The payment of the grants by reference to the 2019-20 tax return filings is estimated to extend the availability of SEISS to more than 600,000 newly self-employed individuals.

Support for Businesses

Recovery Loan Scheme

A new, government backed, loan scheme will be launched from 6 April 2021. The scheme will be open to all businesses and will provide government guarantees of 80% on loans between £25,000 and £10 million. All businesses will be eligible to apply and include those that have existing government guaranteed Covid-19 support loans.

Restart Grants

Aligned with the phased reopening of the economy, restart grants will be available in England for non-essential retail business, hospitality, accommodation, leisure, personal care and gym businesses. For non-essential retail businesses, grants of up to £6,000 per premises will be available and the other sectors will receive grants of up to £18,000 per premises, reflecting the delayed reopening of these sectors compared to retail.

Business Rates Relief

From 1 April 2021 to 30 June 2021, 100% business rates relief will continue to be available to eligible business in England in the retail, hospitality and leisure industries. This will reduce to 66% from 1 July 2021 to 31 March 2022 and is capped at £2 million for businesses that were required, by law, to close from 5 January 2021. For businesses that were not required to close from 5 January 2021, the relief will be capped at £105,000.

Protecting Against Covid-19 Relief Fraud

To ensure that only genuine claims are made under the above reliefs, the Government has committed further funding of £100m in policing and identifying fraud and erroneous claims in respect of government Covid-19 reliefs.

D. Property Taxes

Stamp Duty Land Tax - No Cliffhanger

The threshold above which stamp duty land tax ("SDLT") is payable on residential property purchases was previously increased to £500,000 on 8 July 2020. The Chancellor confirmed that this temporary increase in the threshold will remain in force up to 30 June 2021.

There was widespread concern that any extension to the deadline would merely defer the expected 'cliff edge' whereby those who could not complete their property purchases by 31 March 2021 would face an increase in SDLT of up to £15,000, even if completion took place only one day later.

The Chancellor addressed this by announcing that, although the threshold would be reduced after 30 June 2021, there would be a graduated return to the original £125,000 threshold in place prior to 8 July 2020. The threshold will therefore be reduced to £250,000 from 1 July 2020 to 30 September 2021, and will only return to the original £125,000 for property purchases completed on or after 1 October 2021.

There will be a further safeguard from additional SDLT becoming due as a result of the return to the original threshold for those who are unable to complete their purchase by 30 September 2021, but who have triggered the SDLT liability prior to 1 October 2021 by substantial performance of the contract. This broadly means that prior to 30 September 2021 the purchaser either takes possession of the property (for example by obtaining the keys) or pays 90% or more of the purchase price. In this case, no additional SDLT will be payable simply because the contract is completed after 30 September 2021.

Our View

This announcement of an extension to the so called 'stamp duty holiday', which was originally due to end on 31 March 2021, was widely rumoured in the press. The Chancellor has taken heed of industry concerns that simply extending the deadline would only defer the problem of the rush to complete prior to the deadline by a graduated re-introduction of the original £125,000 SDLT threshold.

As a result, buyers have a further six months in which to complete their purchases before the full impact of the return to the original threshold is felt.

Whilst this measure may have little effect in the context of property purchases in the prime and super prime markets, the increased activity at the lower end of the market will inevitably impact on transactions at the higher end of the market.

Mortgage Guarantees – The State 'Bank of Mum and Dad'

Given the price of property in the UK, particularly in the South East where the average price is around £440,000, it can be very difficult to get onto the property ladder, especially for those not blessed with access to the proverbial 'Bank of Mum and Dad'.

The Covid-19 pandemic has led to a reduction in the availability of high loan-to-value ("LTV") mortgages, and lenders now typically require a deposit of 10% or more, which can be difficult to find even for two people earning above average salaries once the high costs of renting and commuting are factored in.

Even existing home owners who have low levels of equity can find it difficult to afford a move up to the next rung of the property ladder, or to obtain a re-mortgage on their existing property at a competitive price.

Recognising this, the Chancellor announced a new mortgage guarantee scheme to start in April 2021 which will provide a government-backed guarantee to lenders who offer mortgages on homes of up to £600,000 to buyers with only a 5% deposit. The guarantee will be valid for up to seven years after the mortgage commences.

