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BUDGET 2021

Overview

Introduction

It is interesting to look back 12 months to Rishi Sunak's first Budget: it was followed by a year none of us could have predicted or imagined.

The Conservatives had won a comfortable majority in the December 2019 General Election.
As expected, Sajid Javid became Chancellor and, in January, announced that the Budget would take place on Wednesday March 11th.

It was noted at one point last year that, 'When Sajid Javid announced the date virtually no one had heard of Coronavirus. When he resigned in mid-February, it was something largely confined to China – there were just two cases in Italy.'

By the end of February, though, the potential economic impact of the virus was becoming clear, with all the world's leading stock markets falling in the month. In March, the falls were to be even steeper – the FTSE 100 Index, for example, fell almost 14% from 6,581 at the end of February 2020 to 5,672 at the end of March.

Sajid Javid resigned and was replaced by Rishi Sunak – then 39 years old and the MP for Richmond in North Yorkshire. It was at first thought that the Budget might need to be postponed, but Sunak apparently impressed officials with his grasp of the detail and the Budget went ahead as planned. It seemed a fair description at the time to say that Rishi Sunak could hardly have delivered his first Budget in more difficult circumstances.

Fast forward to the here and now and the UK in the midst of a pandemic. The UK's vaccination programme has, so far, been a success, but the last year has done more damage to the economy than any of us could imagine.

In his speech the Chancellor had to lay the groundwork for an economic recovery – and find a way to pay for the huge increase in borrowing required to pay for the support measures that have been put into place over the last 12 months. This was set up to be a classic 'Budget of balance.'

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The economic background

Perhaps this year the economic background to the Budget can be told anecdotally as much as it can be told analytically. We all know of businesses that have closed over the past year; of shops that will never reopen, and of people – especially those under 25 – who haven't worked for six months.

As the BBC reported last week, the jobless rate rose to 5.1% in the three months to December with the number of people on company payrolls in January 2021 down 726,000 on pre-Covid levels – almost 60% of those are under 25.

Looking at the last year as a whole, the Office for Budget Responsibility (OBR) predicted that the budget deficit – the gap between what the government receives and what it spends – would be £394bn for the 20/21 financial year. A report in Wednesday morning's Guardian said that official figures put the deficit at £271bn for the first ten months of the year – suggesting that the final figure is expected to be below November's estimate.

The OBR is also suggesting that unemployment will continue to rise, with many jobs still cushioned by the furlough scheme (which, as we detail below, was extended to September 2021). The number of individuals furloughed at the end of January stood at 4.7m.

As many readers will know, the UK's Gross Domestic Product (GDP) fell by 9.9% in 2020 – the worst performance for 300 years – and the economy remains under pressure as lockdown of some form continues. However, there are some grounds for optimism, with the economy doing better than expected in November as businesses learned to adapt, and it may be that the swift pace of the vaccine roll-out allows the OBR and the Chancellor to be more optimistic than they might previously have been.

The political background

In the recent past, the Budget has been presented against a rather fevered political backdrop, whether that was a Government with a wafer-thin majority, an election to win or a Brexit deal to negotiate – all with their consequent political intrigues.

This year, despite the obvious societal and economic tumult created by the pandemic, the political waters are actually rather calmer. Boris Johnson has recovered from his own brush with COVID-19, there are no leadership coups in the offing and the UK has finally left the European Union. The Prime Minister has promised a future independent inquiry into how the Government handled the pandemic but, for now, the court of public opinion appears to side with Boris Johnson and his team. With more and more people being vaccinated, the Government currently has an 8% lead in the latest Survation poll: the Conservatives are on 42% with Labour on 34%.

Not that this stopped the usual calls to 'cut spending' or 'raise taxes' in the run up to the Budget speech. A popular view amongst both Tory MPs and some in the opposition parties was that Sunak should do neither, and instead prioritise growth. In particular, he should leave the rate of Corporation Tax unchanged at 19%, giving the UK a competitive economy and – effectively – relying on a booming economy to pay the bill for COVID-19 and, ultimately, re-balance the Government books.

So it was that the Chancellor posed with his Treasury team and the traditional red box, and then set off for the Commons to deliver his speech.

The Speech

Opening remarks

The Chancellor rose to speak in a socially distanced House of Commons at 12:36, with the speech having already been hailed by Boris Johnson as a "roadmap for freedom" and a "Budget for recovery."

