

For customers

Budget 2021 overview

We've summarised the key points relating to pensions and investments announced by the Chancellor in the 2021 Budget on 3 March 2021.

It's a budget of two halves this year with these announcements today and a range of tax consultations and calls for evidence expected to be published on 23 March 2021.

Investments and tax

Income tax

There are no changes to the income tax rates. The personal allowance will rise in line with the September CPI figure to £12,570 for 2021/22. The higher rate threshold for English, Welsh and Northern Irish taxpayers will increase to £50,270. These will then be frozen at this level until 5 April 2026.

National Insurance

There are no changes to the previously announced National Insurance rates for tax year 2021/22. The National Insurance contributions Upper Earnings Limit and Upper Profits Limit will remain in line with the higher-rate threshold of £50,270.

Capital gains tax (CGT)

There are no changes to CGT rates. The individual CGT annual exemption remains frozen at £12,300 until 5 April 2026 and the trust annual exemption will continue to be £6,150.

ISA thresholds

The ISA threshold remains at £20,000 for 2021/22 and the Junior ISA limit continues to be £9,000 for 2021/22.

LISA withdrawal charge

The LISA withdrawal charge returns to 25% from 6 April 2021.

Inheritance tax

The basic nil rate band will remain frozen at £325,000 until 5 April 2026 and the residence nil-rate band will also be fixed at £175,000 until 5 April 2026.



Corporation Tax

The Corporation Tax rate will increase to 25% for the financial year beginning on or after 1 April 2023 for businesses with profits of £250,000 or above. Companies with profits of £50,000 or less will be able to continue to benefit from the 19% rate corporation tax. There will be a marginal relief introduced for businesses whose profits fall between £50,000 and £250,000.

Subject to certain thresholds, unincorporated and incorporated companies will also be able to carry back trading losses for three years rather than just one year in 2020/21 and 2021/22.

Green National Savings & Investment (NS&I) product

This new NS&I product will be offered from summer 2021 to allow savers to take part in efforts to reduce climate change.

Contactless payments

The contactless payment card limit will increase to £100 later in the year.

Mortgage Guarantee Scheme

From April 2021, borrowers will be able to secure a mortgage up to £600,000 with a 5% deposit. This will apply to new mortgages up to 31 December 2022. There will be the option to fix the mortgage for at least five years.

Coronavirus Support Schemes

The Coronavirus Job Support Scheme (CJRS) is being extended to the end of September 2021. Employees will still receive 80% of salary for hours not worked up to then, subject to a cap of £2,500 a month. However, Government support will be tapered from July onwards with employers required to contribute part of the cost. In July, employers will pay 10% of unworked hours. In August and September, employers will pay 20% of unworked hours. Employers must continue to cover the cost of employer National Insurance contributions and any pension contributions due.

The Self-Employment Income Support Scheme (SEISS) is also being extended to the end of September 2021. The fourth grant, covering February to April 2021, provides a grant of 80% of three month's average trading profits, capped at £7,500 and can be claimed from late April. Eligible claimants need to have filed a 2019/20 tax return, meaning those newly self-employed in 2019/20 will be able to claim. A fifth and final grant covering May to September 2021 will be available to claim in late July. Eligibility for this grant will be determined by a turnover test to ensure support is targeted at those who need it most as the economy reopens. Individuals whose turnover has fallen by 30% or more will receive the full grant worth 80% of three months' average trading profits, capped at £7,500. Individuals whose turnover has fallen by less than 30% will receive a 30% grant, capped at £2,850.

Pensions

Lifetime allowance

The lifetime allowance - the maximum amount of benefits an individual can take from their pension savings before they incur a tax charge - remains fixed at £1,073,100 until 5 April 2026.

Auto-enrolment charge cap consultation

Within the next month, the Government will consult on whether certain costs within the auto-enrolment charge cap affects a pension schemes' ability to invest in a broader range of assets such as high growth companies. The DWP will also produce draft regulations making it easier for pension schemes to take up such investment opportunities within the charge cap by smoothing out certain performance fees over a period of multiple years. The overall aim is to help support the UK economy post-Covid by encouraging broader investment of pension assets.