The guarantee will compensate lenders for losses and reasonable costs, which would be recoverable from the borrower in the event of repossession for up to 80% of the purchase value of the guaranteed property. Lenders will be required to take 5% of the net losses above the 80% threshold, and will be charged a commercial fee for the provision of the guarantee.

A requirement of participation in the scheme is that the lender must offer a five-year fixed interest rate mortgage to borrowers (although the borrowers are not obliged to choose this option). This will enable borrowers to plan their finances with confidence, knowing that there will be no unexpected increases in their mortgage costs in the medium term.

The mortgage must be a residential mortgage (not buy-to-let or a second home) up to £600,000 on a UK property with a LTV between 91% and 95%, and must be taken out by an individual (not a company). The scheme will be available between April 2021 and December 2022.

Our View

A number of measures announced by the Chancellor seem to be designed to fuel a boom in spending to kick start the economy following the prolonged lockdown and significant reduction in consumer confidence.

Although the £600,000 limit on the mortgage guarantee scheme will not apply to a significant proportion of the housing stock in the South East, it will apply to almost all first-time buyers and many of those wishing to move from the first rung of the ladder onto their next home. This in turn may encourage those higher up the property ladder to move to a more expensive property. All of this activity may in turn enable the Government to maintain its SDLT revenues when the stamp duty holiday ends later this year.

E. Value Added Tax

With the Government committed to not increasing the current rates of VAT, the Chancellor has focused on capturing more businesses within the UK VAT regime by keeping the VAT registration and deregistration thresholds at the current level for two years from 1 April 2022;

- the taxable turnover that requires businesses to register for VAT will remain at £85,000 until 31 March 2024, and,
- the taxable turnover that entitles a business to deregister from VAT will remain at £83,000 until March 2024.

To help with the recovery in the tourism and hospitality sector the Chancellor announced that the temporary 5% reduced rate of VAT, introduced in July 2020 for certain supplies relating to hospitality, hotel/holiday accommodation and admission to certain attractions, will be extended until 30 September 2021. Furthermore, from 1 October 2021, the tourism and hospitality sector will granted a new reduced VAT rate of 12.5% which will end on 31 March 2022.

In addition, it was announced that VAT registered businesses that were not already required to operate the Making Tax Digital (MTD) mechanism, would have to comply by 1 April 2022, including voluntary registrations. This means keeping digital records and submitting VAT returns to HMRC using MTD compatible software.

There has been an update on the VAT deferral scheme or 'New Payment Scheme', which will allow VAT registered businesses to pay their VAT liability in instalments. This scheme has been available since February and will run until 21 June 2021, but requires action to opt in. The scheme allows VAT registered businesses to pay equal instalments in a period of up to 11 months in respect of VAT payments that were deferred between 20 March 2020 and 30 June 2020 rather than a lump sum payment falling due on 31 March 2021.

F. Freeports

Freeports are designated geographical areas in which businesses receive a number of tax benefits.
The Government opened a consultation on 10 February 2020, with the intention of introducing Freeports in the UK, following departure from the EU.

The following regions in England have been selected:

- East Midlands Airport
- Felixstowe & Harwich
- Humber
- Liverpool City Region
- Plymouth and South Devon
- Solent
- Teesside
- Thames

Subject to reaching agreement on governance arrangements and successful completion of their business cases, these Freeports will start to operate from late 2021.

The Government will continue to discuss Freeport arrangements with the devolved administrations in Scotland, Wales and Northern Ireland, with a view to establishing Freeports there as soon as possible.

The tax reliefs available in designated 'tax sites' in Freeports in Great Britain include;

- Full relief from Stamp Duty Land Tax for land or property in Freeport tax sites in England, purchased and used for a qualifying commercial purpose. The relief will be available until 30 September 2026.
- 10% rate of structures and buildings allowance for corporation tax and income tax purposes. The structures or buildings must be brought into use on or before 30 September 2026.
- 100% capital allowances for companies investing in plant and machinery for use in Freeport tax sites. This will remain available until 30 September 2026.
- Full Business Rates relief in England for all new businesses, and certain existing businesses where they expand, until 30 September 2026. Relief will apply for five years from the point a business first receives it.
- Subject to parliamentary process and approval, the Government intends to introduce employer National Insurance relief for eligible employees in all Freeport tax sites from April 2022, or when a tax site is designated, if later. This will be available until at least April 2026, with intention to extend it for a further five years until April 2031, subject to review.

