

# UK Spring Budget 2021 – Key Announcements and Analysis

## Budget Background:

The UK Government Roadmap out of lockdown provides the backdrop to this budget, with a full economic re-opening proposed for 21 June 2021. Around 20 million people have been vaccinated against Covid-19, which is over 30% of the adult population. All adults are expected to be vaccinated by the end of July. The OBR has revised down its UK debt prediction and revised up its UK economic growth projections due to the success of the vaccine rollout, returning to its former level six months earlier than the projection the OBR made in November.

The Chancellor stated it was not the time to set firm fiscal rules but said his positions were guided by three principles: in normal times the state should not borrow to pay for everyday public spending, in the medium term it should take action on debt, and when interest rates are low it is sensible to borrow to invest in infrastructure.

This budget signals that the Government is backing tax rises rather than spending cuts to balance the national budget. Recent polling suggests that the public support indirect taxes but oppose direct taxes. The Chancellor has raised indirect and stealth taxes on business, incomes, and savers. The Chancellor has kept the 2019 Conservative Manifesto promise of no increases to income tax, national insurance, or VAT and to safeguard the state pension triple lock.

Economically, the UK has been severely damaged by the pandemic. Covid relief measures are projected to total £407 billion since the pandemic began and the budget deficit for 2020/21 is 16.9% of GDP, the highest level of peacetime borrowing on record. The UK national debt will rise to reach 97.1% in 2023/24 and state spending is over half of GDP in 2020/21. However, the level of economic damage and the speed of the recovery are not yet known. Consequently, the tax increases being imposed are modest given the scale of the debt and delayed but they show a commitment to budget sustainability.

## Key Announcements:

### Economic Growth and Public Finances

#### Fiscal Rules:

This Budget is “not the time to set detailed fiscal rules with precise targets to achieve them by”. Future fiscal decisions will be guided by 3 principles:

1. The state should not borrow to pay for everyday public spending post-crisis.
2. Over the medium term, debt cannot be allowed to keep rising. Close attention must be paid to the affordability of debt.
3. It is sensible to take advantage of lower interest rates to invest in capital projects that can drive future growth.

#### The Office for Budget Responsibility (OBR) forecasts:

##### Economic Growth:

- GDP fell by 9.9% in 2020 - the largest annual fall in 300 years.
- There will be a more “swift and sustained” recovery than had been expected in November.

- The economy will return to its pre-Covid level by the middle of 2022; 6 months earlier than previously thought.
- In 5 years' time, because of coronavirus, the economy will be 3% smaller than it otherwise would've been.
- GDP will grow by 4% this year, 7.3% in 2022, 1.7% in 2023, 1.6% in 2024, and 1.7% in 2025.

#### Public Spending:

- This Budget contains an additional £65bn of measures over 2021 and 2022 to support the economy in response to coronavirus.
- The total 2021/22 Covid Support Package is £352bn, with total fiscal support amounting to £407bn.
- There will be £600bn+ in gross public investment over the next five years.

#### Borrowing:

- It will be the work of "many Governments over many decades" to pay borrowing back.
- Interest rates and inflation may not stay low in the long-term; a 1% increase in both would cost over £25bn.
- In 2020/21, the UK borrowed £355bn; 17% of GDP. This is the highest level of borrowing since World War 2.
- In 2021/22, borrowing will be £234bn; 10.3% of GDP.
- In 2022/23, This falls to 4.5% of GDP in 2022/23, 3.5% of GDP in 2023/24, 2.9% of GDP in 2024/25, and 2.8% of GDP in 2025/26.

#### Debt:

- Underlying debt rises from 88.8% of GDP in 2021/22, to 93.8% in 2022/23.
- It peaks at 97.1% in 2023/24.
- Debt falls to 97% in 2024/25, then to 96.8% in 2025/26.

#### Unemployment:

- Unemployment will peak at 6.5%; it was previously expected to peak at 11.9%.

### **Business Taxation, Support and Covid**

#### Business Restart Grants:

- The first non-essential businesses opening in April will receive grants of up to £6k per premises; hospitality, leisure & personal care businesses opening later will receive grants of up to £18k per premises.
- An additional £425m of discretionary business grant funding will be given to local authorities to distribute.

#### Recovery Loan Scheme:

- From 6 April 2021 the scheme will provide lenders with a guarantee of 80% on eligible loans between £25,000 and £10 million.

#### Corporation Tax to increase to 25% from 2023:

- While SMEs with profits of £50k or less will retain the existing rate of 19%.
- Taper for businesses with profits above £50k, with companies of profits of £250k paying the full 25% rate.

- The Diverted Profits Tax rate will rise to 31% from April 2023.

Extended loss carry back for businesses:

- The trading loss carry-back rule will be temporarily extended from the existing one year to three years.

