



Finance Focus Update Tax Rate Changes

September 2021

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The Press

Rishi Sunak's budget brings first corporation tax rise since 1974

The government has announced an extra tax to fund social care in England, and help the NHS recover after the pandemic.

Government's NIC increase slammed as a 'jobs tax' and 'regressive levy'

Business chief warns of backlash over corporation tax rises

What has happened?

- So far in 2020/21, Rishi Sunak has announced increases to National Insurance Corporation Tax and Dividend Tax rates
- As of April 2022, National Insurance will increase by 1.25% for both employees, employers and the self-employed
- A corresponding 1.25% increase to dividend tax rates will also be introduced
- As of April 2023, Corporation Tax will increase from 19% to 25%
- Companies with profits under £50,000 will continue to be taxed at 19%, with a tapered rate for profits up to £250,000

Summary of change in tax rates

<i>Dividend rates (over £2,000 tax free amount)</i>	Basic rate	Higher rate	Additional rate
2021/22	7.5%	32.5%	38.1%
2022/23	8.75%	33.75%	39.35%

<i>National insurance rates / social care levy</i>	Class 1 EE (main/higher rate)	Class 1 employer	Self-employed (main/higher rate)
2021/22	12% / 2%	13.8%	9 % / 2%
2022/23	13.25% / 3.25%	15.05%	10.25% / 3.25%
2023/24 – NICs	12% / 2%	13.8%	9% / 2%
2023/24 - levy	1.25%	1.25%	1.25%

Impact on Effective Rates of Tax - more complex in the margins!

Corporation tax rate 19% 2021/22	Self employed /partner %	Salary %	Dividend %	Rent/Interest %
Basic rate band	29.00	40.25	25.08	20.00
Higher rate	42.00	49.03	45.33	40.00
Additional rate	47.00	53.43	49.86	45.00

Corporation tax rate 19% 2022/23	Self employed /partner %	Salary %	Dividend %	Rent/Interest %
Basic rate band	30.25	41.98	26.09	20.00
Higher rate	43.25	50.67	46.34	40.00
Additional rate	48.25	55.02	50.87	45.00

