AUTUMN 2021 BUDGET

MAIN TAX ANNOUNCEMENTS

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1. Overview

Throughout the pandemic, the government has been paying out unprecedented amounts of support to employers, businesses, and the self-employed to protect the economy from collapsing, at the same time as incurring all the costs of supporting the health system through its greatest crisis. We have been waiting for the bill to arrive and the tax increases that will pay for it all.

We might have expected the Chancellor to arrive at the despatch box in a sombre mood. However, the Office for Budget Responsibility had produced revisions to its previous economic forecasts and these allowed the Chancellor to increase spending as well as announce tax rises.

He spent most of his speech spreading more money to every corner of the UK. He spoke of billions here, millions there, freezing duty on fuel and alcohol, cutting business rates for small businesses, supporting families, building houses. Although he started by saying ‘we have challenging months ahead’, he moved rapidly on to what he called ‘an economy fit for a new age of optimism’.

In terms of bad news, most of it had already been announced. The freezing of tax allowances and bands was a substantial tax-raising measure in the March Budget. The Prime Minister described the new Health and Social Care Levy in September with extra National Insurance and dividend taxation expected to raise £17 bn each year. Adjustments to uprating pension benefits will raise another £5 bn a year. These are very large amounts whilst most other announcements are measured in millions.

Key announcements made by the Chancellor yesterday included the following:

- 30-day reporting and payment deadline for CGT on UK residential property extended to 60 days for transactions completing on or after 27 October 2021
- 100% Annual Investment Allowance continues at £1m until 31 March 2023, instead of reducing to £200,000 on 1 January 2022
- Confirmation of 1.25% increases in National Insurance Contributions and dividend tax rates from 6 April 2022, as well as increases in most NIC thresholds
- Residential Property Developer Tax to be introduced from 1 April 2022 at 4% on profits over £25 million
- Reform of basis period rules for unincorporated business and LLPs from 2023/24
- Temporary reliefs for Business Rates for small businesses in 2022/23, with longer-term reform of the system and reliefs for expenditure to be introduced in April 2023
- New late submission and payment penalty regimes to be introduced for VAT (for accounting periods beginning on or after 1 April 2022)

- Making Tax Digital for Income Tax Self Assessment to be introduced from 2024/25, along with a new penalty regime for late submission and payment

When the Chancellor sits down, the Government publishes everything on the internet including measures he has not mentioned, the detail of things he only touched on and the tables of financial estimates that show what makes a big difference to the public finances and what is marginal.

The following pages summarise the main tax announcements from the Chancellor’s speech and the documents released by HMT and HMRC afterwards.

We will be happy to discuss the announcements with you in more detail and help you understand the implications for your business and finances.

2. **Income Tax**

2.1 Income Tax Rates and Allowances

As announced in the March 2021 Budget, the income tax rates and bands and the main allowances are frozen at their 2021/22 levels until the end of 2025/26, instead of their usual inflationary increases each year. Although this means that someone with the same income will pay the same tax year on year, the effect of inflation on salaries and business profits means that this represents a significant tax increase over the period, with an estimated £8bn in extra government receipts forecast for 2025/26 compared to annual increases in bands and allowances.

The Scottish Parliament sets its own tax rates and thresholds for Scottish taxpayers for non-savings, non-dividend income. It will announce its Budget for 2022/23 on 9 December.

The Welsh Government has similar powers for Welsh taxpayers, but has not varied the main UK rates.

2.2 Dividend Income

The tax rates on dividend income over £2,000 will increase for the tax year 2022/23. The ordinary rate, paid by basic rate taxpayers, will rise from 7.5% to 8.75%. The upper rate becomes 33.75% (from 32.5%) and the additional rate 39.35% (from 38.1%). These rates will apply across the UK.

The addition of 1.25% to each rate is related to the increases in NICs and the introduction of the Health and Social Care Levy and is intended to ensure that individuals who work through companies and take their profits as dividends rather than salary cannot avoid paying the charge. However, it will also apply to dividends from passive investments, as well as from personal companies.

The 33.75% rate will also apply to tax payable by close companies on ‘loans to participators’ that are not repaid to the company within 9 months of the end of the accounting period.