New Super-Deduction Scheme:

- From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery assets will benefit from a 130% first-year capital allowance.
- Companies will be able to cut their tax bill by up to 25p for every £1 they invest.
- Investing companies will also benefit from a 50% first-year allowance for qualifying special rate (including long life) assets.

The furlough scheme will be extended until the end of September, with all employees to continue to receive 80% of their salaries until the scheme ends:

- 80% paid by the Government in full until the end of June.
- In July, the Government will pay 70% and the employer 10%.
- In August and September, the Government will pay 60% and the employer 20%.

VAT cut extended for the hospitality and tourism sectors:

- The reduced rate of 5% extended by six months until 30th September, with an interim rate of 12.5% for another six months, return to the standard rate from April 2022.

Business Rates relief extension:

- 100% relief from 1 April 2021 to 30 June 2021 for eligible retail, hospitality and leisure properties in England, followed by 66% business rates relief from 1 July 2021 to 31 March 2022, capped at £2 million per business for properties that were required to be closed on 5 January 2021, or £105,000 per business for other eligible properties.

Self Employed Income Support Scheme: fourth grant:

- Will be worth 80% of three months' average trading profits, paid out in a single instalment and capped at £7,500.
- It will cover February to April and can be claimed from late April.
- Self-employed individuals must have filed a 2019- 20 Self-Assessment tax return to be eligible.

Self Employed Income Support Scheme: fifth grant:

- People whose turnover has fallen by 30% or more will continue to receive the full grant worth 80% of three months' average trading profits, capped at £7,500.
- Where turnover has fallen by less than 30%, they will receive a 30% grant, capped at £2,850. Can be claimed from late July.

Capital Gains Tax Annual Exempt Amount:

- Will be maintained at the existing level until April 2026.

VAT:

- Registration threshold frozen at £85k for 2 years from 2020-2022.

## **Apprenticeships and Skills**

### Traineeships:

- 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.

### New Apprenticeships:

- The Government will extend and increase the payments made to employers in England who hire new apprentices.
- 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.

### Portable Apprenticeships:

- The Government will introduce a £7m fund from July 2021 to help employers in England set up and expand portable apprenticeships.

### Help to grow: Management:

- Offering a new UK-wide management programme to upskill 30,000 SMEs in the UK over three years, contributing 90% of the cost.

### Help to grow: Digital:

- Launching a new UK-wide scheme in the autumn to help 100,000 SMEs save time and money by adopting productivity-enhancing software, transforming the way they do business.
- This will combine a voucher covering up to half of the costs of approved software up to a maximum of £5,000, and free impartial advice, delivered through an online platform.

## **R&D and Innovation**

### R&D Tax Reliefs:

- New review of R&D tax reliefs, with a consultation published alongside the Budget.
- Review to consider all elements of the two R&D tax relief schemes, with the objective of ensuring the UK remains a competitive location for cutting edge research, that the reliefs continue to be fit for purpose and that taxpayer money is effectively targeted.
- The Government will consider bringing data and cloud computing costs into the scope of relief alongside a number of other policy options at the wider review.

### Future Fund: Breakthrough:

- The Government will commit £375m to introduce Future Fund: Breakthrough, a new direct co-investment product to support the scale up of the most innovative, R&D-intensive businesses.

## **Sustainability and Green Growth**

### Green Gilt:

- The Government will issue its first sovereign green gilt this summer, with a further issuance to follow later in 2021 as the UK looks to build out a 'green curve'.
- Green gilt issuance for the financial year will total a minimum of £15bn.
- The green gilt framework, to be published in June, will detail the types of expenditures that will be financed to help meet the Government's green objectives.

#### Green retail National Savings and Investment (NS&I) product:

- The Government will offer a green retail savings product through NS&I in the summer of 2021.
- This product will be closely linked to the UK's sovereign green bond framework and open to UK retail savers. Carbon Markets Working Group:
- Dame Clara Furse to establish a new group with the aim of positioning the UK and the City of London as the leading global market for high quality voluntary carbon offsets.
- The working group will draw on the UK's financial expertise and entrepreneurship and build on the work of crossing-cutting initiatives such as the Taskforce for Scaling Voluntary Carbon

#### Markets. Energy Innovation:

- £20m programme to support the development of floating offshore wind technology across the UK.
- 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.

#### Carbon Price Support:

- The Government will maintain the freeze on Carbon Price Support rates at £18 per tonne of carbon dioxide in 2022-23.

### **Trade and Post-Brexit Changes**

#### Freeport locations announced:

- Eight locations in England: East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames.
- The ports will benefit from infrastructure investment, easier planning, cheaper customs and lower taxes.

#### Visa Reforms:

- New unsponsored points-based visa for high skilled; reforms for visas for scaleups and entrepreneurs.
- Launching the new Global Business Mobility visa by spring 2022 for overseas businesses to establish a presence or transfer staff to the UK.
- Employer sponsorship rules to be eased and delivery roadmap for this to be set out in the Summer.

