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CORPORATE FINANCE

Human Capital
UK Budget: Key Considerations
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UK Budget: Thoughts From Gambit

Geraint Rowe
Partner, Human Capital

T: +44 (0) 845 643 5500
M: +44 (0) 789 992 8029
E: geraint.rowe@gambitcf.com

"Whilst the anticipated changes to Capital Gains Tax did not come into effect in this Budget, it is likely that the Chancellor will revisit the reforms in the Autumn, when additional tax rises may be more politically palatable. This provides business owners looking for an exit with a window of opportunity to undertake a sale process and ensure optimal value realisation."

Simon Marsden
Director, Human Capital

T: +44 (0) 845 643 5500
M: +44 (0) 789 644 1330
E: simon.marsden@gambitcf.com

"As the scope of the government support begins to unwind, effective working capital forecasting and management will continue to remain vitally important. Successful operational rescaling requires a careful replenishment process and the current accommodative funding landscape provides Human Capital companies with an array of flexible solutions."

Michael Dunn
Executive, Human Capital

T: +44 (0) 845 643 5500
E: michael.dunn@gambitcf.com

"The Chancellor's Budget outlined a significant level of support for the reskilling and retooling initiatives, which will be of significant domestic importance in the post Covid-19 economy. This will drive further acquirer demand and buoy sector valuations in the medium term as Human Capital companies play an important part in enabling the future economy."

Gambit Corporate Finance

Established in 1992, 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 M&A advice in the Human Capital sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

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Corporate Finance International

Gambit is the exclusive UK shareholder of CFI, a global partnership of middle-market investment banks and corporate finance advisory firms. With over 200 professionals located in 26 offices throughout the world, CFI members specialise in cross-border acquisitions, disposals, capital raising, and related services. CFI advised on in excess of 35 staffing sector deals in 2019 and was ranked number 16 in Europe and 21 globally by Thomson Reuters for transactions valued up to €200 million.

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UK Budget: Key Considerations

Taxation

- The Budget provided confirmation that corporation tax will increase from 19% to 25% in April 2023 for companies with profits of over £250,000, with the Chancellor stating that only the largest 10% of companies would be affected.
- To encourage investment, a new tax "super-deduction" policy was announced, allowing companies to reduce their tax bill by up to 25p for every £1 that they invest in qualifying assets over the next two years, seen as a measure to partially offset corporation tax rises.
- Despite the market's expectations, the envisaged Capital Gains Tax ("CGT") changes did not feature in the Budget, with longer-term changes in government tax policy expected during "Tax Day" on 23rd March which may provide further clarity on future tax changes.

Recovery Loan Scheme

- The Recovery Loan Scheme ("RLS") is a new debt finance programme, to be launched on 6 April 2021.
- Businesses can borrow between £25k and £10m, with the UK government providing lenders with an 80% guarantee on RLS facilities.
- Applicants will be able to choose from a variety of products, such as 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.
- Interest and fees are to be paid by the borrower from the outset and businesses will be required to meet the costs of interest payments and any fees associated with the facility.
- Businesses who have taken out a CBILS, CLBILS or BBLS facility will be able to access the new scheme.

2023 — ***The year in which the corporation tax rise to 25% will take effect***

(GOV.UK, March 2021)

6th April — ***Date that the Recovery Loan Scheme will open for applications***

(British Business Bank, March 2021)

£14bn — **The amount per year that the Office of Tax Simplification ("OTS") estimates could be raised through CGT reform**

(OTS, November 2020)

Up to £10m — ***Businesses can borrow up to £10m under the RLS***

(UK.GOV, March 2021)

Gambit's View

- Whilst not addressed in this Budget, changes to CGT are likely to realign vendors' priorities, therefore, it is of paramount importance that business owners fully consider and analyse the effects of the potential changes with expert advisors to ensure optimal value realisation.
- Despite the upcoming "Tax Day", it is strongly expected that any CGT changes would take place in the Chancellor's Autumn Budget, providing a crucial 6-to-9-month window of opportunity for business owners looking for an exit to deliver this.
- The super-deduction will provide a strong incentive for companies to make additional investments and bring them forward, which will drive job creation in capital intensive sub-sectors such as engineering.

Gambit's View

- Human Capital companies seeking to access the RLS should look to do so in conjunction with ensuring that they have sufficient liquidity headroom to manage up-turns and rebounds in demand, particularly those servicing hard hit sub-sectors.
- As with CBILS and CLBILS, Human Capital companies should adopt a 'right first time' approach to any RLS application to ensure that these funds can be accessed in an efficient and effective manner.
- With just a quarter of respondents in the Gambit Human Capital Survey indicating that they had utilised loan schemes such as CBILS, those that have not yet accessed Covid-19 related loans should explore the potential RLS benefits.

UK Budget: Key Considerations

General Business Support

- The Coronavirus Job Retention Scheme ("CJRS") had been due to close at the end of April, however, the Chancellor has now extended this until the end of September 2021.
- Furloughed employees will continue to get 80% of their salary for hours not worked up to £2,500, reducing to 70% in July and 60% in August and September.
- Incentive payments for hiring new apprentices are being doubled from £1,500 to £3,000 while £126m will be invested to triple the number of new traineeships, benefitting more than 40,000 young people.
- Covid-19 debt schemes such as the Coronavirus Business Interruption Loan Scheme ("CBILS") and the Bounce Back Loan Scheme ("BBLS") will close for applications on 31st March and will be replaced by the Recovery Loan Scheme (further details overleaf)

11.2m ***Number of jobs that have been supported by the CJRS since the start of the scheme***

(GOV.UK, February 2021)

£27.3bn **Value of facilities approved under CBILS and CLBILS to date**

(GOV.UK, February 2021)

Gambit's View

- While the extension of the CJRS has been welcomed by the sector, the need to help unemployed and furloughed employees retrain and reskill to better navigate the future labour market creates a vital strategic role for Human Capital companies.
- Incentivisation for hirers to recruit more young people can facilitate the growth of a highly-skilled national workforce from the ground up, presenting significant opportunities for recruiters to capitalise, particularly those that have embraced and grown a digital presence.
- Retraining and reskilling initiatives providing an impetus for recruiters to solve this collaboratively, through bilateral agreements or increased M&A activity.

IR35

- The Chancellor's Budget confirmed that there will be no further postponement to the private sector roll out of IR35 and the legislation will come into effect as planned in April.
- With the Prime Minister's roadmap aiming to remove Covid-19 restrictions by the Summer, the UK government saw no justification for further delay, despite continued criticism from notable parties such as IPSE.
- Post-Budget, HMRC published a paper outlining measures to rectify a drafting error in the IR35 legislation around the definition of an 'intermediary', reducing the potential for double taxation of contract earnings.
- With just under a month to go before the legislation takes effect, surveys suggest that nearly three-quarters of affected self-employed individuals have not yet prepared for the IR35 changes.

6th April ***Confirmed date for the private sector roll out of IR35***

(GOV.UK, March 2021)

72% ***Of impacted contractors have not yet made any preparations ahead of the 6th April 2021 deadline***

(EY, February 2021)

Gambit's View

- The lack of further delay to the implementation of IR35 signals the UK government's confidence in a full reopening of the economy to a state of 'normality' in the short-term, which will bring buoyancy to the jobs market.
- IR35 compliance, correct structuring of third-party checking services and spot-checks will become increasingly important issues in due diligence exercises carried out by investors in M&A and fundraising deals involving staffing and consultancy companies.
- Exposed companies should ensure that the latest key developments surrounding the technicalities of IR35 are understood and factored into strategic plans and compliance processes to fully mitigate the effects.