

Keeping Up With Asset & Wealth Management Budget 2021 summary



Executive Summary

Following the UK Budget delivered by the Chancellor this afternoon, this is a summary of the key announcements made that appear most relevant to the Asset & Wealth Management Industry.

The Budget highlighted a number of fiscal measures that will affect both businesses and individuals. We have highlighted the key issues affecting the AWM industry below:

- Corporation Tax will **increase to 25% from 1 April 2023** for profits greater than £250k - still lowest tax rate in G7.
- There will be a super-deduction of 130% on expenditure qualifying for capital allowances (main pool only) for the next 2 years.
- There is a new 3 year carryback of Corporation Tax losses (up to £2m per corporate group).
- There is an extension to loss relief for income tax purposes for unincorporated businesses.
- A freeze of income tax thresholds from April 2022 until April 2026
- A repeal of Interest & Royalties Directive from 1 June 2021, resulting in increased WHT on some payments.
- A new and radically simplified process for high-skilled visa applications.
- Consultations on R&D tax reliefs and Enterprise Management Incentives.

Separately to the Budget, the government will publish a Command Paper, 'Tax policies and consultations (Spring 2021)' on 23 March 2021 which is expected to set out additional Government thoughts on future tax policy.

The budget also extended measures devised to assist people and the economy during the ongoing COVID crisis:

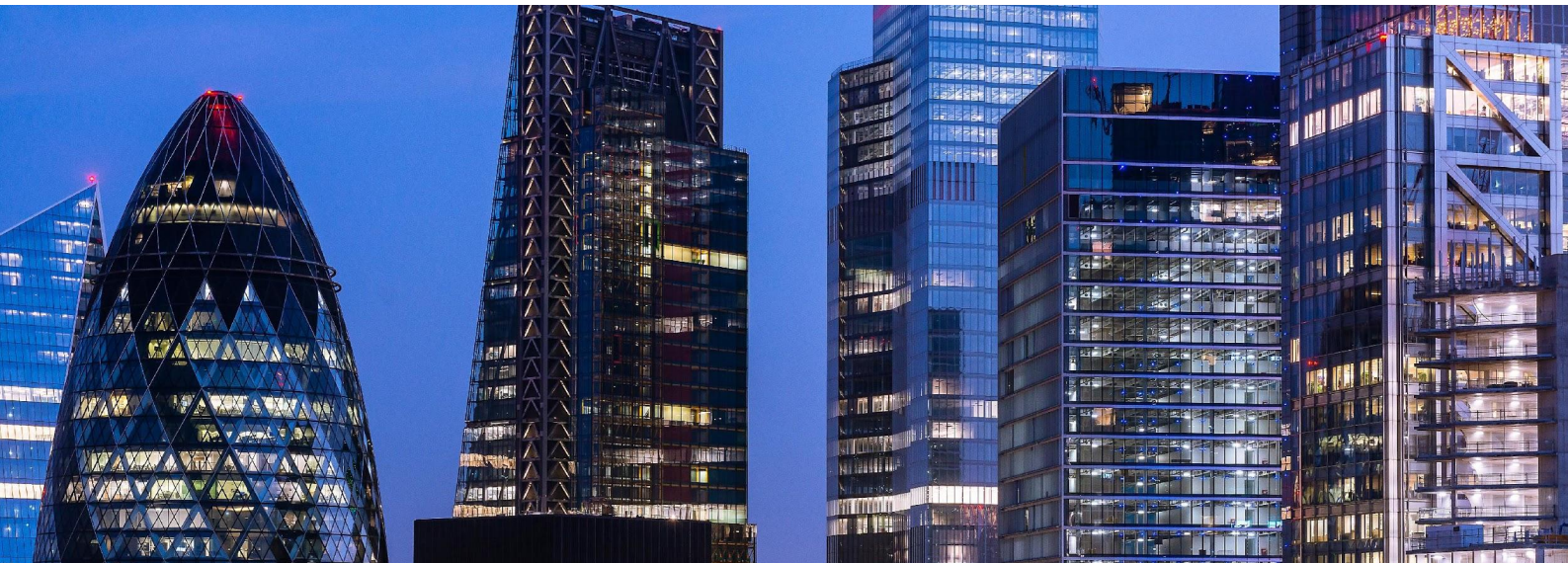
- Furlough is to be extended to September 2021, both for employees and the self-employed.
- 100% business rates relief is to continue to 30 June, then 67% relief for the next 9 months.
- 5% reduced rate of VAT for tourism and hospitality is set to be extended to 30 September, then interim rate of 12.5% for 6 months to 31 March 2022, returning to 20% from 1 April 2022.
- There is a new £5bn of "restart grants" to businesses to help them reopen after the pandemic, focused on non-essential retail (£6k per premises) and hospitality & leisure (£18k)
- And an extension of the temporary Income Tax and National Insurance Contribution exemption for home-office expenses.