2.3 High Income Child Benefit Charge

The High Income Child Benefit Charge applies where a taxpayer has income of over £50,000 and is the higher earner of a couple where one partner receives Child Benefit. A recent tax case showed that HMRC could not raise a ‘discovery’ assessment where a person had not been aware they were liable for this charge and had not been asked to file a tax return. The law will be amended with retrospective effect to enable HMRC to collect the charge in these circumstances.

2.4 Company Cars and Fuel

The basis for taxing company cars and fuel provided for private use is set out in Table C. No changes were made to the rates already announced in previous years, so cars first registered after 5 April 2020 and electric cars will see their benefit charge rise by one percentage point, subject to the maximum of 37%. The rates for 2022/23 will be the same for cars registered before and after 5 April 2020 and will now remain fixed until the end of 2024/25.

The provision of a van available for private use gives rise to a tax charge on an income figure of £3,600, plus £688 if fuel is also provided free. An electric van available for an employee's private use does not give rise to a tax charge.

2.5 National Living Wage and National Minimum Wage

The NLW will increase by 6.1% for individuals aged 23 and over to £9.50 per hour from 1 April 2022. Other rates of NMW will rise from the same date by different percentages, as recommended by the Low Pay Commission.

2.6 Pension Contributions

The tax reliefs for pension contributions remain unchanged. As announced in the March 2021 Budget, the Lifetime Allowance, which is the maximum amount that a person can save in tax-advantaged pension schemes before extra tax charges arise on drawing benefits and at the age of 75, is frozen at its 2020/21 level of £1,073,100 until the end of 2025/26.

Contributions to a registered pension scheme by individuals and their employers are restricted by the Annual Allowance (AA). Where this is exceeded, an AA charge arises. The taxpayer can choose to ask the pension scheme to pay an AA charge if it exceeds £2,000, reducing the future pension benefits instead of having to meet the liability personally.

The deadlines for 'Scheme Pays' reporting and payment will be extended in circumstances where there is a delay in the individual receiving the information that shows they are liable to the charge. The new rule takes effect from 6 April 2022, but it also has retrospective effect to 6 April 2016.

The minimum age at which most people can first access their tax-advantaged pension scheme benefits is 55. This will be increased to 57 with effect from 6 April 2028, and will therefore affect those who are born on or after 6 April 1973.

2.7 ISA Limits

The investment limits for 2022/23 remain £20,000 for a standard adult ISA (within which £4,000 may be in a Lifetime ISA), and £9,000 for a Junior ISA or Child Trust Fund.

2.8 Income Tax Allowances, Rates and Reliefs

Income Tax Rates and Allowances (Table A)

Main allowances	2022/23	2021/22
Personal Allowance (PA)*†	£12,570	£12,570
Blind Person's Allowance	2,600	2,520
Rent a room relief §	7,500	7,500
Trading income §	1,000	1,000
Property income §	1,000	1,000

*PA will be withdrawn at £1 for every £2 by which 'adjusted income' exceeds £100,000. There will therefore be no allowance given if adjusted income is £125,140 or more.

†£1,260 of the PA can be transferred to a spouse or civil partner who is no more than a basic rate taxpayer, where both spouses were born after 5 April 1935.

§ If gross income exceeds this, the limit may be deducted instead of actual expenses.

Rate Bands	2022/23	2021/22
Basic Rate Band (BRB)	£37,700	£37,700
Higher Rate Band (HRB)	37,701-150,000	37,701-150,000
Additional rate	over 150,000	over 150,000
Personal Savings Allowance (PSA)		
– Basic rate taxpayer	1,000	1,000
– Higher rate taxpayer	500	500
Dividend Allowance (DA)	2,000	2,000

BRB and additional rate threshold are increased by personal pension contributions (up to permitted limit) and Gift Aid donations.

Rate Bands	2022/23			2021/22		
Rates differ for General, Savings and Dividend income within each band:						
	G	**S**	**D**	**G**	**S**	**D**
Basic	20%	20%	8.75%	20%	20%	7.5%
Higher	40%	40%	33.75%	40%	40%	32.5%
Additional	45%	45%	39.35%	45%	45%	38.1%

General income (salary, pensions, business profits, rent) usually uses personal allowance, basic rate and higher rate bands before savings income (mainly interest).

