



Briefing note – Budget 2021 – Rates Frozen

Budget 2021

Introduction

A quiet budget for pensions, which is accompanied by a genuine sigh of relief. However, that isn't to say there aren't areas of impact and our summary below touches on the main areas of interest. One key pensions story that featured in the build-up but on which the Chancellor was silent was the possible removal of the triple-lock for the State Pension, which remains. The Chancellor was also silent at the dispatch box and in the back up papers on measures to address the matters of pensions tax relief.

Pensions and investments

Lifetime Allowance freeze

Pensions Lifetime Allowance will remain at £1,073,100 up to and including 2025-26. This is a cut in real terms on the ability of people to receive their pension in a tax efficient way. The LTA works by taxing benefits in excess of the allowance. The full impact of the freeze will only be felt relative to the rise in CPI. The previous policy was for the LTA to rise by CPI. This freeze will be unpopular amongst those with significant pensions savings in both DC and DB. It does act as a reminder that the ongoing debate around the future of the LTA focusses on the disparity on values of income provided by a DB pension, valued by 20, compared to the value a DC pot of £1.073m will provide. The DB pension would be £53,650 per annum but the DC pension would be closer to £20,000 pa (depending on the member options). The freeze in LTA is also expected to reignite some of the debates in recent times regarding the treatment of NHS staff with their pensions breaching this limit. The fear is that we could see more staff retiring early to avoid the tax hit. The income expected from this freeze is relatively small, compared to the Exchequer's deficit, with £1bn in total expected over the duration of the freeze.

Infrastructure investments

The Government has long wanted to use pension scheme assets to invest in wider infrastructure projects. However, this can become complicated when the default

investments in a workplace pension need to adhere the charge cap of 0.75%. Accessing those funds as part of a default strategy would likely force the cost above that cap. The Government will shortly be launching a consultation on how the rules can be amended to allow investment in a wider range of assets, including infrastructure. This could require some changes to the way the charge cap is calculated with allowances and a smoothing of performance fees of a longer period.

Green gilts

We already knew of the UK's intention to issue its first green gilt, which is expected to happen in the summer. The budget has also revealed the intention for a further green gilt issuance to come later in the year. The Government has committed to issue a total of at least £15bn of green gilts over the coming financial year as part of its ambition to build out a "green curve". A framework for green gilt issuance, together with the types of green initiatives that the capital raised will finance, will be set out in June.

The programme of green gilt issuance will be widely welcomed, especially for investors with strong ESG views and those looking to combine this with existing liability management strategies. The UK will be joining many EU countries that have already issued green bonds, and the evidence suggests that there should be plenty of investor appetite.

Women's State Pensions

It was announced that the DWP will backdate around £3bn of state pension underpayments to women over the coming 6 years. This was in response to a problem previously identified that has meant some married people, widows and over-80s have been underpaid state pension over the past two decades.

Previously some women have proactively submitted successful claims, but the measures announced in the Budget should mean that these claims are processed automatically, rather than relying on the pensioners themselves realising there is an issue.

Auto-enrolment contributions

The impact of freezing the Upper Earning Limit (UEL) for National Insurance Contributions will have a knock effect for auto-enrolment contributions. If the DWP continue to use the UEL as the upper limit on the earning band for contributions the level of contributions for members will decrease compared to the rate it would have been if the UEL was indexed.

Company finances

Furlough extended until 30 September

In a widely anticipated move, the Chancellor announced an extension of the furlough scheme to the end of September. This should allay fears of a cliff edge as businesses across the economy open back up over the coming months, and that may take time to get back to 'full trading' as restrictions unwind and consumer confidence builds.

Furlough	Employee wages	Employer contribution
Until end June 2021	80% of current salary for hours not worked	Employer NICs and pension contributions
July	80% of current salary for hours not worked	10% of salary, Employer NICs and pension contributions
August and September	80% of current salary for hours not worked	20% of salary, Employer NICs and pension contributions

Restart grants

Designed to help business reopen and get going again, and to take into account the current ending of other direct cash grants at the end of March. Non-essential retail businesses will be eligible for up to £6,000. Hospitality and leisure businesses, including personal care and gyms, will be eligible for up to £18,000, to account for the fact that they will have been closed for a longer period. English local authorities will also have access to £425m extra discretionary business grant funding, on top of monies previously allocated.