As a reminder, we are hosting a virtual webcast which will take place tomorrow (4 March), 10.00am - 11am (GMT) to discuss the implications of the Budget announcements on businesses.

The discussion will be lead by PwC's Head of Tax, Marissa Thomas and she will be joined by her colleagues:

- Jon Richardson, PwC Tax Policy Lead Partner
- Stella Amiss, PwC Tax Regional Lead Partner
- Jonathan Gillham, PwC Chief Economist
- Gavin Barwell, Strategic Adviser to PwC

The event will be run via a secure video conferencing platform. Please do register [here](#) if you have not done so already and you will receive a calendar invite containing the link for the session.



UK tax updates following Budget 2021

Corporation Tax

Rates

The main rate of corporation tax will increase from 19% to 25% for the financial year beginning 1 April 2023 on annual profits exceeding £250,000. Companies with profits of £50,000 or less will continue to be taxed at 19%.

Companies with profits between £50,000 and £250,000 will be taxed at the main rate of 25% but will be able to claim marginal relief. These thresholds will be proportionately reduced for the number of associated companies and for short accounting periods.

The Diverted Profits Tax rate will also rise by 6% at the same time, from 25% to 31%.

Extension to trading loss carry back rules

Legislation will be introduced in Finance Bill 2021 to temporarily extend the period over which companies can carry-back trading losses from the current maximum of one year to three years. The key provisions are:

- Unlimited carry back to preceding year (as before).
- Up to £2,000,000 carry-back to the earlier 2 years against profits of the same trade.
- losses carried back against later years first.

The £2,000,000 limit applies separately to the unused losses of each 12 month period within the duration of the extension, i.e. up to £2,000,000 of losses incurred in accounting periods ending in the period 1 April 2020 to 31 March 2021 and a further limit of £2,000,000 of losses incurred in accounting periods ending in the period 1 April 2021 to 31 March 2022.

The £2,000,000 cap will be subject to a group-level limit, requiring groups to apportion the cap between its companies.

Hybrids and other mismatches

Following a consultation announced at Budget 2020, and a second technical consultation on draft legislation published on 12 November 2020, changes will be made to the Corporation Tax legislation concerning Hybrids and other mismatches. These changes are to be introduced in Finance Bill 2021 and they affect, *inter alia*:

- the definition of “dual inclusion income” (which may be of particular interest to US headed groups),
- clarify that counteractions will not apply to companies within the securitisation regime.

- A counteraction is disapplied where it arises in respect of participants with investments of less than 10% in a tax transparent fund (this appears to have been extended from the November 2020 position which only applied to partnerships).

The other provisions announced in November 2020 will also be taken forward in Finance Bill 2021

Corporate interest restriction

Two amendments to the Corporate Interest Restriction (CIR) rules are being introduced into legislation in Finance Bill 2021.

The first amendment clarifies the way special provisions apply for Real Estate Investment Trusts. This will come into force with effect from 21 July 2020.

The second amendment ensures that no penalties arise for the late filing of an Interest Restriction Return where there is a ‘reasonable excuse’. This applies from 1 April 2017 when the CIR rules commenced.

Repeal of provisions relating to the Interest and Royalties Directive

Legislation will be introduced Finance Bill 2021 to repeal the domestic legislation that gives effect to the EU Interest and Royalties Directive. This legislation currently provides an exemption from withholding tax on intra-group interest and royalty payments between UK and EU companies even after Brexit.

The repeal will mean that from 1 June 2021 withholding taxes will apply to payments of annual interest and royalties made to EU companies, subject to the terms of the relevant double taxation agreement.