The pandemic had, said the Chancellor, "fundamentally altered our way of life" and done "acute" damage to the economy as he noted the 700,000 jobs lost and the near 10% fall in GDP. Borrowing was the highest it had been "outside of wartime."

The numbers

The Chancellor started this section optimistically: "the forecasts show our plans are working," he said, saying that the OBR now expected a "swifter and more sustained recovery" than they had forecast in November, with the economy returning to its pre-Covid level by the middle of 2022, six months earlier than had been forecast.

The OBR was expecting economic growth of 4% this year, followed by 7.3% in 2022 – followed by a return to rather more 'normal' levels of 1.7%, 1.6% and then 1.7% again in 2025.

Unemployment had been forecast to peak at 11.9%: now the OBR was predicting 6.5% "meaning that 1.8m fewer people will be out of work."

Dealing with government spending

Whilst the Chancellor's opening largely dealt with support for individuals and businesses, you always felt there was a 'but' coming…

The pandemic had presented, "huge challenges for the public finances," the Chancellor said, with levels of borrowing only previously seen in the two World Wars. Borrowing this year would be a peacetime record of £355bn, falling to £234bn in 2021/22, higher than the worst year of the financial crisis. Borrowing will be 4.5% of GDP in the 2022/23 tax year.

The Chancellor declined to set any specific targets in the Budget, but rather set out three principles for what he saw as 'sustainable public finances.'

First of all, he said, it was right that the state should help – but that in normal times the state should not borrow to meet everyday public spending. Secondly, he needed to be constantly aware of the level of debt and its affordability; thirdly, while it was right to take advantage of the current low interest rates, there was no guarantee that these would continue, or that there wouldn't be a similar crisis in the future. Therefore, the debt needed to be dealt with now.

We've detailed the specific policies announced as part of the Chancellor's approach in the appropriate sections of this document.

Protecting jobs and livelihoods

Rather than going through a long list of economic numbers, the Chancellor was into the main part of his speech within five minutes. As everyone had been expecting, he began by announcing the extension of the furlough scheme to September, along with other economic measures designed to combat the effects of the pandemic on individuals and households.

What	The vaccination programme.
When	Immediately.
Comment	Perhaps of most immediate concern and interest, and the longest term benefit to our jobs and livelihoods, was the Chancellor's further £1.6bn commitment to the roll out of the vaccination programme.

What	The furlough scheme is extended.
When	Until the end of September.
Comment	Employees on furlough will continue to receive 80% of their pre-Covid income, with employers paying 10% in July and 20% in August and September.

What	More help for the self-employed.
When	Until the end of September.
Comment	Like the extension of the furlough scheme, this was expected, with the self-employed to get a fourth grant of up to 80% of their pre-Covid income, covering February-April and available to be claimed from April. A fifth grant will cover May-September and be available from late July. Rishi Sunak said that "it was fair to target those most affected by the pandemic" and so those whose turnover has fallen by more than 30% will receive the full grant, while those whose turnover has fallen by a smaller amount will receive a 30% grant. The scheme was also extended to the newly self-employed who submitted a tax return for 2019/2020 by midnight on 2nd March, meaning that an extra 600,000 people are now eligible for the scheme. In total, said the Chancellor, "£33bn has been spent in supporting the self-employed."

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Protecting jobs and livelihoods continued

What	Support for low income households - the extra £20 per week on Universal Credit will be continued.
When	Immediately, for an extra six months.
Comment	In addition to the above, those receiving Working Tax Credit will also receive a one-off payment of £500, to provide them with equivalent support.

What	The National Living Wage will rise to £8.91.
When	From April.
Comment	The Chancellor described this as a "£350 pay rise" for those working full time on the NLW and reaffirmed his commitment to work coaches and kick-start schemes in a bid to get people back into work.

Personal taxation and allowances

As expected, the Chancellor confirmed that he would not raise the rates of income tax, national insurance or VAT. But you knew there was a 'but' coming. Freezing allowances is often seen as a 'stealth tax', raising tax income without explicitly raising taxation levels.

What	Personal Allowance and higher rate threshold (HRT).
When	The income tax Personal Allowance will rise with CPI as planned to £12,570 from April 2021, but will then remain at this level until April 2026.
Comment	The Personal Allowance applies across the UK. The HRT for savings and dividend income will also apply UK-wide. The HRT for non-savings and non-dividend income will apply to taxpayers in England, Wales, and Northern Ireland.

