Budget 2021: A Budget for Recovery

Rishi Sunak has unveiled the contents of his latest Budget, announcing new measures to help businesses through the pandemic and support the UK's long-term economic recovery. While also emphasising the need to “begin fixing public finances” when the economy exhibits signs of sustained growth.

Capital Gains Tax

After the postponement of the Autumn Budget, there was an expectation amongst business leaders that alterations to Capital Gains Tax (CGT) regime would feature in the March Budget.

The Chancellor’s letter to the Office of Tax Simplification (OTS) called for a review into the current regime which was designed to identify administrative and technical issues as well as scenarios where the present CGT rules do not meet the policy’s intent. Consideration was given to the current regime of allowances, exemptions, reliefs and the treatment of losses within CGT, as well as how gains are taxed relative to other sources of income.

Despite the market’s expectations, the anticipated CGT changes did not feature in the Budget. When questioned if the Government would rule out rises in CGT, Rishi Sunak could “not comment on fiscal policy beyond what’s has been announced.”

Long-term changes in government tax policy are expected to be reported during “Tax Day” on the 23 March which may provide further clarity on future tax adjustments.

With the Conservative manifesto vow not to raise income tax, National Insurance or VAT, there are few options left for the Chancellor to consider offsetting a proportion of the Government’s emergency Covid-19 spending.

CGT is a tax that does not affect the majority of the electorate and therefore it would be politically less divisive for the Government to implement further changes to this taxation category.

During the March 2020 Budget, the Chancellor significantly reduced the Business Asset Disposal Relief (formerly Entrepreneurs’ Relief) lifetime exemption limit from £10m to £1m for qualifying disposals. This change was effective immediately, with many business owners in the concluding stages of exit processes having to forgo significant tax savings. Any alterations announced by the Treasury in the future may also be effective immediately.

With further tax increases expected and the Government failing to rule out changes to CGT, business owners should begin exploring exit options to benefit from current CGT legislation, ahead of any forthcoming alterations.

Owners should consider succession planning and advancing business discussions with a trusted advisor in order to explore potential exit transactions within the current tax regime.

Coronavirus Support Schemes

The Coronavirus Job Retention Scheme (CJRS), that was scheduled to end in April, will be extended until the end of September. The Government will continue paying 80% of employees' wages for hours they cannot work.

Employers will be expected to pay 10% towards the hours their staff do not work in July, increasing to 20% in August and September, as the economy reopens.

Support for the self-employed will also be extended until September. A fourth grant under the Self-Employment Income Support Scheme (SEISS) scheme will run from February until April, covering up to 80% of three months' trading profits up to £7,500.

A fifth and final grant will be available from May onwards, worth three months of average profits. This will be open to claims from late July.

Individuals whose turnover has fallen by 30% or more will get the 80% grant, but self-employed people whose turnover has fallen by less than 30% will get a 30% grant.

The Government is widening access to the SEISS grants, for individuals who filed their tax returns for 2019-20 by midnight on 2 March are now eligible for government support.

Hospitality, accommodation, leisure, personal care and gym businesses will be offered new Restart Grants. A one-off cash payment of up to £18,000.

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Recovery Loan Scheme

The Recovery Loan Scheme is a new debt finance programme, to be launched on 6 April 2021. The programme is scheduled to run until 31 December 2021, subject to review.

The new scheme aims to help businesses affected by Covid-19 and can be used for any legitimate business purpose, including managing cashflow, investment and growth. It is designed to appeal to businesses that can afford to take out additional debt finance for these purposes.

The maximum value of a facility provided under the scheme will be £10m per business. Minimum facility sizes vary, starting at £1,000 for asset and invoice finance, and £25,001 for term loans and overdrafts.

There will be no turnover restriction for businesses accessing the scheme.

Businesses will be able to choose from a variety of products: term loans, overdrafts, asset finance and invoice finance facilities. Term loans and asset finance facilities are available for up to six years, with overdrafts and invoice finance available for up to three years.

Businesses who have taken out a CBILS, CLBILS or BBLS facility will be able to access the new scheme, although the maximum they are allowed to borrow will depend on their lender's assessment and scheme requirements.

Lenders will be required to undertake credit and fraud checks for all applicants. When making their assessment, lenders may overlook concerns over short-to-medium term performance owing to the pandemic. The checks and approach may vary between lenders - as with the existing schemes (CBILS/CLBILS), funders will interpret and utilise the scheme in different ways.

Access to the Recovery Loan Scheme should be considered in conjunction with the range of other measures that the Government has announced to ensure businesses have sufficient liquidity headroom. Seeking professional advice and early engagement with key stakeholders, including funding partners is recommended to secure an appropriate funding structure.

Tax and Deferrals

Beginning April 2021, the new super-deduction will cut companies' tax bill by 25p for every pound they invest into qualifying assets. The two-year tax break would enable companies to deduct 130% of their investment from their taxable income.

In order to fully utilise the tax break firms may consider raising additional funds to support their growth ambitions.

Lower VAT rate for hospitality firms to be maintained at 5% rate until September followed by an interim 12.5% rate for the following six months.

From April 2023 corporation tax on company profits above £250,000 to rise from 19% to 25%.

Firms with profits of between £50,000 and £250,000 will pay at a tapered rate meaning only 1 in 10 companies will pay the full rate of 25%.

As many as 1.4m small businesses with profits of less than £50,000 a year will be protected from any increase and will continue to pay at the existing 19% rate, meaning that about 70% of trading companies will not be affected.

How Gambit can Help

Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in corporate finance advice, having built up detailed industry knowledge and an enviable track record in deal origination and execution.

Our debt advisory team remains in active dialogue with all banks, alternative providers of finance, the British Business Bank and the CBI to assess the latest funding options available in the market. The team would be happy to speak with any companies that wishes to understand the funding options available to them.

If you would like to discuss the latest policy changes announced in the Budget or explore options available and considerations in preparing your business for fundraising or exit, please contact a member of the team.

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