To the extent that savings income falls in the first £5,000 of the basic rate band, it is taxed at nil rather than 20%.

The PSA will tax interest at nil, where it would otherwise be taxable at 20% or 40%.

Dividends are normally taxed as the 'top slice' of income. The DA taxes the first £2,000 of dividend income at nil, rather than the rate that would otherwise apply.

Remittance Basis Charge	**2022/23**	**2021/22**
For non-UK domiciled individuals who have been UK resident in at least:		
7 of the preceding 9 tax years	£30,000	£30,000
12 of the preceding 14 tax years	£60,000	£60,000
15 of the preceding 20 tax years	Deemed to be UK domiciled for tax purposes	

Registered Pensions (Table B)

	2022/23	**2021/22**
Lifetime Allowance (LA)	£1,073,100	£1,073,100
Annual Allowance (AA)	40,000	40,000

Annual relievable pension inputs are the higher of earnings (capped at AA) or £3,600.

The AA is usually reduced by £1 for every £2 by which relevant income exceeds £240,000, down to a minimum AA of £4,000.

The AA can also be reduced to £4,000, where certain pension drawings have been made.

3. **Capital Taxes**

3.1 Capital Gains Tax

As announced in the March 2021 Budget, the annual exempt amount will be fixed at its 2020/21 level of £12,300 until the end of 2025/26.

The rates of tax are unchanged at 10% (total income and gains within the taxpayer's basic rate limit) or 20% (gains above the basic rate limit) on assets in general, but 18% or 28% on residential property that is not eligible for the main residence exemption, and also on 'carried interest' of investment fund managers.

Most trusts will continue enjoy half the annual exempt amount (£6,000) and pay tax at 20% or 28% on chargeable gains.

Since 2015, non-UK residents have been required to report the sale of UK residential property, and pay any CGT due, within 30 days of completion of the transaction. This was extended to non-residential UK property in 2019 and, from April 2020, to UK residents selling residential property on which CGT is payable. The deadline is extended to 60 days for reporting and payment, for both UK and non-UK residents, where a transaction is completed on or after 27 October 2021.

3.2 Inheritance Tax

The March 2021 Budget fixed the IHT nil rate band at £325,000 until the end of 2025/26.

Holding the threshold at the same amount for 17 years (from 6 April 2009) will bring far more people into the scope of the tax. However, the introduction of the 'residential nil rate band enhancement' on death transfers can reduce the impact where it applies.

Since 6 April 2020, a married couple are able to leave up to £1m free of IHT to their direct descendants (£325,000 plus £175,000 from each parent), but the rules are complicated, and the prospect of the nil rate band being fixed for the next 4 years increases the importance of proper IHT planning.

4 **Business Tax**

4.1 Corporation Tax Rates

The Corporation Tax rate will remain 19% until 31 March 2023 when it will increase to 25% for companies with profits over £250,000.

Since 1 April 2015, all corporate profits have been taxed at the same rate. The 'small profits rate' that was familiar before then will be reintroduced, at 19% for companies with profits up to £50,000, in April 2023. Profits between £50,000 and £250,000 will be subject to a tapering calculation that produces an effective marginal rate of 26.5%. The limits will be divided between associated companies under common control.

In line with the increase in the main rate, the Diverted Profits Tax will rise to 31% from April 2023 in order that it remains an effective deterrent against diverting profits out of the UK.

4.2 Reform Of Basis Periods

For sole traders and individuals who are members of partnerships (including limited liability partnerships), the profits assessable in a tax year are those arising in the 'basis period' for that year, which is normally the accounting period ending in the tax year. Special rules apply on commencement and cessation of trade, as well as on a change of accounting date. These produce complications, such as some profits being assessed twice ('overlap profits'). The double charge then has to be relieved later, usually on cessation of trade (but also sometimes where the business changes its year-end).

