Broadcast

FACTSHEET: BUDGET IMPACT

SPECIAL ISSUE

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BUDGET IMPACT: SMALL COMPANIES

The Chancellor, Rishi Sunak, presented his 2021 Budget on 3 March 2021. Here we look at the effects this will have on small companies. In this special issue Broadcast we will cover the following key changes:

- Three-year carry back for losses
- Extraction of profits
- Super-deduction for investment expenditure
- Corporation Tax
- CJRS extension

Three-year carry back for losses

Companies, like unincorporated businesses, can benefit from a measure allowing losses to be carried back for three years, rather than for one year. For companies, this applies to losses incurred in accounting periods ending between 1 April 2020 and 31 March 2021 and to losses for accounting periods ending between 1 April 2021 and 30 March 2022. Losses carried back must be used against a later period before an earlier period.

This measure may provide you with earlier relief for losses suffered because of the Covid-19 pandemic and generate a useful tax repayment at a time where cash flow is tight.

Tax-efficient extraction of profits

For 2021/22, the primary threshold for Class 1 National Insurance purposes increases to £9,568, the secondary threshold to £8,840 and the personal allowance to £12,570.

If you extract profits by taking a mix of salary and dividends, the optimal salary level for 2021/22 (assuming you have not used your personal allowance elsewhere) will be equal to the primary threshold of £9,568 (equivalent to £797 a month) if you are not entitled to the employment allowance. This will be the case if you are a personal company with only one employee who is also a director. At this level, you will have a little bit of employer’s National Insurance to pay, but this will be outweighed by the associated corporation tax deduction.

If you can claim the employment allowance, for example, if your company is a family company with at least two employees, the optimal salary for 2021/22 is equal to the personal allowance of £12,570.

Any further profits can be extracted as dividends but remember you can only pay dividends if you have sufficient retained profits to pay them from. Dividend tax rates remain at 7.5%, 32.5% and 38.1% for 2021/22.

Super-deduction for investment expenditure

Companies that invest in plant and machinery in the period from 1 April 2021 to 31 March 2023 will be able to benefit from enhanced capital allowances. Investments in assets that qualify for the main rate of capital allowances of 18% will benefit from a 130% first-year allowance. This means that for every £100 that you spend, you can deduct £130 in computing your taxable profits. This is equivalent to a tax saving of 24.7%.

Investments in assets qualifying for special rate capital allowances benefit from a 50% first year allowance (although claiming the annual investment allowance instead where this is available will be more beneficial).

If you are looking to invest in plant and machinery, it can be advantageous to do so within this window to benefit from the super-deduction. However, it is not available where contracts were agreed before Budget day.

Future increases in corporation tax

To help meet some of the costs of the pandemic, companies with profits of £250,000 or more will pay corporation tax at a rate of 25% from 1 April 2023. A lower rate of 19% will apply to companies with profits of £50,000 or less. Companies with profits of between £50,000 and £250,000 will pay corporation tax at the 25% but will be able to claim marginal relief.

The thresholds will be proportionately reduced to take account of associated companies and short accounting periods.

Extension of the Coronavirus job Retention Scheme

If you have furloughed or flexibly furloughed employees, you will be able to continue to claim grant support under the Coronavirus Job Retention Scheme until the end of September.

Until the end of June, you can claim 80% of your employee's normal pay for their unworked hours, subject to the cap of £2,500. However, while your employees must continue to receive 80% of their normal pay for their furloughed hours, you can only claim 70% from the Government in July and 60% in August and September. You must pay the remaining 10% in July and the remaining 20% August and September. As now, you must meet the employer's National Insurance and employer pension contributions on all payments to employees.

The scheme will come to an end on 30 September 2021.

How we can help

If you are interested in further clarification on how the recent announcements could affect small companies, then do not hesitate to contact us. Call us on **01753 888211** or email **info@nhllp.com**