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ADVISER GUIDE

Spring 2021 Budget: eight key takeaways

On 3 March, Rishi Sunak delivered his second pandemic Budget. In it, he promised to do “whatever it takes” to support businesses and workers through lockdown, so it’s come as no surprise that both the furlough and SEIS schemes have been extended, at least for a little while.

The cost of Government support is coming in at an astonishing price tag of £407 billion. It’s natural now that thoughts are turning to how these costs are going to be met. But although this Budget included a few measures to start grasping the pennies back, there was nothing too eyewatering. It could be that the big fiscal changes are still to come.

Here are eight key takeaways from the Spring 2021 Budget.

1. Lifetime allowance freeze

The standard lifetime allowance will be frozen at £1,073,100 up to and including tax year 2025/26. The Finance Act 2016 laid out that it should increase each year in line with CPI, and indeed it had been widely discussed that it would rise to £1,078,900 in the next tax year.

However, the Chancellor announced that the link to the CPI increase will be removed for the next five years and the lifetime allowance will be frozen at its current level.

Although the Government assumes the lifetime allowance only affects 5% of savers approaching retirement, the statistics show that it’s catching out an increasing number of people. In 2017/18 – the last tax year we have statistics for – £185 million was paid through lifetime allowance charges, a sharp 28% increase on the previous year.

Freezing it at its current level will draw more people into the net of having to pay lifetime allowance charges. Balancing when clients should crystallise benefits and pay a lifetime allowance charge is becoming an increasingly bigger question for advisers working with those clients who have pension funds in the region of the lifetime allowance.

Example

Simon has a pension pot worth £1,300,000 at March 2026.

If the lifetime allowance had increased to £1,078,900 in 2021/22 as previously expected and then had increased by 1.8% each tax year, then it would be £1,158,700 by 2025/26 – £85,600 higher than the frozen level of £1,073,100.

This would cost Simon an additional £21,400 in lifetime allowance charges (25%) when he accessed his benefits.

The freezing of the lifetime allowance will make transitional protections even more valuable, as they are able to lock in higher personal lifetime allowances. It’s worth noting that it’s possible for clients to still apply for both Individual Protection 2016 and Fixed Protection 2016.

2. Frozen tax thresholds

Sunak stuck to the Conservatives' manifesto promises of not raising rates of Income Tax, VAT or National Insurance. However, he did choose to use the trick of fiscal drag by announcing Income Tax thresholds would rise, as planned, in April, but then remain frozen until April 2026.

The personal allowance will rise very slightly to £12,570 for the 2021/22 tax year and remain at that level up to and including the 2025/26 tax year. The higher rate tax threshold will increase to £50,270 and then freeze.

Income Tax and lifetime allowance charges were not the only taxes affected. Both Inheritance Tax (IHT) and Capital Gains Tax (CGT) thresholds are also frozen at their current levels.

Five fiscal years is a long time for allowance and thresholds to be frozen. This stealth tax will gradually mean more people falling into paying more income and capital taxes.

3. Lifetime ISA exit charge will be back up to 25%

Last year, the Lifetime ISA exit charge was reduced to 20%, giving clients the opportunity to access their funds and lose only their Government bonus. From 6 April 2021, the charge returns to 25%, meaning that a withdrawal will eat into the member's own payments as well as clawing back the bonus.

It's disappointing to see that, unlike much of the other help on offer, there was no extension to the lower exit penalty. Given that millions of people will continue to face employment uncertainty in the coming months – and particularly when the furlough scheme is finally scaled back – the logic for a lower charge remains at least as relevant for the next tax year.

4. HMRC taskforce to tackle tax evasion and avoidance

The Government intends to put together a taskforce to tackle tax avoidance and evasion. It wants to build on previous reforms that have seen it secure and protect over £250 billion of revenue since 2010 that would have otherwise gone unpaid. It has done this by introducing further measures to tackle tax avoidance, evasion and other forms of non-compliance.

It hopes this additional measure will raise an additional £2.2 billion between now and 2025/26.

5. Increase in Corporation Tax

Perhaps the most eye-catching measure of this Budget is Government plans to increase the rate of Corporation Tax from 19% to 25% from April 2023.

However, the new rates will only apply to larger companies that make profits of £250,000 or more. And the current rate of 19% will continue to apply to small businesses with profits of less than £50,000. A taper will apply to companies whose profits fall between these two benchmarks.

This way, the Government hopes the new rates won't affect struggling or smaller businesses. But there is no doubt the introduction of a new taper will add complexity.

Raising Corporation Tax will make the payment of pension contributions more attractive to companies that are looking to shield profits from being pushed into the next higher band of Corporation Tax.

Sunak also plans to introduce a 'super deduction' of tax relief for businesses to encourage them to spend and invest. Companies that invest in new plant and machinery assets over the next two years will be able to reduce their tax bills by 130% of the cost.

Clients who have built up SSAS pension funds may be able to use these funds to lend money back to their business to invest in plants and machinery to gain the super deduction.

6. A green default fund charge cap?

As part of its drive to encourage green investment, the Government is concerned that the current level of charge cap is discouraging automatic enrolment schemes from investing in ESG assets. It intends to consult within the next month on whether to include or allow certain types of ESG funds within automatic enrolment default funds, but not subject to the same level of charge cap.

Investment in a wider range of assets will no doubt be appealing to many clients. But most of the time, people are defaulted into the automatic enrolment fund with little knowledge of what they are investing in, the charges they pay, and the risks they are taking. Any increase in the charge cap must make sure it protects those people.

7. NS&I Green bond

The Budget announced a new National Savings & Investments (NS&I) Green bond. This is likely to be very popular, catching the zeitgeist for environment concerns. The product is expected to be launched in the summer. The interest rate will have to be high enough to raise demand. But if it is set too high, then this may raise questions about costs to the taxpayer.

8. Are there bigger changes ahead?

Overall, this was a Budget about giving rather than taking.

The freeze in tax thresholds and allowances for five years, however, feels like an ice age. But perhaps the Government has planned it so as to give itself the opportunity to discuss real change to these taxes.

On 23 March, the Government is due to issue a range of tax consultations and calls for evidence. In these, it may drop the bombshells for more substantial changes to our tax system – to pensions tax relief, Capital Gains Tax, and Inheritance Tax. If so, this could be the start of far-reaching changes for advisers and their clients.

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