What	Inheritance tax nil-rate band and residence nil-rate band.
When	Will remain at existing levels until April 2026.
Comment	The nil-rate band will continue at £325,000, the residence nil-rate band will continue at £175,000, and the residence nil-rate band taper will continue to start at £2m. Qualifying estates can continue to pass on up to £500,000 and the qualifying estate of a surviving spouse or civil partner can continue to pass on up to £1m without an inheritance tax liability.

What	Capital Gains Tax Annual Exempt Amount (AEA) uprating.
When	The AEA will be maintained at the present level until April 2026.
Comment	This is the value of gains that a taxpayer can realise before paying Capital Gains Tax. It will remain at £12,300 for individuals, personal representatives and some types of trusts and £6,150 for most trusts.

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Personal taxation and allowances continued

What	National Insurance contributions (NICs) thresholds.
When	Until April 2026.
Comment	As previously announced in February 2021, in 2021-22 NICs thresholds will rise with CPI, bringing the NICs Primary Threshold/Lower Profits Limit to £9,568 and the Upper Earnings Limit (UEL)/Upper Profits Limit (UPL) to £50,270, in line with the income tax HRT. The UEL/UPL will then remain aligned with the HRT at £50,270 until April 2026. NICs thresholds apply across the UK.

What	Pensions Lifetime Allowance.
When	Will remain at the current level of £1,073,100 until April 2026.
Comment	Another opportunity for the Chancellor to generate income as this freeze means that more people risk falling foul of pension tax charges.

Pensions and savings

What	An introduction of a green retail savings product through NS&I.
When	Summer 2021.
Comment	All UK savers will get the chance to support green projects through what the Chancellor described as a 'retail green savings bond' – it is thought there will be around £15bn in green gilt issuance – designed to help the transition to net zero greenhouse gas emissions in 2050. It will be available through NS&I.

What	Individual Savings Account (ISA) annual subscription limit.
When	April 2021.
Comment	The adult ISA annual subscription limit for 2021-22 will remain unchanged at £20,000.

What	Junior ISA and Child Trust Fund.
When	April 2021.
Comment	The annual subscription limit for Junior ISAs and Child Trust Funds for 2021-22 will remain unchanged at £9,000.

What	More investment flexibility for pensions.
When	No clear date.
Comment	There will also be consultations by the FCA into investment rules for pension schemes post-Covid, to "give the industry more flexibility to unlock billions of pounds from pension funds into innovative new ventures." An initiative that is more likely aimed at large pension funds than individual savers.

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Business investment and taxation

The Chancellor acknowledged that not all changes to business taxation would be popular – but they were 'honest' he said – and preferable to finding savings from the public services. This was a "fiscally responsible, business-friendly government" and he wanted businesses to invest "right now" as he looked to unlock a potential £20bn of business investment through a series of measures.

What	Corporation tax will increase to 25%.
When	From April 2023.
Comment	This move had been widely expected, but there were some mitigating factors. Companies with profits below £50,000 will continue to be taxed at the current rate of 19%, with the full rate only being payable on profits above £250,000, with tapering between those two points. This means that around 70% of companies will be completely unaffected, with – according to the Chancellor – only 10% of companies paying the full rate. He also made the tax treatment of losses more generous, allowing businesses to carry back losses of up to £2m for up to three years.

What	The 'Super Deduction'.
When	From 1st April 2021 until 31st March 2023.
Comment	This could be seen as the Chancellor's 'rabbit out of a hat'. As Rishi Sunak said, it is easiest to explain with an example. The super deduction allows a company buying equipment to reduce their taxable profits by 130% of the cost of that equipment – so a construction company buying £10m of equipment could previously reduce their taxable income by £2.6m. With the super deduction they can now reduce their taxable profits by £13m. It is hard to see how companies won't take advantage of what the Chancellor described as "the biggest business tax cut in modern history."

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Business investment and taxation continued

What	Freeports.
When	Late 2021.
Comment	The Chancellor ended the speech by announcing eight freeports. A policy which, he said, "would bring investment, trade and jobs." The freeports – benefiting from simpler planning, cheaper tariffs and tax breaks to encourage construction and investment – would be in Teesside, East Midlands Airport, Felixstowe and Harwich, the Humber, Liverpool City Region, Plymouth, Solent and the Thames.