Effective Rates of Tax

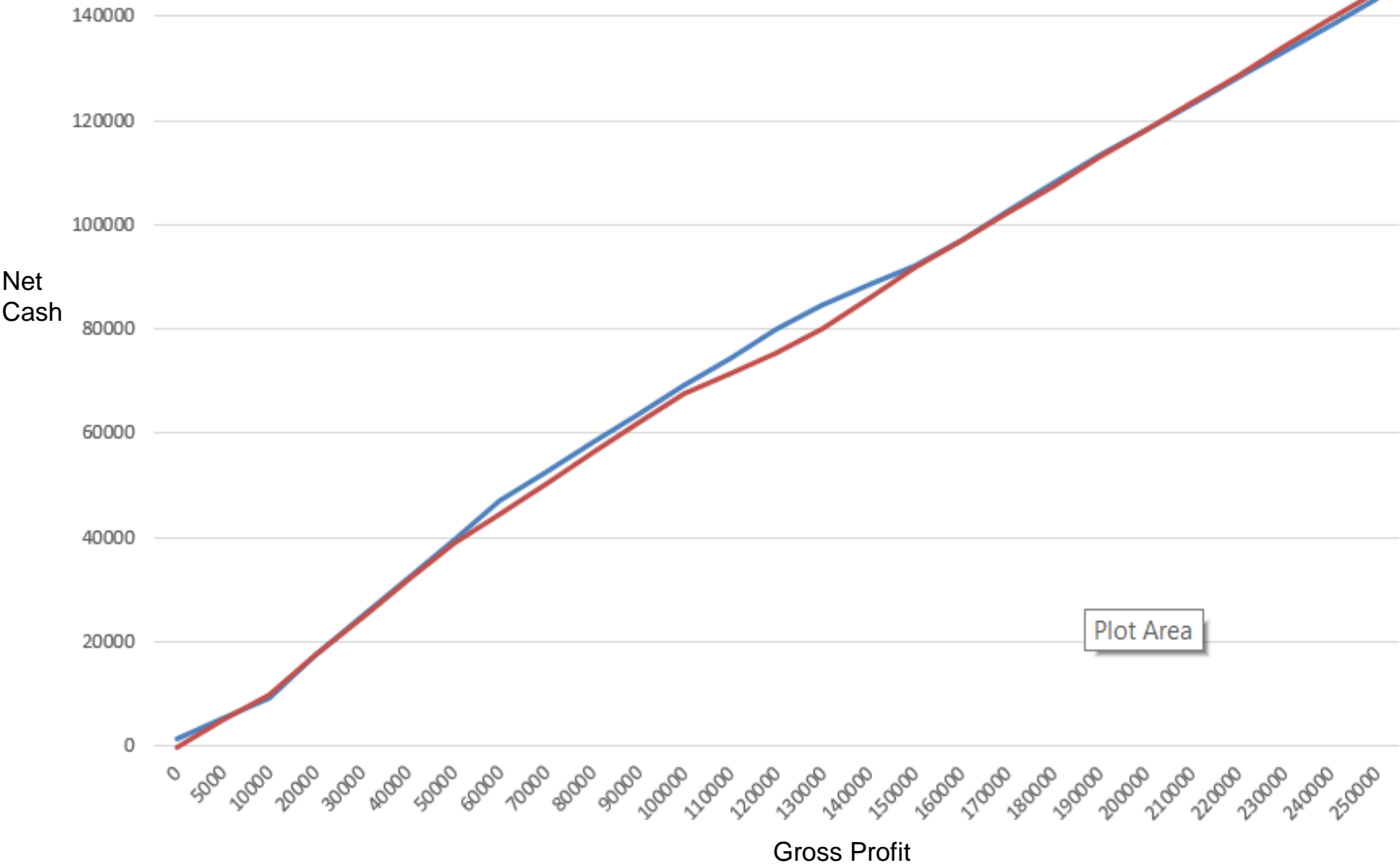
Corporation tax rate 25% 2023-24	Self employed /partner %	Salary %	Dividend %	Rent/Interest %
Basic rate band	30.25	41.98	31.56	20.00
Higher rate	43.25	50.67	50.31	40.00
Additional rate	48.25	55.02	54.51	45.00

From 2023-24 tax cost of salary and dividend for higher rate and additional rate taxpayers very aligned

Analysis for partnerships and business structure?

- Director/shareholders still generally better off with introduction of increased National Insurance and dividend rates in 2022/33.
- For Corporates liable to the 25% CT rate from 2023/24, director/shareholders drawing large annual dividends in excess of £140,000 will find themselves in a worse net cash position than self employed people.
- Choose an LLP over a limited company?
 - Same protection as a company,
 - easier to introduce new business partners and for existing members to retire,
 - But, less tax incentives (eg. R&D credits) and no control over taxable income

