Gallagher

Insurance | Risk Management | Consulting

# 2021 UK BUDGET GUIDE

## 'Invest now, pay later.' One of the most challenging and significant peacetime budgets, aimed at boosting the recovery process and driving productivity.

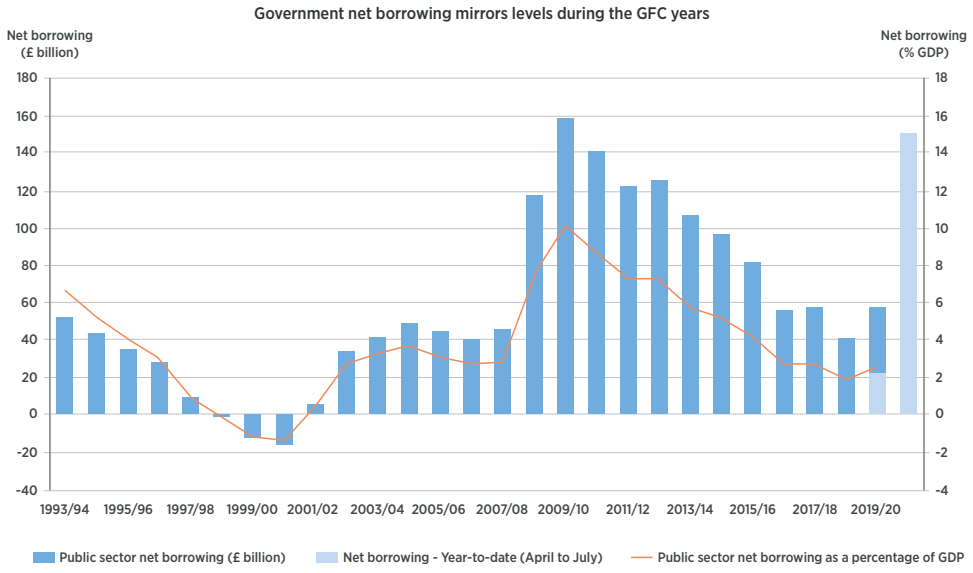
### 2020 versus 2021 Budget focus and impact[1,2]

The 2020 budget, providing an initial response to the coronavirus pandemic, was based on the assumption that COVID-19 would be a temporary interruption. Wind forward to 2021 and the wider impact and damage to the UK economy is beyond what anyone would have reasonably considered - marked by a 10% economic downturn, record level borrowing, and the sharpest economic decline in more than 300 years.

In his March 3rd Parliamentary update, Rishi Sunak set out a three-part plan focused on:

1. Continued support for the UK business community to help them through and then beyond the current crisis period
2. Fixing and returning order to public finances
3. Beginning the work of building the future economy

The £280bn investment to date by the UK government to protect jobs and keep businesses afloat represents one of the highest investment levels in any OECD country. This has placed the nation in a challenging position with record debt and borrowing levels, and debt exceeding GDP for the first time since 1963.



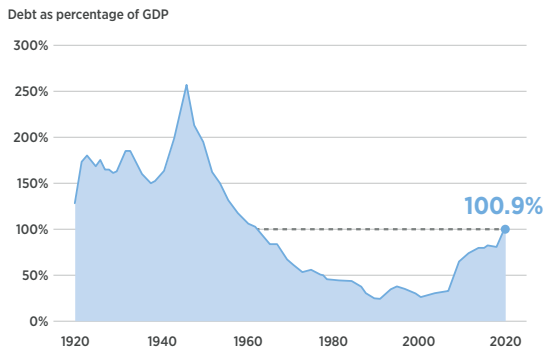

Public sector net borrowing excluding public sector banks, UK, April 1993 to July 2020
Source: Office for National Statistics. Public Sector Finances, UK: July 2020

