i-Realise
The *Business Readiness* People

UK Budget Analysis

March 2021

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Introduction

When Rishi Sunak, Chancellor of the Exchequer, left No 11 Downing Street at 10.45 on 03 March 2021, he held his Ministerial red box forwards for the waiting photographers. Yet, it was a different picture this year as he was not surrounded by members of his team. This visual sign of the pandemic was more than an indication of the topics that would form part of this annual event.

With National Debt at the highest since 1963 (reflecting the cost of UK Government support measures), all eyes were on the continuation of these support schemes, new ones, new / changed measures for payroll and reward, plus the promised 'levelling' of how this would be paid for in the future.

Knowing, Expecting and Speculating

We already had some of the traditional 'leaks' ahead of the Budget speech. Remember, like any household, Mr Sunak has the balancing act of paying out what is needed but recognising that this needed to be repaid (a 'Budget like no other' in his own words but doing 'whatever it takes'):

- We knew that the Coronavirus Job Retention Scheme would continue until the end of September 2021. We did not know if there would be any changes, though speculation was that employers would have to contribute in the final months – haven't we been there before?!
- We knew that the single-payment contactless limit would increase from £45 to £100 (having been only £30 this time last year). The Budget Report (**2.54**) indicates an increase to 'cumulative contactless payments' up to £300
- We knew that the Personal and other allowances had been set by **The Income Tax (Indexation) Order 2021**. This also set the Basic Rate limit at £37,700. We did not know if this would change. As it was, the increase is to go ahead and then frozen for several years
- We knew that the UK Government was to allocate £5billion in 'restart grants' to certain shops in England to help them re-open and recover. Of course, and as a result of this England-only announcement, additional funding would be given to the devolved nations (which they could choose to use as is appropriate to them)
- We knew that the UK Government would invest another £126million into the English traineeships scheme, increase incentives and allow 'flexi-job' apprenticeships. As above, monies would be allocated to the devolved nations
- We expected the Universal Credit £20 top-up to be extended and, indeed, it was in Great Britain until the end of September 2021. The Northern Ireland Executive receiving additional funding to match the increase
- We expected the stamp duty 'holiday' in England and Northern Ireland to be extended by 3 months passed the 31 March deadline (which also applies in Scotland, known as the Land and Buildings Transaction Tax and Wales where it is known as Land Transaction Tax. It was extended to 30 June 2021 with the £500,000 Nil Rate Band reducing to £250,000 in July and returning to £125,000 from 01 October 2021
- We speculated whether the Corporation Tax rate would increase from 19%, the lowest of the 'Group of Seven' (G7) countries. Consider, though, that CT receipts accounts for 8% of tax revenue collected, whilst Income Tax and National Insurance accounts for around 45%. The Budget confirmed an increase to 25% on profits over £250,000 (point 2.81)

What is spent has to be paid for and a series of values outlined the public debt that faces generations to come. Indeed, Mr Sunak said this it will take 'many governments over many decades' to repay the debt, i.e., 'fix the public finances'. No target dates were set for repayment; however, Mr Sunak was open and honest as he indicated he would be. Of course, the speech is one thing, however, the Devil is in the detail and this is contained in the **Red Book** entitled 'Protecting the Jobs and Livelihoods of the British People'.

Extension of the Coronavirus Job Retention Scheme

Under the section 'supporting livelihoods' (**2.14**), as expected, the CJRS was extended further than the 30 April 2021 deadline. In its current form, the Scheme will continue until 30 June 2020. Furloughed employees continue to receive 80% of their reference pay, however:

- From July 2021, the UK Government will contribute 70% of hours not worked with employers meeting the other 10%
- In August and September 2021, the UK Government's contribution reduces to 60% with employers meeting 20%

HMRC's guidance '**Check which employees you can put on furlough to use the Coronavirus Job Retention Scheme**' was updated on 03 March 2021 and confirmed that a new group of employees will be allowed to be furloughed for periods starting on or after 01 May 2021. ***If*** the employee was employed on 02 March 2021 ***and*** a Full Payment Submission was made between 20 March 2020 and 02 March 2021 notifying a payment of earnings, this group can be included (where they were previously excluded).