2021/22 Cash take home (full extraction) – self-employed vs corporate



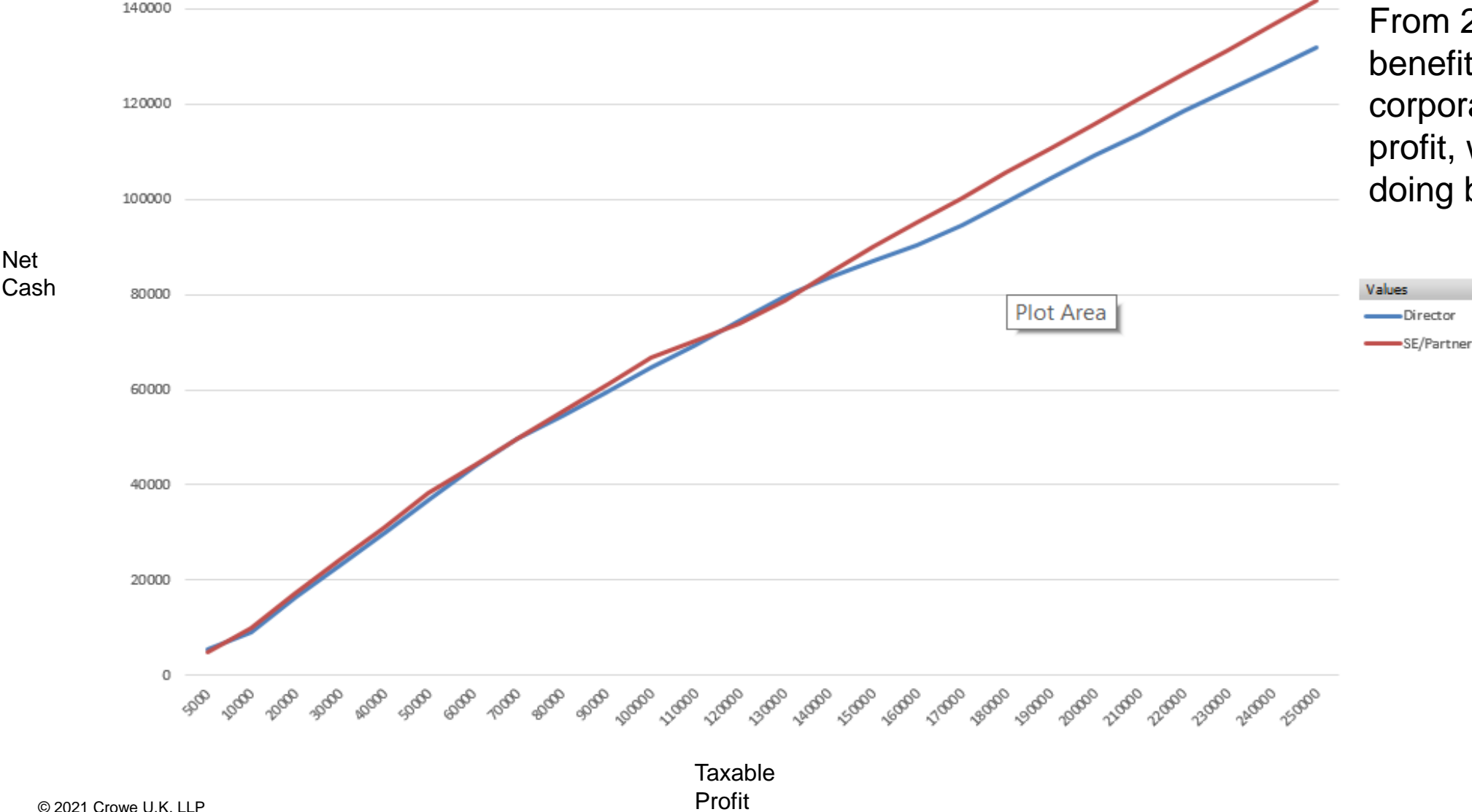
Currently better to be in a company if extracting profits of up to £150k – maximum benefit £5k/annum

Values

- Director
- SE/Partner

Plot Area

2023/24 Cash take home (full extraction) (assumes 25% CT rate)



From 2023/24 marginal benefit of being in a corporate up to £100k of profit, with self employed doing better thereafter

WHATS NEXT? BUDGET 2021- 27TH OCTOBER!

Contact



Nick Latimer

Tax Partner

Cheltenham Office

+44 (0)1242 234421

nick.latimer@crowe.co.uk

Nick leads the Private Client Tax service in the Cheltenham office of national audit, tax and advisory firm Crowe U.K. LLP.

His tax advice helps clients not only to overcome their tax problems, but also to become and remain tax efficient. He advises on all aspects of the tax system but in particular income tax, capital gains tax and inheritance tax.

As well as acting for clients directly, Nick speaks at seminars to help people better understand changes in the tax rules and to help them spot planning opportunities.