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GMS Flash Alert

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United Kingdom - Spring 2021 Budget Released

The Spring 2021 Budget was presented by the U.K. Chancellor of the Exchequer on 3 March 2021 and, as expected, it focused on the enormous impact of COVID-19 on the U.K. economy.[1] The Budget included continued support for both individuals and businesses impacted by the pandemic, together with wider measures to stimulate entrepreneurship and investment for the future.

There had been speculation pre-Budget of a rise in capital gains tax rates, a one-off wealth tax, or significant changes to pension relief; however, no changes were announced in these areas.[2]

In a change to the normal practice, the government previously announced that it will be publishing various tax consultations and calls for evidence on 23 March, and so measures that may affect globally-mobile employees could yet be announced on this date.

Below we provide an overview of some of the Budget measures impacting individuals, including modifications of the income tax and National Insurance thresholds.

WHY THIS MATTERS

For employers of globally-mobile employees there is always a great deal of interest in Budget measures as they can have a direct impact on the cost of assignments.

Over recent years there have been significant changes introduced relating to the taxation of non-domiciled individuals, retirement benefits, and the treatment of termination payments, however no major changes were announced with this Budget.

Nonetheless, the freeze of the income tax personal allowance and rate bands effectively represent a tax increase given the erosion via inflation, albeit not an increase in 'headline' rates.

When enacted, employers will need to make the necessary payroll adjustments and update hypothetical tax calculations for tax-equalised assignees.

Overview of Main Measures

Personal Income Tax Rates

Income tax rates and thresholds for 2021/2022 will increase in line with CPI, as shown in the table below. These thresholds will be maintained at these levels until April 2026.

(Please see below as regards the position for Scotland and Wales.)

	Rate	2021/22
Personal Allowance	0%	£12,570
Basic rate	20%	£0 - £37,700
Higher rate	40%	£37,701 - £150,000
Additional rate	45%	Over £150,000

Source: KPMG Law LLP, United Kingdom

Scotland

The tax rates for Scottish taxpayers were previously set by the Scottish Parliament in January 2021[3].

Wales

The Welsh Senedd sets income tax rates for Welsh taxpayers. The draft Budget published in December 2020 confirmed that the Welsh income tax rates for the 2021/22 tax year are in line with the England and Northern Ireland rates.[4]

National Insurance Contributions (NIC)

The annual threshold for employee NIC contributions will increase from £9,500 to £9,568, from 6 April 2021.

The annual threshold for employer NIC contributions will increase from £8,788 to £8,840.

The upper earnings limit will increase from £50,000 to £50,270, and there will be no changes to the NIC rates.

Other Measures

— The pension lifetime allowance will remain at £1,073,100, and will be maintained at this level until April 2026.

— The dividend allowance remains unchanged at £2,000, as does the Personal Savings Allowance, at £1,000 for basic-rate taxpayers and £500 for higher-rate taxpayers.

— The capital gains tax annual exempt amount remains unchanged at £12,300.

— A call for evidence has been issued in relation to Enterprise Management Incentives. This focuses in particular on the EMI scheme which affords tax and NIC advantages to smaller companies issuing share options to employees, subject to prescribed conditions on the size of the company, employee numbers, undertaking a qualifying trade, etc. This is to help ensure that the EMI scheme can best support high-growth companies recruit and retain talent to enable them to scale up effectively.

— The government is looking to reform the income tax self-assessment penalty system. A new points-based penalty regime will be introduced for late-filing penalties, and late-payment penalties will be proportionate and based on the amount of tax owed and the lateness of payment. This will be introduced from 6 April 2023 for taxpayers with business or property income over £10,000, and from 6 April 2024 for all other taxpayers.

KPMG LLP (U.K.) NOTE

Employers may be relieved that no structural changes have been proposed to the U.K. tax system when the focus is very much on recovery from the coronavirus pandemic. This said, there are still major issues which lay unresolved such as the taxation of employment in the gig economy and whether the employed and self-employed should be treated differently for tax and NIC purposes.

Next Steps

We are expecting a number of more detailed documents and consultation papers to be released over the coming weeks.

KPMG LLP (U.K.) will endeavour to continue to keep readers informed of any further developments that concern individuals, including those on international assignments, and their multinational employers.

FOOTNOTES:

1 For the U.K.'s "Budget 2021," click here.

2 For coverage of the previous Budget, see *GMS Flash Alert* 2020-054 (11 March 2020).

3 For KPMG in the U.K.'s coverage of the 2021/22 Scottish Budget, click here.

4 For the Welsh government Draft Budget for 2021-22, click here.

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