From 2024/25 and a year later than previously announced, a different basis of assessing profits is being introduced. Trading profits chargeable in a tax year will be the profits actually arising in that tax year, by apportioning the business accounting periods across tax years if the business does not have a 31 March or 5 April year-end.

2023/24 will be a transitional year for moving from the old to the new basis of assessment. It will involve up to 23 months' profits being assessed in the year, with full relief for any overlap profits previously taxed twice. As businesses may have a significant increase in taxable profits for 2023/24 due to these rules, such additional profits will be spread over a period of five years (although a business may opt out of spreading and, instead, treat the additional amounts as arising fully in 2023/24). The rules will also aim to reduce the impact of transition year profits on allowances and benefits. Businesses with accounting periods ending early in a tax year (e.g. 30 April or 31 May) will have a much smaller delay between profits being earned and tax being payable on them.

4.3 Temporary Carry Back of Losses

Companies and unincorporated businesses can normally set their trading losses against profits of the current or the previous 12-month period, or else carry them forward against future profits.

The March 2021 Budget extended the period for which companies and unincorporated businesses can ‘carry back’ losses to offset against taxable profits of earlier years and claim a refund of tax paid on those profits. Losses of 2020/21 and 2021/22 can be carried back three years (subject to monetary limits).

This rule has not been extended, so losses of 2022/23 will revert to the normal carry back period of one year.

4.4 Capital Allowances on Plant and Machinery

The March 2021 Budget introduced enhanced allowances for qualifying expenditure on plant and machinery (P&M) contracted for from 3 March 2021 and incurred from 1 April 2021 to 31 March 2023 by companies. They can claim:

- a ‘super-deduction’, providing allowances of 130% on new P&M investment that would ordinarily qualify for 18% writing down allowances (WDAs) in the main capital allowance pool;
- a first-year ‘special rate allowance’ of 50% on new P&M investment that would ordinarily qualify for 6% WDAs in the special rate pool.

The rate of the super-deduction will require adjustment if an accounting period straddles 1 April 2023 to ensure that the super-deduction cannot be relieved at the 25% rate of corporation tax. Adjustments will also be required on the disposal of assets on which a super-deduction or special rate allowance has been claimed.

No further changes were announced in relation to this measure in the Autumn Budget.

The 100% Annual Investment Allowance (AIA) will be available for qualifying expenditure on P&M up to £1m until 31 March 2023, rather than being reduced to its former level of £200,000 after 31 December 2021 as previously announced. The limit will be subject to transitional rules where accounting periods straddle 31 March 2023.

The AIA may produce more tax relief for companies than the 50% FYA available for special rate expenditure described above. As the main corporation tax rate will increase from 19% to 25% on 1 April 2023, advancing expenditure to enjoy the 100% deduction will also reduce the benefit of the tax relief available.

4.5 Research & Development Expenditure

Small or medium-sized companies conducting qualifying research and development can claim an enhanced deduction of 230% (£230 for each £100 of qualifying expenditure). Where this produces a loss, it can be surrendered for a payable tax credit of 14.5%.

For accounting periods beginning on or after 1 April 2021, the amount of payable credit that can be claimed is capped at £20,000 plus three times the company’s PAYE and NIC liabilities for the period. This definition also includes some PAYE and NIC liabilities of connected persons doing subcontracted R&D for, or providing workers to, the company.

Qualifying expenditure for SME R&D relief comprises includes staff costs, software used directly for the R&D, relevant payments to the subjects of clinical trials, consumable or transformable materials, subcontracted R&D costs and externally provided workers

Following a consultation launched in March 2021, R&D tax reliefs will be reformed to support modern research methods by expanding qualifying expenditure to include data and cloud costs.

At present there is no limitation on incurring the expenditure outside the UK, for example by subcontracting work to suppliers in other countries. The legislation will be amended to focus support towards innovation in the UK, which is likely to require qualifying expenditure, or at least a large percentage of it, to be incurred within the UK.

Other changes will be made to target abuse and improve compliance. The changes to the law are intended to take effect for expenditure incurred from 1 April 2023.

