

# Spring Budget 2021



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#### **Corporation tax rates**

	1 April 21 – 31 March 23	1 April 23 onwards
Main rate	19%	25%
Small profits rate	N/A	19%
Lower threshold	-	£50K
Upper threshold	-	£250K

- For associated companies or short accounting periods profit threshold will be reduced
- Example -5 companies in the group, LT-£10K & UT-£50K





### Impact of increase in corporation tax main rate to 25%

- For higher rate & additional rate taxpayers- dividends less attractive
- For basic rate taxpayers dividends still tax efficient
- For every £100 of profit extracted by way of dividend or salary/bonus

	Dividend £	Salary/Bonus £	LLP £
Higher rate taxpayer	50.63	50.97	58.00
Additional rate taxpayer	46.43	46.57	53.00

- LLP may well be more tax-efficient than a company for higher rate & additional rate taxpayers
- If profits are retained different result

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#### **Extended loss carry-back**

- Existing trade loss carry-back provisions extended from one year to three years
- Carried back against later year profits first
- Applies to losses from 1 April 2020 to 31 March 2022
- 12 month loss carry-back unrestricted
- Maximum of £2,000,000 per annum available for earlier two years
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- £2,000,000 cap subject to group-level limit

Consider carrying back losses for repayment at 19% or carry-forward to use against future profits at 25%.

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### **Extended loss carry-back**

#### Example

A trading company has the following results:

Y/E March 22	(£4,000K)
Y/E March 21	(£1,000K)
Y/E March 20	£1,500K
Y/E March 19	£2,000K
Y/E March 18	£2,000K

### **Old rules**

Only relief for £1,000k in FY 2020 with £4,000K losses carried forward.

#### **New rules**

Full relief for FY 2020 and FY 2019. No relief in FY 2018 with £1,500K losses carried forward.

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### **Capital expenditure reliefs**

#### Super-deduction' for plant and machinery

- <u>130% deduction on "main pool" plant and machinery</u> expenditure incurred between <u>1 April 2021 and 31 March</u> <u>2023.</u>
- Key condition Brand new/unused

#### **Caution: Excluded assets**

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- Section 46 CAA 2001
- Used and second hand
- Contracts entered into prior 3 March 2021
- Accounting period straddles at 1 April 2023 apportioning required
- Consider disposal rules taxable profit =disposal receipts \*1.3
- Planning points : maximise relief delay the purchase until 1 April 2021 Deductible at 19 % & proceeds potentially taxed at 25%



### **Capital expenditure reliefs**

#### 'Special-rate' items

- Special rate pool items : integral features & cars >130g/km
- Temporary first year allowance of 50% (to 31 March 2023)
- Existing 6% reducing balance rate applies to remainder



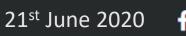
#### Caution

- Not available for cars
- Must be new
- Not be used in a leasing trade

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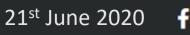
### **Capital expenditure reliefs**

#### **Example 1**

Co spends £1m on Machinery in 2022 & disposes in 2024 for £800K

- CT saving in 2022 = £1.3m (£1m \*130%) \*19%=£247,000
- CT payable in 2024= £650K (£500K \*1.3)\*25%=£162,500







### **Capital expenditure reliefs**

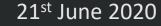
#### Example 2

Manufacturing business in Financial year to March 22 acquires:

- Machinery £2,000K
- Special rate items £1,500K

#### **Capital allowances claim**

	Old rules	New rules
Special rate items (AIA)	£1,000,000	£1,000,000
Special rate items (6%*500K /FYA-£500K*50%)	£30,000	£250,000
Machinery (18%*£2m /130% *£2m)	£360,000	£2,600,000
Total claim	£1,390,000	£3,850,000





#### **Interest and Royalties Directive**

- Repeal domestic legislation so that from 1 June 2021
- UK withholding taxes on payments of interest and royalties
- Double tax treaty between UK and EU member state







# Key Takeaways

- Consider extended loss carry back now & bank the refund at 19% or carry forward to offset against the profit taxed at 25%
- Delay Capital purchase until 1 April 2021 to maximise the capital allowances claim super deduction.



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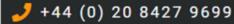


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