New Recovery Loans Scheme

With the ending of the Bounce Back Loan and Coronavirus Business Interruption Loan Schemes (CBIL), a new Recovery Loan Scheme has been introduced to take their place. Businesses of any size and any sector will be able to apply, with loans ranging from £25k-£10m. The Government will provide an 80% guarantee to lenders.

Apprentice payments doubled

The Chancellor also announced the doubling of incentive payments for businesses to hire apprentices to £3,000 for all new hires of any age.

VAT and Business Rates reductions extended

To allow more time for hard hit sectors to recover.

Corporation Tax to increase

In another move widely rumoured in advance, the Chancellor announced that from 2023, the rate of corporation tax paid on company profits will increase to 25%. This is at the top end of expectations. For many businesses, the detail within this headline increase is important, as a new Small Profits Rate is being introduced for businesses with profits of £50,000 or less, at 19%. A taper will be introduced above £50,000, and businesses will only start paying the full 25% on profits from £250,000 – meaning that in total only 10% of companies will actually pay the new full rate. Employers with large deficit recovery contributions may want to consider the timing of their payments to ensure that the impact on their corporation tax bill in a given year (compared to bringing payments forwards or back) is considered.

The super deduction

In an effort to encourage business investment, the Chancellor also announced a bold tax break for businesses that invest in new equipment over the next two years. Businesses will be able to offset 130% of the investment costs against tax, making short term investment decisions much more attractive to businesses that may have fared better in recent times and have cash available.



Personal taxation

Inheritance Tax – thresholds frozen

The decision to maintain thresholds at 2021 levels up to and including 2025-26 will bring more estates into the remit of this tax. Especially given the recent continuing increases to most asset values, ensuring that advice and planning is in place for those whose estates are likely to be impacted by IHT will become increasingly important. It's likely that this will make considering drawdown for pensions assets, with potential for IHT efficiencies, even more appealing over the coming years.

Capital Gains Tax

Contrary to expectation, the CGT system was not overhauled within this Budget, and was not brought into line with income tax rates as some had mooted. Instead, the rates were left untouched, but the Annual Exempt Amount was frozen at current levels until April 2026.

ISA Limits Frozen and Lifetime ISA Penalty

The adult Individual Savings Account (ISA) and Junior ISA/Child Trust Fund limits remain unchanged at £20,000 and £9,000 respectively. The original penalty for early withdrawal before age 60 from Lifetime ISAs will return from April. This had been temporarily reduced from 25% to 20% last year, meaning that savers unexpectedly needing to access funds would have effectively only lost their government top-up, rather than any money they had saved themselves.

Broadstone comment - Salami slice tactics

The Lifetime Allowance freeze could appear, in isolation, as creating a chink in the public finances hole. However, the range of freezes and rate changes (some summarised here) across Corporation tax (raising £48bn) Income tax band freeze (raising £19bn), VAT threshold freeze (raising £0.5bn), IHT freeze (raising £1bn), CGT freeze (raising £65m) make more difference collectively. In total these measures combined are projected to raise c£70bn into the year 2025/26. Many of the changes had been released to the press in advance, with the result being that even harder hitting headline changes like Corporation Tax increases were in the end softened in their delivery with news of a delayed implementation for rises and of tapers meaning that the impact for many is less than feared.

With a difficult balancing act to perform, the Chancellor provided more spending on business support, recovery and investment with a package of largely stealthy steps to gradually redress the balance of spending.

A budget in general quiet on pensions was predicted and predictable. Now is the not the time for expensive and complicated changes. With the focus on getting the economy moving, topics which are more contentious and complex will have to wait for another day.

Contact

Rachel Meadows
Head of Proposition - Pensions and Savings
Rachel.meadows@broadstone.co.uk

David Brooks
Technical Director
David.brooks@broadstone.co.uk

www.broadstone.co.uk

100 Wood Street
London EC2V 7AN
UK

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