4.6 Cross Border Group Relief

Group relief' allows losses to be surrendered from one company in a group for relief against profits of another company. The rules currently distinguish between companies established in European Economic Area (EEA) states and companies from non-EEA states. In specific circumstances, EEA companies can surrender losses as group relief to UK companies.

For accounting periods ending after 27 October 2021, the law will be amended to remove the separate rules for EEA-resident companies so that all non-UK resident companies can only surrender losses of a UK permanent establishment as group relief if it is not possible for the loss to be deducted from non-UK profits of any person for any period.

Where a company's accounting period straddles 27 October 2021, it will be notionally split into two separate accounting periods for these purposes, one up to 27 October and the second from 28 October to the end of the period.

4.7 Uncertain Tax Treatments

The law will be changed to require very large companies and partnerships to notify HMRC where they take a tax position in their returns for VAT, corporation tax or income tax (including PAYE) that is 'uncertain'.

An 'uncertain treatment' is defined as arising either where a provision has been made in the accounts for the uncertainty, or the position taken in the accounts is contrary to HMRC's known position (as stated in the public domain or in dealings with HMRC).

Taxpayers will only need to notify where the tax advantage of the position taken, when compared with HMRC's view, is expected to be over £5m in a 12-month period.

The new rule will apply for returns filed with effect from 1 April 2022.

5 **Property**

5.1 Residential Property Developer Tax

As announced in February 2021, the government will introduce a new tax from April 2022 on the profits that companies and corporate groups derive from UK residential property development. This is intended to ensure that the largest developers make a fair contribution to help pay for building safety remediation. The tax will be charged at 4% on profits exceeding an annual allowance of £25m.

5.2 Annual Tax On Enveloped Dwellings

ATED applies to residential property worth above £500,000 which is owned through companies and other corporate structures, unless the situation qualifies for a relief. The rates increase automatically each year in line with inflation. They will rise by 3.1% from 1 April 2022 in line with the September 2021 Consumer Price Index. The amount ranges from £3,800 to £244,750.

The next 5-yearly revaluation of relevant properties is due on 1 April 2022, which may affect the ATED payable from 1 April 2023, if a property moves into a different valuation band as a result.

6 **National Insurance Contributions**

6.1 Thresholds and Rates

The thresholds above which employer's and employee's National Insurance Contributions (NIC) become payable will increase in line with inflation in 2022/23. The upper limits for employee and self-employed contributions remain aligned with the point at which 40% income tax is payable (£50,270 per year, or £967 per week), and are frozen at that level until the end of 2025/26.

As announced on 7 September 2021, a new Health and Social Care Levy will be charged to raise £13bn a year, dwarfing most of the other figures in the Budget policy decisions.

In 2022/23, this will be achieved by raising the rates of NIC. In 2023/24, the levy will be formally separated from NIC and collected separately by HMRC, and will also apply to earnings that are not charged to NIC (principally earnings of individuals who are above State Pension age).

From 6 April 2022, Class 1 NIC paid by employers and employees, and Class 4 NIC paid by self-employed people, will increase by 1.25%. This means that employees will pay 13.25% from the primary threshold up to the upper earnings limit and 3.25% above that. Employers will pay 15.05% on all earnings above the secondary threshold. Self-employed people will pay 10.25% on earnings between £9,880 and £50,270 and 3.25% above that. The rates will revert back to their previous levels from 6 April 2023 when the separate levy is introduced.

The increase in the rates is offset to a very small extent by the increase in the thresholds below which no NIC are due. For example, the contributions for an employee with a salary of £50,000 will rise from £4,852 to £5,316 (employee's) and from £5,680 to £6,155 (employer's).

6.2 NICs – 2021/22 (Table D)

Class 1 (Employees)	Employee	Employer
Main NIC rate	13.25%	15.05%
No NIC on first	£190pw	£175pw
Main rate* charged up to	£967pw	no limit
2% rate on earnings above	£967pw	N/A
Employment allowance per qualifying business	N/A	£4,000

*Nil rate of employer NIC on earnings up to £967pw for employees aged under 21, apprentices aged under 25 and ex-armed forces personnel in their first twelve months of civilian employment.

