Throgmorton – Budget Update

Corporation Tax (CT) Rate

The CT main rate for all non-ring fence profits will remain at 19% until 31 March 2023 for companies of all sizes. From 1 April 2023, the main rate will increase to 25% for companies with an annual taxable profit of £250,000 or higher. A small profits rate of 19% will apply from 1 April 2023 for companies with an annual taxable profit of £50,000 or lower. Marginal relief will be available for companies with an annual taxable profit between £50,000 and £250,000 (i.e. these companies are effectively taxed at a tapered rate between 19% and 25%). For companies with a December year end, if their annual profit is £250,000 or higher, the hybrid CT rate for the year to 31 December 2023 will be 23.52%. The small profits rate of 19% will not apply to close investment-holding companies.

Carry Back Losses

The amount of trading losses that can be carried back to the preceding year remains unlimited for companies. For trading losses made by companies in accounting periods ending between 1 April 2020 and 31 March 2022, after carrying back to the preceding year, a maximum of £2,000,000 of unused losses will be available for carry back against profits of the same trade to the earlier 2 years.

Super Deduction

In respect of qualifying expenditures incurred from 1 April 2021 up to 31 March 2023, a new 130% first-year capital allowance will apply on new plant and machinery which would ordinarily qualify for 18% main rate writing down allowance. A 50% first-year allowance will apply on qualifying special rate assets which ordinarily qualify for 6% special rate writing down allowances.

Annual Investment allowance (AIA)

Further to the Super Deduction, the government is hoping to stimulate investment in the economy by providing an increased incentive to invest in plant and machinery by further temporarily increasing the limit of the AIA from £200,000 to £1,000,000. This relates to expenditure incurred during the period from 1 January to 31 December 2021. The AIA is a 100% capital allowance for qualifying expenditure on plant and machinery up to the specified annual limit.

Employment Taxes

Off Payrolling

Although not a new headline and postponed due to the coronavirus pandemic, a reminder that the IR35 legislation is coming into effect from 6 April 2021. IR35 legislation is designed to assess whether a contractor is a genuine contractor rather than a 'disguised' employee, for the purposes of paying tax and will soon be affecting how private businesses need to contract with third parties. Businesses should once again review the steps they should take to prepare for the changes, including reviewing records, corresponding with contractors and updating engagement contracts.

General

The government has announced that they will reform the penalty regime for 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. The new late payment regime will introduce penalties proportionate to the amount of tax owed and how late the tax due is. These reforms will come into effect for taxpayers in ITSA with business or property income over £10,000 per year (that is, taxpayers who are required to submit digital quarterly updates through Making Tax Digital for ITSA) from accounting periods beginning on or after 6 April 2023. It will apply to all other taxpayers in ITSA from accounting periods beginning on or after 6 April 2024.