Note that the above applies equally to:

- Employees under a contract of employment
- Employees on a fixed term contract and
- Employees subject to the TUPE of PAYE business succession rules, as long as the transfer was on or after 01 January 2021

There is no requirement for the employer to have made a previous CJRS claim.

The above will have to be contained in a new Treasury Direction extending the CJRS to 30 September 2021.

Point 2.15 confirms that the scheme for the self-employed (the Self-Employment Income Support Scheme (SEISS)) will also continue and the fourth grant, covering the period February to April 2021 will be 80% of average trading profits, capped at £7,500. However, individuals must have filed a 2019/20 tax return. This means that over 600,000 more people will be able to make a SEISS claim for the first time.

The fifth and final grant (covering May to September 2021) will be subject to a turnover test, thereby targeting support at those that require it the most as the economy re-opens. Further details will be provided in due course.

Non-compliance (and Investment into HMRC)

Point 2.61 indicates the UK Government's commitment to tackle non-compliance with the CJRS and SEISS. Over £100 million will be spent enabling HMRC to recruit 1,265 staff in a 'Taxpayer Protection Taskforce'. This is an enforcement group to watch for in the coming months and years.

Point 2.104 details how £180million will be invested 'in additional resources and new technology for HMRC'. This investment is forecast to 'bring in over £1.6 billion of additional tax revenues' up to 2025/26.

Tax and NICs Exemption for COVID Tests and Home Office Expenses

Point 2.17 confirms that the UK Government will extend the Income Tax exemption and NICs disregard for COVID-19 antigen tests provided by, or reimbursed by, employers and for employer reimbursed expenses covering the cost of home office equipment, to the 2021-22 tax year.

HMRC's Policy Paper regarding **COVID tests** dated 03 March 2021 confirms that the exemption from Income Tax will be part of Finance Bill 2021 and Social Security legislation will extend the NICs exemption that already exists.

The Policy Paper regrading **home-office expenses** says that the extension already exists in taxation and Social Security legislation, however, secondary legislation will extend this to 05 April 2022.

Working Tax Credit Hours Requirement

Point 2.24 confirms that HMRC will still regard Working Tax Credit claimants as working their 'normal hours', even if they have been furloughed.

The implication for payroll here is that the normal working hours should not be reduced in the payroll system and, hence, Full Payment Submission, just because an employee is furloughed / flexi-furloughed.

Income Tax and National Insurance Contributions

Thankfully, no changes were made to the rUK Income Tax rates and allowances that had already been announced (and as per the above legislation made on 01 February 2021). This sets:

- The Personal Allowance as £12,570
- The rUK and Welsh Taxpayer Basic Rate threshold as £37,700 and, be default,
- The rUK Higher Rate threshold as £50,270 (i.e., £12,570 + £37,700)

These will apply from April 2021; however, they will be frozen at that level until April 2026 (point 2.74). From tax year 2026/27, they will start to be incremented again. In the meantime, the Report says that the policy decision will not 'reduce take-home pay'. What it does do, however, is mean that disposable income decreases, as take-home pay is not increased in line with inflation – pay is the same but things cost more.

The decision does ensure that the Conservatives have not broken their 2019 Manifesto pledge not to increase the rates of tax. It does mean that, annually, the UK Government will have to override the statutory provision in the Income Tax Act 2007 that mandates the Basic Rate limit and Personal Allowance will increase with reference to the Consumer Prices Index (CPI) inflation as at the September before the next tax year.

There is a similar announcement regarding the UK-wide National Insurance Upper Earnings Limit (UEL) threshold (which is aligned to the rUK Higher Rate threshold for Income Tax). The annual UEL will be frozen at £50,270 (as per **The Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2021** made on 15 February 2021). It will not increase until tax year 2026/27, though the thresholds up to this (Lower Earnings, Primary etc.) will be 'considered'. Current legislation requires them to be inflated so we will have to watch for this.