What	Restart grants.
When	April 2021.
Comment	The Chancellor announced a series of 're-start grants' for businesses to help them re-open. There will be grants of up to £6,000 for non-essential retail premises, with hospitality businesses and gyms getting up to £18,000.

What	Recovery loan scheme.
When	From 6th April 2021.
Comment	The new 'recovery loans' will replace the Bounce Back loan scheme, with businesses able to apply for loans of between £25,000 and £10m, with the Government guaranteeing 80% of the loan. The scheme will be open to all businesses, including those who have already received support under the existing COVID-19 guaranteed loan schemes.

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Business investment and taxation continued

What	Business rates holiday.
When	From 1st April 2021 to 30th June 2021.
Comment	This will be followed by 66% business rate relief for the period July 1st 2021 to 31st March 2022, capped at £2m per business for properties that were required to be closed on 5th January 2021, or £105,000 per business as other eligible properties. Reportedly when combined with Small Business Rates Relief, this means 750,000 retail, hospitality and leisure properties in England will pay no business rates for 3 months from 1st April 2021, with the vast majority of eligible businesses receiving 75% relief across the year.

What	Reduced VAT rates for hospitality and tourism.
When	Immediately.
Comment	The 5% reduced rate of VAT for the hospitality and tourism sectors was extended until the end of September, with a tapered rate of 12.5% then applying until the normal 20% rate comes back into force from April 2022.

What	VAT Deferral New Payment Scheme.
When	From March 2021.
Comment	Any business that took advantage of the original VAT deferral on VAT returns from 20th March through to the end of June 2020 can now opt to use the VAT Deferral New Payment Scheme to pay that deferred VAT in up to eleven equal payments from March 2021, rather than one larger payment due by 31st March 2021 as originally announced.

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Business investment and taxation continued

What VAT thresholds to remain unchanged.

When Until at least 1st April 2022.

Comment The level at which companies need to register and deregister for VAT will not change. While the Chancellor was at pains to stress that the VAT threshold remains far higher than in most other countries (where they have a similar tax) it is easy to see a resurgent economy leading to many more businesses needing to register for VAT.

What Help to Grow: Management & Digital.

When As soon as is practical, likely to begin in the Autumn.

Comment Help with business training had been widely trailed, but the Chancellor perhaps went further than many people had expected, introducing a scheme which will help "tens of thousands" of businesses to get management training through executive development and peer learning, with the Government paying 90% of the cost.

There will also be 'Help to Grow Digital,' which will allow small businesses to develop digital skills and to get a 50% discount on software which will enhance productivity up to £5,000 each.

What The incentive payment for every new apprentice is to be doubled to £3,000.

When From 1st April 2021.

Comment Employers who hire a new apprentice between 1 April 2021 and 30 September 2021 will receive £3,000 per new hire, compared with £1,500 per new apprentice hire (or £2,000 for those aged 24 and under) under the previous scheme.

The government will also provide an additional £126m in England for high quality work placements and training for 16-24 year olds in the 2021/22 academic year. Employers who provide trainees with work experience will continue to be funded at a rate of £1,000 per trainee.

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Business investment and taxation continued

What	Preventing abuse of R&D tax relief.
When	April 2021.
Comment	The amount of R&D tax relief SMEs can receive in one year will be capped at £20,000 plus three times the company's total PAYE and NICs liability.

What	Income tax exemptions for COVID-19 tests and home office expenses.
When	Extended to the 2021-22 tax year.
Comment	The government will extend the income tax exemption and NICs disregard for COVID-19 antigen tests provided by, or reimbursed by, employers and for employer reimbursed expenses covering the cost of home office equipment, to the 2021-22 tax year.

What	Statutory Sick Pay (SSP) Rebate Scheme.
When	Immediately.
Comment	Small and medium-sized employers across the UK will continue to be able to reclaim up to two weeks of eligible SSP costs per employee. This scheme is a temporary COVID-19 measure intended to support employers while levels of sickness absence are high.

Other measures

Housing

What Stamp duty.

When Extended from March until the end of September.

Comment "Housing," said the Chancellor, "is responsible for 500,000 jobs." Therefore he was extending the current reduction in stamp duty, with the £500,000 nil rate band now applying until the end of June. The nil rate band would then be £250,000 until the end of September, at which point the normal threshold of £125,000 would come back into play.