UK tax updates following Budget 2021 (cont.)

Capital Allowances

Also announced in the budget was a measure which will temporarily introduce increased reliefs for expenditure on plant and machinery. For qualifying expenditure incurred from 1 April 2021 up to and including 31 March 2023, companies can claim in the period of investment:

- a super-deduction providing allowances of 130% on most new expenditure that would ordinarily qualify for 18% main rate allowances
- a first year allowance of 50% on most new expenditure that would ordinarily qualify for 6% special rate allowances

The measure will exclude expenditure incurred under contracts entered into prior to 3 March 2021. Companies with an accounting period end date which is not 31 March will be required to identify the date of expenditure to benefit from these “super deductions”.

As announced on 12 November 2020, the increase in the limit of annual investment allowance (AIA) from £200,000 to £1,000,000 will also be extended by one year, covering the period from 1 January 2021 to 31 December 2021.

Personal Taxes

The Government has stuck to its manifesto commitment of no increases in headline rates of Income Tax or National Insurance, and despite the media speculation prior to the Budget has also not made any changes to Capital Gains Tax rates or scope.

However income tax thresholds for individuals will be frozen after this year's increase until April 2026. The thresholds for 2021-22 to 2025-26 (excluding Scotland, which sets its own rates and thresholds) will be:

- Personal allowance - £12,570
- Higher-rate band - £50,270

Similarly, the capital gains tax annual exempt amount is to be maintained at the current level (£12,300 per annum) until April 2026

Consultations

A number of consultations were announced today, although there was little by way of update on ongoing or recently closed consultations. However the Government did announce that it will publish a Command Paper, '**Tax policies and consultations (Spring 2021)**' on 23 March 2021 which is expected to set out additional consultations and may give more direction on future tax policy.

Review of UK Funds Regime/UK AHC

The Budget made no specific reference to the review of the UK funds regime first announced in the 2020 Budget, a key component of which relates to introducing a new regime with the aim being to make the UK a more attractive location for asset holding companies (AHC). The second stage of the AHC consultation was concluded on 23 February 2021. It appears from the discussions with HMT/HMRC that a form of UK AHC regime will be introduced with HMT/HMRC indicating that draft legislation should be expected by summer 2021. Whether the regime will be flexible enough to accommodate all key asset classes and structures remains to be seen.

Enterprise Management Incentives (EMI): Call for evidence

The government has announced a call for evidence on whether and how the current Enterprise Management Incentives (“EMI”) scheme can be expanded to enable more UK businesses to access the scheme. EMI is a tax-advantaged employee share scheme designed to address the difficulties that small businesses face in recruiting and retaining the talent they need to scale up.

In particular, the government is seeking views on how well the current scheme helps SMEs to recruit and retain employees, whether larger companies that are ineligible for the regime are experiencing difficulties when recruiting and retaining employees and whether other forms of remuneration could provide similar benefits as EMI. The call for input will close on 26 May 2021.

R&D Tax Reliefs

The government will carry out a review of the two R&D tax relief schemes (RDEC and the SME scheme), to ensure the UK remains a competitive location for innovation, with a target to raise a total investment in research and development to 2.4% of UK GDP by 2027.

The review will explore the effectiveness of the reliefs in their current form, and identify where improvements could be made to ensure that the regimes remain fit-for-purpose in a rapidly changing R&D environment. Specifically, the consultation will examine whether the definition and scope of R&D remain applicable and whether current rates of relief (in particular the difference in relief between the two regimes) should be revisited. The consultation will run from 3 March 2021 to 2 June 2021.

UK tax updates following Budget 2021 (cont.)

Employment taxes

COVID support for businesses

The Coronavirus Job Retention Scheme (Furlough) will be extended to the end of September 2021. Employees will continue to receive 80% of their salary for hours not worked. Employers will be required to contribute 10% in July and 20% in August and September.

The fourth grant under the Self-Employment Income Support Scheme (SEISS) will provide 80% of the average trading profits for the three months to April 2020. This will be capped at £7,500 and will be paid in a single instalment. The final grant under this scheme will cover the three months to September 2020. For businesses whose trading profits have fallen by 30%, the current 80% grant will be available. For all other businesses, a grant of 30% of their average trading profits (capped at £2,850) will be available. For both of these grants, a 19/20 tax return must have been filed.