Employer contributions (at 15.05%) are also due on most taxable benefits (Class 1A) and on tax paid on an employee's behalf under a PAYE settlement agreement (Class 1B).

Class 2 (Self employed)

Flat rate per week	£3.15
Small profits threshold	£6,725

Class 3 (Voluntary)

Flat rate per week	£15.85

Class 4 (Self employed)

On profits £9,880 – £50,270	10.25%
On profits over £50,270	3.25%

7 **Value Added Tax**

7.1 Registration and Deregistration Thresholds and Rates

The VAT registration and deregistration thresholds will remain frozen at their present levels of £85,000 and £83,000 until 31 March 2024. This will tend to require more businesses to register for the tax as they grow, and therefore represents a small tax-raising measure.

7.2 Reduced Rate

No further changes have been announced relating to the reduced rate of VAT that has applied to qualifying supplies by hospitality, leisure and entertainment businesses to help offset the impact of the pandemic.

The rate reduced from 20% to 5% in July 2020, and increased to 12.5% with effect from 1 October 2021. It will revert back to the standard 20% rate on 1 April 2022.

HMRC says that there are no plans to introduce ‘anti-forestalling rules’ to counter the VAT saving enjoyed by someone who pays a deposit before the rate goes back up, on present plans, that will lock in the 12.5% rate of VAT to the extent that the supply is paid for before 1 April 2022, even if the actual supply takes place later.

7.3 Default Surcharge

As announced in March 2021, the rules for late payment of VAT will be reformed for return periods beginning on or after 1 April 2022. Default surcharge will be replaced by interest on late payment and separate penalties for late filing of returns.

8 **Other Measures**

8.1 Making Tax Digital for Income Tax

As announced on 23 September 2021, the government has decided to delay the requirement for sole traders and landlords with income over £10,000 to file income tax self assessment (ITSA) information using MTD until the tax year 2024/25. General partnerships will not be required to join the system until 6 April 2025.

At the same time that MTD for ITSA is introduced, new penalties for late filing and late payment will apply to those within the new system.

8.2 Business Rates

To reduce the burden of business rates in England, the government will:

- freeze the business rates multiplier for a second year, from 1 April 2022 to 31 March 2023
- introduce a new temporary business rates relief for eligible retail, hospitality and leisure properties for 2022/23, giving 50% relief up to a £110,000 per business cap
- extend transitional relief for small and medium-sized businesses, and the supporting small business scheme, for one year, restricting increases in rates bills, subject to subsidy control limits

The government will reform the system of business rates by increasing the frequency of revaluations from five to three years, starting in 2023. At the same time, it will introduce reliefs where occupiers incur certain types of expenditure on improvements, including eligible plant and machinery used in onsite renewable energy generation and storage

8.3 Recovery Loan Scheme

The Recovery Loan Scheme, which was introduced to help businesses recover from the impact of the pandemic, will be extended until 30 June 2022. The following changes will apply to all offers made from 1 January 2022:

- The scheme will only be open to small and medium-sized enterprises
- The maximum amount of finance available will be £2 million per business
- The guarantee coverage that the government will provide to lenders will fall to 70%

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8.4 Apprenticeship Funding

In England, the government will continue to meet 95% of the apprenticeship training cost for employers who do not pay the Apprenticeship Levy. The £3,000 apprenticeship hiring incentive payment (per new hire) has been extended by four months to 31 January 2022.

In Wales, apprenticeships are funded by the Welsh government and apprenticeship incentive payments ranging from £1,500 – £4,000 are available until 28 February 2022.

In Scotland, the type of funding available depends upon the type of apprenticeship. Additionally, the Adopt an Apprentice scheme entitles employers to £5,000 for employing an apprentice who has been made redundant.

8.5 Alcohol Duty Reform

The Chancellor set out a number of measures that he intends to take to make the taxation of alcoholic drinks simpler and more rational. This will include a 5% cut in duty for various drinks sold in pubs, and a relief for small producers of drinks below 8.5% ABV. The government is consulting on the details, and has not announced when the reforms will take effect. In the meantime, alcohol duty rates have been frozen at their present levels.