What A new mortgage guarantee scheme.

When From April 2021.

Comment The Chancellor also announced a new mortgage guarantee scheme, with lenders who provide a mortgage to homebuyers who can only afford a 5% deposit benefitting from a government guarantee on those loans. This will apply on home values of up to £600,000 with a number of leading lenders having already signed up to the scheme.

"Generation rent," declared Sunak in the most predictable line of the speech, would become "generation buy."

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Other measures continued

The UK's infrastructure

What	Airports and Ground Operations Support Scheme.
When	Renewed from April 2021.
Comment	The government is renewing the Airports and Ground Operations Support Scheme for a further six months from the start of 2021-22. The scheme provides support for eligible businesses in England up to the equivalent of half of their business rates liabilities during 2021-22, capped at £4m per claimant.

What	The UK's first ever infrastructure bank.
When	Spring 2021.
Comment	The Chancellor announced the first ever UK Infrastructure Bank, which will be based in Leeds and start with £12bn of capital as it looks to finance a targeted total £40bn of public and private infrastructure projects. This went hand in hand with a new remit for the Bank of England, part of which will be the transition to 'net zero.'

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Other measures continued

Excise duties

What	Alcohol and fuel duties.
When	April 2021.
Comment	Alcohol duties were frozen for the second year in a row, while the rise in fuel duty was once again cancelled. Mind you, the Chancellor could afford to do that. According to the OBR, increased drinking during lockdown means that alcohol duties will bring in £800m more than expected in the 20/21 financial year.

What	Vehicle Excise Duty (VED) for HGVs.
When	From August 2021.
Comment	To support the haulage sector and pandemic recovery efforts, the government will freeze HGV VED for 2021-22 and will suspend the HGV Levy for another 12 months from August 2021.

What	Vehicle Excise Duty (VED).
When	From 1st April 2021.
Comment	VED rates for cars, vans and motorcycles will increase in line with RPI.

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Other measures continued

Education

What	Funding for supporting 'lost learning'.
When	No confirmed date.
Comment	£700m of further funding was announced to help young people in England catch up on lost learning as a result of COVID-19. This new package includes a one-off £300m Recovery Premium for state primary and secondary schools, £200m to expand tutoring programmes and deliver early language support, and £200m for secondary schools to deliver face-to-face summer schools.

The environment

A range of specific environmental measures were announced, including:

- £20m programme to support the development of floating offshore wind technology across the UK.
- The launch of a new £68m UK-wide competition to implement several first-of-a-kind energy storage prototypes or technology demonstrators.
- A £4m UK-wide competition for the first phase of a biomass feedstocks programme, to support the rural economy in making improvements to the production of green energy crops and forestry products.

Banking

- Banks will now be allowed to support single contactless payments up to £100, and cumulative contactless payments up to £300, without the need for customers to input their chip and pin. The banking industry will implement the new limits later this year.

Conclusion

Rishi Sunak was always at pains to stress that he would be 'open and honest' in his Budget speech. He finished as he finished last year – paying tribute to the skill, generosity and determination of the British people and commending his Budget to the House. "We are at a moment of challenge and change," he said. "This is a Budget that meets that moment."

The Adam Smith Institute welcomed the headline-grabbing super deduction which, they said, would 'induce investment into Britain's factories and help the economy bounce back.' However, they criticised what they saw as 'the silliness of the mortgage guarantee.'

The Centre for Policy Studies was broadly more supportive, welcoming 'a business led recovery.'

The combination of business rate reductions, investment incentives and other measures should help business and the economy rebound powerfully in the next few years. But there is a danger of a cliff edge later as support is withdrawn and taxes increased – or that business will anticipate higher taxes and fail to invest.

That may be it in a nutshell. The Chancellor can do so much but – as George Osborne always stressed – there are so many outside events he cannot control. Rishi Sunak has done what he can: he now needs the vaccine rollout to continue to be successful, the British people to spend as they have never spent before, China and the US not to have another trade war...

The list goes on. Eight months from now the Chancellor will be presenting his Autumn Statement to the House of Commons and, depending on the impact of the vaccination programme and the economic measures announced to date, we may see yet more measures designed to encourage investment and rebuild the public purse.

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