G. Anti-Avoidance

In a recurring theme from recent Budgets, but perhaps particularly in the light of the current state of the public finances, the Government will be introducing new measures aimed at tackling tax avoidance and evasion, which it hopes will raise £2.2 billion of additional revenue during the period up to 2025-26.

The Government has published a summary of responses to a recent consultation 'Tackling Promoters of Tax Avoidance'. This confirms measures which in HMRC's view will strengthen existing anti-avoidance regimes and tighten the rules designed to tackle promoters and enablers of tax avoidance schemes. These measures will be included in Finance Bill 2021 and include the following:

- HMRC would be able to obtain information at a much earlier stage than it can at present about tax avoidance schemes which have not been notified under one of the existing disclosure regimes. They would issue an initial notice to those suspected of promoting such arrangements, or of being otherwise involved, giving them the opportunity within a period of 30 days to explain why the scheme is not notifiable.

- The proposals would amend HMRC's existing power so that a notice to stop an avoidance scheme being sold can be issued as soon as HMRC has reasonable suspicion that the scheme being considered does not work.
- HMRC would be able to attribute threshold conditions, conduct notices, and monitoring notices to a new entity where a person who had significant influence or control over a previous entity sets up a new entity and transfers their promoting activities to it.
- The proposed changes to the legislation would put beyond doubt that HMRC can use the information powers contained in Schedule 36 Finance Act 2008 to check whether a person is, or may become, liable to enabler penalties. The proposals would also amend the rules for abusive tax arrangements that are used by multiple people (referred to as "multi-use schemes") and the point at which HMRC could publish details of enablers who had received substantial enabler penalties.
- The proposed changes to the General Anti-Abuse Rule (GAAR) legislation would allow HMRC to apply the GAAR to partnerships, with the partnership statement being amended to take into account any GAAR related adjustments. The adjustments would be carried through to each relevant partner's personal tax return which in effect mirrors the way partnership enquiries are conducted under the Self-Assessment regime.

In addition to the above, HMRC will shortly be publishing its response to the call for evidence on tackling the use of disguised remuneration tax avoidance schemes, including the role of promoters in those schemes.

H. Environmentally-Friendly Tax Changes

A number of measures were announced that support the Government's vision of a 'Global Britain', and the country's transition towards becoming a carbon neutral society. A number of the more immediate changes packaged together in this area are summarised below:

- Company vehicles – from 6 April 2021, fuel benefit charges and the van benefit charge will increase in line with the Consumer Price Index.
- Green Gilt – the Government will issue its first sovereign green bond this summer, with a further issuance to follow later this year. This will provide investors with the opportunity to buy into projects dedicated to accelerating the UK's push to become a net-zero economy. Green gilt issuance for the financial year will total a minimum of £15 billion. The funds raised are expected to be earmarked for investment into programs underpinning the UK's transition to a low-carbon economy, the creation of green jobs, and tackling climate change.
- Green savings bond via National Savings and Investment (NS&I) – the Government will offer a green retail savings product in the summer of this year, through the Government-backed savings organisation, NS&I. This product will be closely linked to the UK's inaugural green gilt and will provide UK savers with the opportunity to take part in the collective effort to tackle climate change.
- UK Infrastructure Bank – The new UK Infrastructure Bank will provide financing support to private sector and local authority infrastructure projects across the UK, to help meet government objectives on climate change and regional economic growth. The Bank will:

    - be able to deploy £12 billion of equity and debt capital and be able to issue up to £10 billion of guarantees
    - offer a range of financing tools including debt, hybrid products, equity and guarantees to support private infrastructure projects from the summer, offer loans to local authorities at a rate of gilts + 60 basis points for strategic infrastructure projects
    - establish an advisory function to help with the development and delivery of projects

    The institution will begin operating in an interim form later in spring 2021. The Bank will be headquartered in Leeds.