The Government will guarantee up to 80% of eligible loans of up to £10 million, under the Recovery Loan Scheme.

As the economy opens up, Restart Grants of up to £6,000 will be offered per premises for non-essential retail, with up to £18,000 available for hospitality and leisure.

Small and medium sized businesses will be able to continue to claim two weeks of Statutory Sick Pay from the government.

The 100% Business rates relief will continue to the end of June 2021. For the 9 months to March 2022, up to two thirds relief will be available. Any repayments made to businesses under this relief will be exempt from corporation tax.

Enterprise Management Incentives

Legislation shall be introduced in Finance Bill 2021 to extend the time-limited exception that ensures that employees who are furloughed or working reduced hours because of coronavirus (COVID-19) continue to meet the working time requirements for EMI schemes.

The change will apply to existing participants of EMI schemes and will also allow employers to issue new EMI options to employees who do not meet the working time requirement as a result of COVID-19. This measure will have effect until 5 April 2022

Avoidance, evasion and non-compliance

The government continues to focus on these areas, most notably:

OECD Mandatory Disclosure Rules

The government will consult on the implementation of OECD rules to combat offshore tax evasion by facilitating global exchange of information on certain cross-border tax arrangements.

Interest harmonisation and reform of penalties for late submission and late payment of tax

The government will reform the penalty regimes for VAT and Income Tax Self Assessment (ITSA). The new late submission regime will be points-based, and a financial penalty will only be issued when the relevant threshold is reached. However late payment penalties will be linked to both the quantum of the payment and how late it is made.

OECD reporting rules for digital platforms

The government will consult on the implementation of OECD rules that will require digital platforms to send information about the income of their sellers to both HMRC and the seller themselves.



UK tax updates following Budget 2021 (cont)

Environmental, Social and Governance Policies

The Chancellor also announced several green initiatives to move the UK towards a sustainable future and to reach the Government's aim of net zero emissions by 2050.

The main policy announcements were:

- £15bn Green bond to be issued in the summer to support the Government's green objectives, to be closely linked with a green retail National Savings & Investment product. Details to be published in June 2021;
- UK Infrastructure Bank to be set up in Leeds with initial capitalisation of £12bn to finance 'green industrial revolution' projects;
- Upgrade ports to attract investment in offshore wind manufacturing and to create 3,000 additional jobs;
- Commitment to energy innovation spending of £100m to support initiatives to cut carbon emissions; and;
- Introduction of a plastic packaging tax effective 1 April 2022 of £200 per tonne for packaging with less than 30% recycled plastic

A new working group will be established with the aim of positioning the UK and the City of London as the leading global market for high quality voluntary carbon offsets. The expertise of the UK's financial sector is expected to be drawn upon in order to ensure the success of this proposition.

LIBOR withdrawal

Following a consultation in 2020, legislation is to be introduced in Finance Bill 2021 to deal with the withdrawal of LIBOR and the reform of other benchmark rates. In addition, a time-limited power will be introduced to allow any unintended tax consequences arising from the transition away from LIBOR and other benchmark rates to be addressed in secondary legislation.

Stamp Duty Land Tax

Residential property

The Government has agreed to extend the stamp duty holiday for properties costing up to £500,000 until 30 June 2021. In addition, the nil rate band will not immediately revert to the previous level of £125,000 from 1 July 2021; instead the nil rate band will be maintained at £250,000 until 30 September 2021, after which it will revert to £125,000.

Non-UK resident SDLT surcharge

As previously announced, a 2% SDLT surcharge will apply to non-UK residents purchasing residential property in England and Northern Ireland from 1 April 2021.

The additional 2% SDLT will apply to both non-resident individuals and non-natural persons (e.g. companies, trusts, partnerships), and will apply in addition to the existing SDLT rates of up to 15%.

A new residence test has been introduced for the purpose of the charge, which will apply in addition to the existing residential SDLT rates of up to 15%, so that the top SDLT rate for non-residents could be as much as 17%.

Investment in HMRC

Further government investment has been confirmed to improve IT and systems for both HMRC and the taxpayer and to recruit up to 1000 new staff to deal with HMRC's compliance agenda.



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