Freeports

It is worthwhile mentioning these which will begin operating from late 2021. A Freeport is an area that is exempt from traditional customs duties and tariffs. The importance for payroll and reward is that, from tax year 2022/23, an employer National Insurance Contributions 0% rate will apply on a portion of earnings for a period of time for new employees. This is one to watch out for.

The Budget Report (2.113) outlines the 8 English Freeport sites whilst 2.114 says that discussions will start with the devolved nations 'as soon as possible'.

Statutory Sick Pay Rebate Scheme (SSPRS)

Point 2.44 confirmed that the SSPRS would remain open for small and medium-sized employers. This is the scheme whereby employers can reclaim up to 2 weeks SSP if:

- The PAYE payroll scheme was created and started on or before 28 February 2020
- There were fewer than 250 employees on 28 February 2020 across all PAYE payroll schemes
- The claim relates to claiming for an employee who's **eligible** for sick pay due to coronavirus (COVID-19 related eligible illness, isolation or shielding)
- SSP has already been paid

As with other business support schemes, the government will set out steps for closing this scheme in due course.

National Minimum / Living Wage

There were no announcements, save for the fact that the Budget Report (point 2.33) indicated that, alongside the Budget, The UK Government published its **remit** for the Low Pay Commission (LPC) for 2021. This asks the LPC to make UK-wide recommendations on extending the National Living Wage to those aged over 21 by 2024.

Traineeships and Apprenticeships

Traineeships

Traineeships were introduced in 2013 and offer education, training, and work experience to young people (16 – 24 years-old). They involve unpaid work placements and, therefore, are different from apprenticeships. However, completion of a traineeship may lead to either a job or apprenticeship, both of which are employment.

In July 2020, as part of his Plan for Jobs, the Chancellor announced a £111 million investment to triple the scale of traineeships in 2020/21, ensuring more young people have access to high quality training. This involved the creation of 30,000 new traineeships in England. Plus, employers taking a trainee into the workplace can apply for a £1,000 traineeship incentive grant. This is available from 01 September 2020 up to, and including, 31 July 2021.

Point 2.29 'High quality traineeships for young people' confirmed that the UK Government will provide an additional £126 million for 40,000 more traineeships in England for high quality work placements and training for 16–24-year-olds in the 2021/22 academic year. Employers who provide trainees with work experience will continue to be funded at a rate of £1,000 per trainee.

Apprenticeships

There were two announcements:

1. Point 2.30 confirmed that the UK Government will extend and increase the payments made to employers in England who hire new apprentices. Employers who hire a new apprentice between 01 April 2021 and 30 September 2021 will receive £3,000 per new hire, compared with £1,500 per new apprentice hire (or £2,000 for those aged 24 and under) under the previous scheme. This is in addition to the existing £1,000 payment the UK Government provides for all new 16–18-year-old apprentices and those aged under 25 with an Education, Health and Care Plan, if applicable

2. Point 2.31 introduced the concept of 'flexi-job' or 'portable' apprenticeships. A £7million fund from July 2021 will enable the apprentice to work with a number of employers in the same sector. More details are expected on these in due course

Note that both of the above apply in England only.

Pensions Lifetime Allowance

This appears under the section 'strengthening the public finances'. This is the same section where the freezing of the Basic Rate limit and Personal Allowance is mentioned. Essentially, 'strengthening' is the UK Government's way of rebuilding the public finances given the huge cost of support measures, bringing public debt under control.

The Finance Act 2004 (as amended by the Finance Act 2016) requires that the Lifetime Allowance (LTA) for pension saving is incremented annually. Plus, the 2004 Act says that the revised LTA must be set by secondary legislation (Regulations such as **The Finance Act 2004 (Standard Lifetime Allowance) Regulations 2020** which applied in 2020/21). Point 2.67 confirms that the LTA will be frozen at it's 2020/21 level until April 2026. It will not increase from £1,073,100.