### Budget headlines

- £65bn package of economic stimulus and emergency support to UK businesses, benefitting small through to large corporations
- Restart grants available for non-essential retail and businesses closed during the lockdown
- 6-month extension to the employee furlough scheme and the business rate holiday period
- Near term tax breaks to drive business investment and increased productivity, with a clear expectation set for tax hikes in 2022/23
- UK economy forecast to rebound to a predicted 4% growth in 2021, with 7.3% growth projected for 2022
- OBR revises its predictions for the economy, expecting a return to pre-pandemic levels by mid-2022, six months earlier than originally forecast
- Insurance Premium Tax (IPT) on insurance premiums remains unchanged

[1] 2020 budget: https://www.gov.uk/government/topical-events/budget-2020
[2] 2021 budget: https://www.gov.uk/government/speeches/budget-speech-2021

Debt levels exceed GDP for the first time in more than 50 years




Source: ONS, Office for Budget Responsibility

While the tax relief packages will provide short term respite for struggling businesses and households, as well as further stimulating investment and motivating increased consumer confidence, whether the longer term tax hikes dampen the appetite of corporate investors post-2023 when the increases are implemented, remains to be seen.

Driving productivity remains a central pillar of the recovery plan, with the opportunity to unlock £20bn of investment to support innovation, productivity and new employment opportunities including apprenticeships. Re-firing regional and local economies is also on the agenda, targeting areas of post-industrial decline and communities with higher unemployment and lower incomes, ripe for investment.

Ultimately, economic recovery will happen albeit over an extended period of time with a rebound to pre-COVID performance levels expected to be seen within the next 18 months. While that is a promising message, the UK economy in 2-3 years' time will be in the region of 3% smaller than it would have been in the absence of the pandemic. A sobering thought.

## A moving picture, through a lens of uncertainty

The budget announcement lands while the UK remains in coronavirus crisis mode, against a backdrop of increased uncertainty and the prospect of a challenging year ahead for UK businesses. The February announcement of a phased exit from lockdown restrictions by June 21st (at the earliest) offers a glimpse of optimism but there is still some way to go until we come out of the other side of this crisis.

As the economy continues to open up in the coming months and lockdown restrictions ease, particular emphasis will be on supporting the sectors and communities most critically impacted. Relief packages targeting non-essential retail, hospitality, leisure and tourism will provide a vital lifeline for sectors brought to their knees over the last 12 months. This includes a £150 million fund for communities to save their local pub or social club that would otherwise close.

And while more than 20 million people in the UK receiving their first COVID-19 vaccination signals light at the end of the tunnel, the emerging 'no jab, no job' debate and the opening of international borders and air travel may present a bend in the road further down the line.

## Tax relief, at a cost

While the tax break package announcement will be welcome news for many, providing a critical layer of support in the short term, the prospect of tax hikes in 2023 sits ominously in the background. In his update, Rishi Sunak set out a clear agenda that consecutive budgets will focus on rebalancing the books and repaying the national debt.

The 'invest now, pay later' tax strategy comes with a potential sting in the tail. As part of a rebalancing plan to restore order to government spending and public finances, Corporation Tax hikes from April 2023 will aim to refill government coffers and works on the assumption of the economy stabilising and an upward growth trajectory. Although generally targeting larger corporations, smaller businesses will also be required to plan ahead to drive increased productivity to offset increasing tax liabilities.

For households, the thresholds for the basic and higher rates of income tax are being frozen from 2022, rather than rising with inflation, meaning many UK workers will pay more tax. As wages and inflation grow, people will pay more tax, amounting in some cases to a pay cut which may impact consumer spending levels as households adjust to accommodate this change.

## Green shoots and innovation

Climate change also featured strongly with the announcement of a new Infrastructure Bank with £12bn capitalisation and headquartered in Leeds, to motivate savers to invest in green agenda and environmentally focused projects. Eight freeports will be launched across England providing simpler planning frameworks, lower tax rates and investment for infrastructure. Elsewhere, the Net-Zero Innovation Fund will provide a £1bn financial platform for cleantech and innovation start-ups building biomass, wind power and clean energy solutions for the future.

The government will also implement its 'green curve' agenda to meet its environmental objective, with the first green gilt being issued this summer, with a further issuance to follow later in 2021, with a total minimum investment of £15bn fuelling new job creation and business innovation.

