



BUDGET
MARCH 2021
HIGHLIGHTS &
ANALYSIS

Informed Choice

INDEPENDENT FINANCIAL PLANNING



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To put a time in the diary for a cup of tea or coffee (and some biscuits) and a chat, please get in touch.

Call us on 01483 274566, email hello@icfp.co.uk or visit our website at www.icfp.co.uk to find out more.

The first meeting is at our expense and without any obligation. We are of course happy to travel to meet you, or hold the meeting at our offices in Cranleigh or Petersfield, or via Zoom!

GET IN TOUCH

BUDGET 2021

There was a tremendous amount of anticipation ahead of this Budget, with Rishi Sunak walking a fine line between further deployment of his 'fiscal firepower' and starting to repay the national debt.

Sunak added details to the numerous press leaks, with relatively few new surprises in store, presenting his tax and spending plans for the future.

Alongside the continuation of government financial support packages for individuals and businesses was two significant tax hikes; a series of 'stealth taxes' through frozen thresholds for various personal taxes, and then a whopping rise in corporation tax from 19% to 25%, with some interesting features which we have described later in this guide.

This Budget was in sharp contrast to Rishi Sunak's first Budget last year when he had only been in Chancellor's role for a few weeks. While light on humour, the speech was carefully considered and written and contained a little of something for most taxpayers.

Sunak set out his 'three-point plan' for the British economy, designed to 'redraw the economic map'. He pledged to do whatever it takes to support individuals and businesses before promising to fix the public finances and build the future economy.

Within this briefing note, we have described the main Budget announcements as they relate to Financial Planning.

As with every Budget and Autumn Statement, further details often come to light in the days and weeks after the event.

If you have any questions about anything in this briefing note, please do get in touch. You can call us on 01483 274566, email hello@icfp.co.uk or talk to us on Twitter [@informedchoice](https://twitter.com/informedchoice).

STATE OF THE ECONOMY

The UK economy is massively in debt due to the government's fiscal response to the Covid-19 pandemic. Such significant debt levels are only manageable because of ultra-low interest rates, with the Chancellor keen to reduce borrowing in case of higher servicing costs in the future.

The independent Office for Budget Responsibility is forecasting UK economic growth of 4% this year and then 7.3% in 2022. Based on these projections, the economy's size would recover to its pre-pandemic levels by the middle of next year.

Forecasts for unemployment were better than previous projections, with unemployment now expected to peak at 6.5%, lower than the earlier forecast of 11.9% and the current Bank of England forecast of 7.75% by the middle of this year. However, 700,000 people are already out of work as a direct result of the pandemic.

Responding to the pandemic's economic impact, the government is on track to borrow £355 billion this year, a record level of borrowing for peacetime and levels not seen since the Second World War.

For 2021/22, the Office for Budget Responsibility expects the UK to borrow £234 billion.

PERSONAL TAXATION

Commentators feared a series of significant tax rises in this Budget in an attempt to start repaying the national debt. The reality was somewhat more cheerful.

The Chancellor did not change the tax rates for income tax, national insurance contributions or VAT, going further and confirming these tax rates would not change for the remainder of the parliament.

However, Sunak did introduce a series of 'stealth tax' rises by freezing various tax thresholds.

The personal allowance for income tax will rise to £12,570 in April before being frozen at this level until 2026. Similarly, the higher rate income tax threshold will go up to £50,270 in April and remain unchanged until April 2026.

By freezing these thresholds, wage inflation will result in more taxpayers becoming subject to income tax at 20% or 40%.

There were no changes to the rates of capital gains tax, although the annual exemption level was also frozen, which will increase the tax take for the Treasury over time due to the growth in asset values.

BUSINESS TAXATION

Corporation tax is going up! As widely expected, the Chancellor is increasing the main rate of corporation tax from 19% to 25%, but not until April 2023.

There were also concessions for small businesses, which can benefit from a small companies rate of corporation tax at 19% for profits under £50,000. The corporation tax rate will then be tapered up to 25% on profits between £50,000 and £250,000, leaving only the most profitable companies paying the full rate.

To discourage a delay to business spending and capital investment plans, the Chancellor announced a new “super deduction” allowing corporation tax relief of 130% of costs over the next couple of years. The move is designed to ‘unlock’ business investment, estimated at an additional £20bn.

The increase to the main rate of corporation tax reverses earlier cuts made by George Osborne but will still leave the UK with the lowest tax rate in the G7; lower than countries including the US, Germany and Canada.

COVID RESPONSE

The Coronavirus Jobs Retention Scheme is being extended until the end of September, with furlough payments at 80% available to employees unable to work due to the pandemic. Employers will start contributing towards the cost of furlough, paying 10% of salaries in July and then 20% in August and September.