HMRC's **Policy Paper** dated 03 March 2021 confirms that Finance Bill 2021 will remove the LTA link between the Consumer Price Index and increments for the next 5 fiscal years.

So, this is not a reduction and there cannot be claims that the Allowance has been cut. However, the effect is that the value of a pension 'pot' will increase in line with inflation or growth, the tax-free cap is frozen meaning that there is a higher risk of Income Tax being payable where the pot exceeds the value of the Allowance.

The LTA is a part of the confusing and illogical pensions landscape (we have the Annual Allowance, Tapered Annual Allowance, Money Purchase Annual Allowance too!). A time of pause is certainly a time to reflect on these, as people who save for their retirement are faced with impossible decisions when it comes to long-term planning and investment.

Van, Car and Van Fuel Benefits

Point 2.89 advises that these increase by the value of CPI. However, this is not new news and is per the Van Benefit and Car and Van Fuel Benefit Order 2021 laid on 09 March 2021 and the **Written Statement** from Jesse Norman, Financial Secretary to the Treasury, on 02 March 2021.

Cycle-to-Work Schemes

This was only vaguely mentioned in the Budget Report as a 'previously announced policy decision'. A fundamental condition for tax exemption is that employer-provided cycles and safety equipment must be used mainly for 'qualifying journeys' (i.e., to and from work or during work). This is detailed is **section 244** of the Income Tax (Earnings and Pensions) Act 2003.

On 17 December 2020, Jesse Norman gave a **Written Statement** in the House of Commons that this qualifying journey condition would be subject to a 'time-limited easement' where an employee had joined a scheme on or before 20 December 2020. In such cases, the tax exemption would continue without needing to meet the qualifying journeys condition until 05 April 2022.

A **Policy Paper** from HMRC on 03 March 2021 (issued alongside the Budget documents) confirms that this time-limited exemption will be legislated in Finance Bill 2021.

Other

Statutory Parental Bereavement Pay (SPBP) and Optional Remuneration Arrangements (OpRA)

This was not part of the Budget Report but was a **Policy Paper** that was part of the accompanying documents produced by HMRC. This is complicated and applies to employees in receipt of Statutory Parental Bereavement Pay (SPBP) and in receipt of employer provided vehicles, employer provided living accommodation and relevant school fees arrangements via an Optional Remuneration Arrangement (OpRA, commonly known as salary sacrifice).

Essentially, the above benefits are subject to transitional arrangements, whereby the pre-OpRA rules for valuing the benefits could apply. This was as long as there was no variation in an employee's employment contract. A payment of SPBP is treated as a variation, in the same way as other statutory payments like SMP constitute a variation. When the OpRA legislation was introduced in 2017, SPBP did not exist. All of the others (SMP, SAP etc.) were specifically mentioned in **The Finance Act 2017** for the purpose that receipt can be disregarded – i.e., just because someone was in receipt of SSP does not mean that they have had a contract variation.

The small change to the 2017 Act of adding SPBP will be made via the Finance Bill 2021 and be retrospective to the date SPBP became effective, i.e., tax year 2020/21.

About the author

Ian Holloway is respected payroll professional, writer, advisor and trainer. He is keen to educate and support the HR and payroll professions. He was the Trailblazer Chair for the Level 3 Payroll Administrator Apprenticeship and the Level 5 Payroll Assistant Manager Apprenticeship. He has an exceptional 360 view of payroll having held roles in in-house payroll teams, payroll software and service providers, payroll consulting, bureau management, and as a payroll lecturer and writer.

Connect with Ian on LinkedIn

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i-Realise
6-9 The Square, Stockley Park,
Uxbridge,
UB11 1FW

Tel +44 (0)20 3008 6358
Email info@i-realise.co.uk
Web www.i-realise.co.uk

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