#### UK Stock Exchange listing rules:

- To be reformed to encourage more UK listings.

## **Levelling Up (Infrastructure, Housing, Planning and Construction)**

### New National Infrastructure Bank:

- Located in Leeds, the bank will invest in public and private projects to finance the Green Industrial Revolution.
- The Bank will be able to deploy £12bn of equity and debt capital and be able to issue up to £10bn of guarantees.

### New Economic Campus:

- To be located in Darlington, incorporating Treasury, BEIS and MHCLG officials.

### New Towns Deal:

- A Commitment of £1bn from the Towns Fund for a further 45 Town Deals across England.
- This will help to level up regional towns, giving them the tools to design and implement an area growth strategy and aiding local recovery from the impacts of COVID-19.

### Community Ownership Fund:

- A new £150m Community Ownership Fund to help ensure that communities across the UK can continue to benefit from the local facilities and amenities that are most important to them.
- From the summer, community groups will be able to bid for up to £250,000 matched funding to help them to buy local assets to run as community-owned businesses including pubs and sports clubs.

### National Infrastructure Commission Study:

- The Government will commission a new NIC study on towns and regeneration, which will consider how to maximise the benefits of infrastructure policy and investment for towns in England.

### MMC Taskforce:

- MHCLG will establish an MMC Taskforce, backed by £10m of seed funding, to accelerate the delivery of MMC homes in the UK.
- The Taskforce will consist of world-leading experts from across Government and industry to fast-track the adoption of modern methods of construction. It will be headquartered in Wolverhampton.

### Levelling Up Fund:

- The Government is launching the prospectus for the £4.8bn Levelling Up Fund alongside today's Budget.
- The Fund will invest in infrastructure that improves everyday life across the UK, including town centre and high street regeneration, local transport projects, and cultural and heritage assets.

### Temporary Stamp Duty Cut:

- Extending the temporary increase in the residential SDLT Nil Rate Band to £500,000 in England and Northern Ireland until 30 June 2021.
- From 1 July 2021, the Nil Rate Band will reduce to £250,000 until 30 September 2021 before returning to £125,000 on 1 October 2021.

#### Mortgage Guarantee Scheme:

- Introducing a new mortgage guarantee scheme in April 2021.
- This scheme will provide a guarantee to lenders across the UK who offer mortgages to people with a deposit of just 5% on homes with a value of up to £600,000.
- Under the scheme all buyers will have the opportunity to fix their initial mortgage rate for at least five years should they wish to.
- The scheme, which will be available for new mortgages up to 31 December 2022, will increase the availability of mortgages on new or existing properties for those with small deposits.

### **Transport and Travel**

#### Fuel Duty:

- Freeze in fuel duty in 2021-22.
- Future fuel duty rates will be considered in the context of the UK's commitment to reach net-zero emissions by 2050.

#### Public Transport:

- The Government is providing an additional £2bn to the Department for Transport to ensure continued operation of the railways in Q1 of 2021-22.

#### Air Passenger Duty (APD):

- APD rates will increase in line with RPI from April 2022, meaning that the reduced and standard short-haul rates will remain frozen at the same level since 2012, benefitting over 75% of passengers.
- Long-haul rates will increase in line with RPI. The rates for long-haul economy flights from Great Britain will increase by £2, and the rates for those travelling in premium economy, business and first class will increase by £5.
- Those travelling long-haul by private jets will see the rate increase by £13.

#### Vehicle Excise Duty (VED):

- The Government will uprate VED rates for cars, vans and motorcycles in line with RPI from 1 April 2021.

#### VED and Levy rates for Heavy Goods Vehicles (HGVs):

- To support the haulage sector and pandemic recovery, the Government will freeze HGV VED for 2021-22 and suspend the HGV Levy for 12 months from August 2021.

#### Support for Airports:

- The Government is renewing the Airports and Ground Operations Support Scheme for a further six months from the start of 2021-22.

- Provide support for eligible businesses in England up to the equivalent of half of their business rates liabilities during 2021-22, subject to certain conditions and a cap per claimant of £4 million.

## **Household Budgets and Taxation**

### Income tax, Inheritance tax and Pensions lifetime allowance:

- The income tax Personal Allowance will rise as planned to £12,570 from April 2021 and will remain at this level until April 2026.
- The income tax higher rate threshold will rise as planned to £50,270 from April 2021 and will remain at this level until April 2026.
- Pensions lifetime allowance threshold frozen until 2026.
- The inheritance tax nil-rate bands will remain at existing levels until April 2026.

### Alcohol Duties:

- The duty rates on beer, cider, wine, and spirits will be frozen for another year.

### Welfare and NLW:

- Universal Credit uplift of £20 continues for 6 months, working tax credit claimants will be provided with support through one off payment of £500.
- National living wage to rise to £8.91 from April 2021.

### Tax Consultation:

- 'Tax Policies and Consultation Spring 2021' to be launched on 23rd March 2021.