LandFamilyBusiness

Budget Update 2021

The Budget was subject to much speculation beforehand as we waited to see whether Rishi Sunak would announce the much discussed reforms to capital taxes. As it happens, capital taxes barely featured in the Chancellor's second Budget although he did confirm that the CGT annual exempt amount and IHT thresholds will remain at their current levels until 5 April 2026. Whilst the income tax, CGT and national insurance rates remain unchanged, the basic and higher rate income tax thresholds will be frozen at £37,700 and £50,270 respectively, from 2021/22 to 2025/26.

The Chancellor announced that the Government is committed to encouraging investment in the UK and has introduced short term incentives for capital expenditure and accelerated loss relief, however these will be followed by a rise in taxes as the main corporation tax rate increases from 1 April 2023.

Companies will be able to take advantage of the new super deduction on capital allowances. This provides relief at 130% for capital investments in qualifying plant and machinery expenditure in the period from 1 April 2021 to 31 March 2023 but excludes used and second-hand assets. A further temporary first year allowance is available for expenditure which qualifies for special rate relief, which includes integral features such as water and electrical systems in buildings, raising the relief from 6% to 50% from 1 April 2021.

Whilst only companies can benefit from the super deduction, the temporary extension to the loss carry back rules will apply to companies, partnerships and self-employed individuals. In addition to the usual one year loss carry back against profits of the same trade, trading losses incurred in the 2020-21 and 2021-22 tax years can be carried back against trading profits of the previous three years, so this could result in tax refunds for many farming businesses.

A rise in the corporation tax rates was expected and the Chancellor will be hoping that raising the corporation tax rate to 25% for larger businesses which contribute to the Government's roadmap for recovery. The main corporation tax rate for companies will remain at 19% until 1 April 2023 when it will increase to 25% for companies with annual profits exceeding £250,000. Smaller businesses will be protected from this increase as companies with profits of £50,000 or less will continue to be taxed at the 19% rate. Companies with profits between these limits will be taxed at a tapered rate.

The Government is due to publish a range of tax consultations on 23 March so this should give us an insight into its future tax strategy. It remains to be seen whether the much anticipated changes to capital gains tax and inheritance tax will be included, but in the meantime there is still an opportunity for farming families to think about succession planning with a view to maximising the reliefs and tax rates currently available to them.