Support for the self-employed was also extended until September, with a fourth and fifth round of grant funding under the Self Employed Income Support Scheme.

People who became self-employed more recently will now qualify for grants, assuming they submitted their 2019/20 tax return no later than midnight last night. The extension to the qualification criteria is expected to benefit an estimated 600,000 self-employed people.

However, eligibility for grants will require a 30% fall in trading profits to qualify for the full support worth 80% of three months' average trading profits. For self-employed people whose profits declined by less than 30%, the grant will be limited to 30% of profits.

The temporary £20 weekly uplift in Universal Credit payments was extended for six months, and Working Tax Credit claimants will receive a one-off payment of £500.

A new £5 billion restart grant scheme will help businesses most affected by the lockdowns, with non-essential retailers getting up to £6,000 per rateable premises, and hospitality, leisure and personal care businesses each receiving up to £18,000 when they reopen.

The government will guarantee lending of up to 80% for banks providing loans to businesses of any size, who can borrow between £25,000 and £10 million until the end of the year.

The business rates holiday for retail, hospitality and leisure sector businesses will stay in place until the end of June. Then rates will be discounted by two-thirds for the remainder of the financial year, in respect of those businesses forced to close due to the pandemic.

Hospitality and tourism businesses receive an extension to the 5% reduced VAT scheme until September. Then VAT for these businesses will be at 12.5% for a further six months before returning to 20% in April 2022.

HOUSING, TRANSPORT AND INFRASTRUCTURE

Due to finish at the end of this month, the stamp duty holiday will be extended until the end of June. The extension means no stamp duty to pay on property purchases up to £500,000.

For completions from the start of July until the end of September, the stamp duty holiday threshold will be reduced to £250,000 before returning to its original level of £125,000 from 1st October 2021 onwards.

The government is backing banks and building societies to offer low-deposit mortgage deals after mortgages requiring a 5% deposit 'virtually disappeared' during the pandemic. The government-backed mortgages will not be limited to first-time buyers but available for all property purchases up to £600,000.

The new mortgages will be available next month and will remain open until the end of next year. Existing affordability and creditworthiness criteria will still apply.

A new UK infrastructure bank will be established in Leeds, with an initial capitalisation of £12 billion, expected to fund £40 billion worth of new infrastructure projects.

Scotland, Northern Ireland and Wales each received additional funding, with £1.2 billion for the Scottish government, £740 million for the Welsh government, and £410 million for the Northern Ireland executive.

A new £1 billion Towns Fund will support the regeneration of 45 English towns, and communities will receive a share of £150 million to take over pubs that face the risk of closure.

The Chancellor announced the locations of the first eight sites for new 'freeports' in England.

PENSIONS AND INVESTMENTS

The lifetime allowance for pension savings was frozen at £1,073,100 and will not be rising in line with inflation in April.

Freezing the allowance is expected to raise an additional £250 million a year by 2024, as investment growth within pension pots, and the rising value of defined benefit pensions, results in more people paying higher tax charges.

Hidden in the Budget text's detail was a pledge to refund £3 billion over the next six years to rectify the underpayment of state pensions to women over the past 20 years. These underpayments relate to certain married people, widows and over-80s back to 1992.

The UK will launch the first green savings bond for retail investors anywhere globally, helping to fund the UK's transition to net-zero carbon emissions by 2050.

Individual Savings Account (ISA) limits remain unchanged, but the Lifetime ISA penalty was reinstated at 25% after being temporarily reduced to 20% in the last Budget. The penalty on withdrawals not used to buy a first home or in the event of a terminal illness was reduced to help cushion the financial impact of the pandemic for younger savers.

OTHER MEASURES

In good news for motorists, fuel duty will be frozen for an eleventh consecutive year.

All alcohol duties were frozen for a second consecutive year.

The limit on contactless payments will rise to £100 later this year.

Apprenticeship incentive grants will go up to £3,000, with £126 million of funding available for traineeships.

A new visa scheme will be introduced, designed to help start-up businesses and fast-growing tech firms find new talent from overseas.

Arts venues, museums and galleries in England will receive a share of a £400 million fund.

Professional sport will receive a £300 million recovery package, with £25 million made available for grassroots football.

Charities supporting domestic violence victims will receive £19 million, which will help fund a new network of respite rooms.

Victims of the 1960s Thalidomide scandal will receive £40 million of new funding, along with a lifetime support guarantee.

The minimum wage will rise to £8.91 an hour from April.



WOULD YOU LIKE TO FIND OUT MORE?

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