I. Interest Harmonisation and Late Filing and Payment Penalties

An overhaul to the penalty regime for VAT and income tax self-assessment ('ITSA') will be going ahead. The new regime will apply to late submissions of tax returns and late payment of tax.

The stated aim of the regime is to simplify and make fairer the penalty regime for both taxes, although as is often the case for ITSA taxpayers the new regime is in fact more complicated than the provisions it replaces. The changes will be phased in over a period of two years.

- VAT registered businesses will be within the regime for accounting periods beginning on or after 1 April 2022.
- ITSA taxpayers with business or property income over £10,000 (and hence who are required to make digital quarterly updates through Making Tax Digital) will be within the new regime for accounting periods beginning on or after 6 April 2023.
- All other ITSA taxpayers will be within the regime for accounting periods beginning on or after 6 April 2024.

Late Submission of a Return

The late submission rules are to be based on a points system with each missed deadline giving rise to a point. Once a taxpayer's total points have reached a penalty threshold, they will be charged a penalty of £200.

The penalty threshold is based on the frequency of a taxpayer's submission obligations:

Frequency	Points Threshold
Annual	2
Quarterly	4
Monthly	5

Subsequent late submissions will attract a £200 penalty but no points will accrue beyond the points threshold.

Separate point tallies are maintained for each different type of submission.

Where a taxpayer is below the threshold, a point will expire after two years. If a taxpayer's points equal the penalty threshold however, these points will not expire until the following conditions are met:

- There has been a period of compliance. The length of the period is based on the taxpayer's submission frequency and is set at:
  - Annual: 24 months
  - Quarterly: 12 months
  - Monthly: 6 months
- All submissions due in the preceding 24 months have been dealt with.

Where the above conditions are satisfied the points tally will be reset to nil.

HMRC has discretion not to levy a point or financial penalty for late submissions. Points and financial penalties can also be challenged through a review and appeal process if there is a reasonable excuse for the delay.

For ITSA taxpayers this represents a "mulligan" for a first or one-off late filing, at the cost for repeated late filers of the current penalty of £100 being de facto doubled to £200.

Late Payment of Tax

The late payment of tax rules will operate to levy two different types of penalty.

An initial penalty may apply where a payment is outstanding up to 30 days after the due date. This can be summarised as follows:

Date payment made	Penalty
Within first 15 days	No penalty
After Day 15	2% of the tax outstanding at the end of Day 15
After Day 30	4% of the tax outstanding at the end of Day 30

Where tax is still outstanding after Day 30, a further penalty equal will be charged. The penalty is calculated on a daily basis at a rate of 4% per annum of the outstanding tax.

The above penalties can be avoided by agreeing a time to pay arrangement with HMRC before the above deadlines. HMRC has discretion about charging the late payment penalties and have indicated that they will take a light touch in enforcing the 2% penalty.

A charge may also be avoided if the taxpayer has a reasonable excuse.

As with the late submission regime, the financial penalties can be challenged through a review and appeal process.

Interest Harmonisation

Under the new regime, HMRC will continue to charge interest on late paid tax and pay interest on overpaid tax.
The rates of interest will be:

- Late payment interest will charged at an annual rate of 2.5% + the Bank of England base rate.
- Repayment interest will be paid at an annual rate equal to the Bank of England base rate less 1% (with a minimum rate of 0.5%).

J. Further Announcements to Follow on “Tax Day”

Although there was little in the Budget relating to personal taxation, it was previously announced that there will be a “Tax Day” on 23 March 2021, when a Command Paper “Tax Policies and Consultations (Spring 2021)” will be published. This paper will contain further announcements, and will launch a number of as yet unknown consultations which relate to tax policies. It has been confirmed that none of these announcements or consultations will lead to changes included in the upcoming Finance Bill.

The stated aim of having a separate day following the Budget to make further tax policy announcements is to give a range of “important, but less high profile measures” greater visibility. We will provide comment on these announcements and consultations shortly after the paper is published.

BUDGET BRIEFING

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