## Closing thoughts

The 2021 budget announcement, providing a mix of tax relief and near term benefits to help businesses struggling through a more challenging trading environment, has a number of positives. That said, the path to recovery and sustainable growth for many UK businesses will be a long and uncertain one.

In contrast, a number of businesses providing critical services and products during this period have experienced significant growth at a rapid pace which has required them to innovate or diversify their business offering in response to a surge in demand. This growth has upsides as well as built in challenges.

The concept of what a post-pandemic UK will look like remains the subject for debate. Taking an optimistic view, the UK's demonstrated track record of resilience and ability to pivot and adapt during more challenging periods in history, gives the UK business community a fighting chance at turning things around and returning to a stronger trading and fiscal position.

"Many of our clients, particularly those in the SME space, will be positively impacted by the extension of existing support, such as the continuation of the furlough scheme and the freezing of business rates, plus the launch of the Government's newest initiative, the Restart Grant."

"Our clients in those sectors most affected such as hospitality, leisure and retail will also be pleased to hear they are the recipients of increased levels of support. Most UK businesses have been impacted in some way by the pandemic and we have done our upmost to support our clients since the start of the pandemic to help them manage the risks that they have faced over the last 12 months."

**Simon Matson**
CEO, EMEA
Gallagher

## Budget update at a glance

| | |
|---|---|
| **Regional and local community growth initiatives** | • £150m for community groups to take over pubs at risk of closure<br>• Eight freeport sites announced in England: East Midlands Airport, Felixstowe and Harwich, Humber, Liverpool City Region, Plymouth, Solent, Thames and Teesside |
| **Restart Grants** | • **£5bn scheme targeting 700,000 Retail, Leisure and Hospitality businesses** who have been closed or critically challenged during the lockdown period<br>• **Grants available up to £18,000** to support businesses reopening as part of the easing of lockdown restrictions from April 12th |
| **Employee furlough scheme** | • Extended to September, the furlough scheme will continue to pay up to 80% of employee salaries<br>• Flexible furlough arrangements continue to be available |
| **Tax** | • **Corporation tax** on company profits above £250,000 to rise from 19% to 25% from April 2023, with companies trading at below £50k profits continuing to be taxed at the lower rate<br>• No changes to rates **of income tax, national insurance** or **VAT**<br>• The 5% VAT levy **for hospitality and tourism businesses is extended until September**, with an interim period increase to 12.5%, returning to the original 20% rate in April 2022<br>• **Carry back loss rules** have been temporarily extended to allow a three year carry back of trading losses arising from 1 April 2020 to 31 March 2022. This means trading losses can be carried back three years compared to one year in the existing rules, subject to a cap of £2m per year. |
| **Small business support** | • **'Help to Grow'** digital skills and management training packages for small businesses including a 50% discount on productivity enhancing software up to a value of £5000, and up to 90% of training costs<br>• For businesses investing in plant and machinery, a new **Super Deduction Tax** break amounting to 25% of the overall investment value. Worth up to £25bn over a 2-year period<br>• **Recovery Loan Scheme** providing a maximum £10m facility per business, starting at £1,000 for asset and invoice finance, and £25,001 for term loans and overdrafts<br>• Fuel duty frozen |
| **Self-employed workers** | **Coronavirus Self-Employed Income Support Scheme (SEISS)**<br>• Extended access to roughly 600,000 self-employed workers not previously eligible to apply for grants, including newly self-employed individuals<br>• Mid to late April: claims can be submitted for a fourth grant worth 80% of three months' average trading profits, up to a maximum of £7,500 in total<br>• H2, 2021: a fifth grant, covering the period May to September, will become available later in the year<br>• Individuals able to evidence trading in the 2019-20 period will now be eligible to can receive the fourth and fifth grants |

## Where Gallagher can help your business

The benefit and impact of the budget on business owners and corporate organisations will vary by industry and the scope and scale of an individual business. Understanding the broader implications of what this means, including where insurance and risk management is of relevance, is an important consideration.

For an informal, no-obligation discussion please contact your Gallagher representative, call **0800 612 3748** or visit our website **ajg.com/uk** for more information.



Gallagher

Insurance | Risk Management | Consulting