State Pension underpayments

The DWP have estimated a figure of £3 billion will be needed over the next six years to fix underpayments of the State Pension to women going back over several years. A DWP investigation last year highlighted the scale of the issue and a repayment programme has been running since January this year.

2021/22 allowances and rates

	Tax year 2021/22	Tax year 2020/21
Income tax – allowances		
Personal Allowance*	£12,570	£12,500
Income limit for personal allowance	£100,000	£100,000
Marriage allowance	£1,260	£1,250
Dividend allowance	£2,000	£2,000
Personal savings allowance- basic rate taxpayer	£1,000	£1,000
Personal savings allowance – higher rate taxpayer	£500	£500
Personal savings allowance – additional rate taxpayer	Nil	Nil
<i>* Reduced by £1 for every £2 of income over £100,000</i>		

	Tax year 2021/22	Tax year 2020/21
Rest of UK income tax – rates		
Basic	20%	20%
Higher	40%	40%
Additional	45%	45%
Scottish income tax – rates***		
Starter	19%	19%
Basic	20%	20%
Intermediate	21%	21%
Higher	41%	41%
Top	46%	46%
Welsh income tax – rates		
Basic	Rest of UK rates apply	Rest of UK rates apply
Higher	Rest of UK rates apply	Rest of UK rates apply
Additional	Rest of UK rates apply	Rest of UK rates apply
Savings rates		
Starting rate – limit first £5,000 of savings income	0%	0%
Savings rate – basic rate	20%	20%
Savings rate – higher rate	40%	40%
Savings rate – additional rate	45%	45%
Dividend rates		
Ordinary rate	7.5%	7.5%
Upper rate	32.5%	32.5%
Additional rate	38.1%	38.1%

	Tax year 2021/22	Tax year 2020/21
Rest of UK (including Wales) income tax - bands		
Basic rate	Up to £37,700	Up to £37,500
Higher rate	£37,701 to £150,000	£37,501 to £150,000
Additional rate	Over £150,000	Over £150,000
Scottish income tax – bands***		
Personal allowance	£12,570	£12,500
Starter rate	£12,570 to £14,667	£12,501 to £14,585
Basic rate	£14,668 to £25,296	£14,586 to £25,158
Intermediate rate	£25,297 to £43,662	£25,159 to £43,430
Higher rate	£43,663 to £150,000	£43,431 to £150,000
Top rate	Over £150,000	Over £150,000
*** The Scottish rates and thresholds have still to be agreed by the Scottish Parliament.		
Rate applicable to discretionary trusts		
First £1,000 of income	7.5% for dividend income or 20% for other income	7.5% for dividend income or 20% for other income
Rate applicable to trusts	45%	45%
Dividend rate	38.1%	38.1%

	Tax year 2021/22	Tax year 2020/21
Pensions tax		
Standard lifetime allowance	£1,073,100	£1,073,100
Annual allowance****	£40,000	£40,000
Money purchase annual allowance	£4,000	£4,000
**** Reduced by £1 for every £2 of adjusted income above £240,000, to a minimum of £4,000.		
Capital gains tax		
Annual exemption (individuals and personal representatives)	£12,300	£12,300
Annual exemption (trustees)	£6,150	£6,150
Basic rate (other than residential property)	10%	10%
Basic rate (residential property)	18%	18%
Higher rate (other than residential property)	20%	20%
Higher rate (residential property)	28%	28%
Trust rate (other than residential property)	20%	20%
Trust rate (residential property)	28%	28%
Inheritance tax		
Rate	40%	40%
Nil rate band	Up to £325,000	Up to £325,000
Residence nil rate band	£175,000	£175,000
ISA thresholds		
Maximum investment	£20,000	£20,000
Junior ISAs	£9,000	£9,000

	Tax year 2021/22	Tax year 2020/21
Class 1 National insurance thresholds		
Weekly Lower earnings limit (LEL)	£120	£120
Weekly Primary threshold (PT)	£184	£183
Weekly Secondary threshold (ST)	£170	£169
Class 1 National insurance rates		
Employee contribution rates		
Below LEL	0%	0%
Between LEL and PT	0%	0%
Between PT and UEL	12%	12%
Above UEL	2%	2%
Employer contribution rates		
Below ST	0%	0%
Above ST*****	13.8%	13.8%
***** Special rules for under 21 years old and apprentices under 25 years old		