8.6 Universal Credit

The Chancellor announced two measures that are intended to benefit Universal Credit recipients. These include reducing the taper rate at which extra earnings leads to a reduction in benefits (from 63% to 55%) and increasing the Work Allowance by £500 a year.

These measures are intended to take effect not later than 1 December 2021. They will benefit some claimants by more than the £20 per week that has been recently taken away, but not everyone will qualify.

8.7 Freeports

The March Budget outlined the introduction of 'Freeports' being areas in which a number of tax and other incentives will operate to encourage trade.

The enhanced tax reliefs will include 10% Structures and Buildings Allowances (instead of 3%), 100% First Year Allowances for plant and machinery, full relief from Stamp Duty Land Tax, full Business Rates relief for five years, and relief from Employer's NIC.

The reliefs will depend on designation as a 'tax site' within a Freeport and will run until 30 September 2026, with a possible extension to April 2031.

The English Freeports announced so far are East Midlands Airport, Felixstowe & Harwich, Humber, Liverpool City Region, Plymouth and South Devon, Solent, Teesside and Thames.

The first tax sites have been designated at Humber, Teesside and Thames, and those Freeports will begin initial operations from November.

VAT reliefs will also be available in free zones. Businesses selling goods within free zones will be able to zero rate their supplies and services carried out on goods in those zones may also be zero rated subject to conditions. This provides a cash flow advantage to businesses.

Where goods leave a free zone and there is no qualifying onward supply of the goods which meets the conditions, or where there is a breach of the rules of the free zone customs procedure, VAT will be due. This prevents a business that cannot recover input tax locating in a free zone to avoid irrecoverable VAT.

8.8 Bank Surcharge

The Bank Corporation Tax Surcharge (Surcharge) is a charge of 8% on the profits of banks, payable in addition to corporation tax. The Surcharge profits are calculated on the same basis as for CT, but with some reliefs denied. Groups with banking companies (banking groups) have an allowance of £25m, which can be assigned to banks within the group. The surcharge is charged on any surcharge profits that exceed this amount.

A review of the Surcharge was announced in the March Budget following the announcement of the increase to the CT rate from 19% to 25%, from April 2023.

Following an extensive review, the rate of Surcharge will be set at 3% and the Surcharge allowance increased to £100m. This is intended to ensure that the sector remains internationally competitive, whilst also promoting growth within the sector. Banks will still pay more tax (28%) compared to other companies (25%) on their profits from April 2023.

8.9 Asset Holding Companies

Legislation is to be introduced in the 2021-22 Finance Bill to establish a new tax regime for qualifying asset holding companies and to some of the payments they make. The new regime will be based on existing tax rules, with some modifications set out in the Finance Bill.

The regime for QAHCs will include, in particular, exempting gains on disposals of certain shares and overseas property, exempting profits of an overseas property business of a QAHC, allowing deductions for certain interest payments that would usually be disallowed as distributions, switching off the late paid interest rules so that interest payments are relieved on the accruals rather than the paid basis, and disapplying the obligation to deduct a sum representing income tax at the basic rate on payments of interest.

8.10 Corporate Re-Domiciliation

The Government has launched a consultation seeking views on the introduction of a UK re-domiciliation regime, which would make it possible for companies to re-domicile and relocate to the UK. In particular, views are sought on:

- the advantages of enabling companies to re-domicile
- the level of demand that exists, among which types of companies and sectors
- the appropriate checks and entry criteria
- the merits of establishing an outward re-domiciliation regime
- any tax implications associated with the introduction of a re-domiciliation regime

The Government expects a re-domiciliation regime would modernise the UK's legal framework and bring it into line with around 50 countries and jurisdictions which also have re-domiciliation regimes.

Responses have been requested by 7 January 2022.

ROBINSON RUSHEN
28 October 2021

Note

This summary has been prepared from the Chancellor's speech and documents made available by HMT and HMRC.
The proposals are subject to amendment before the Finance Act is passed.
You are recommended to seek professional advice before taking or refraining from any action on the basis of the contents of this publication.
If you would like further details on the Budget provisions, please contact Keith Rushen on 0044 (0)207 486 2378.