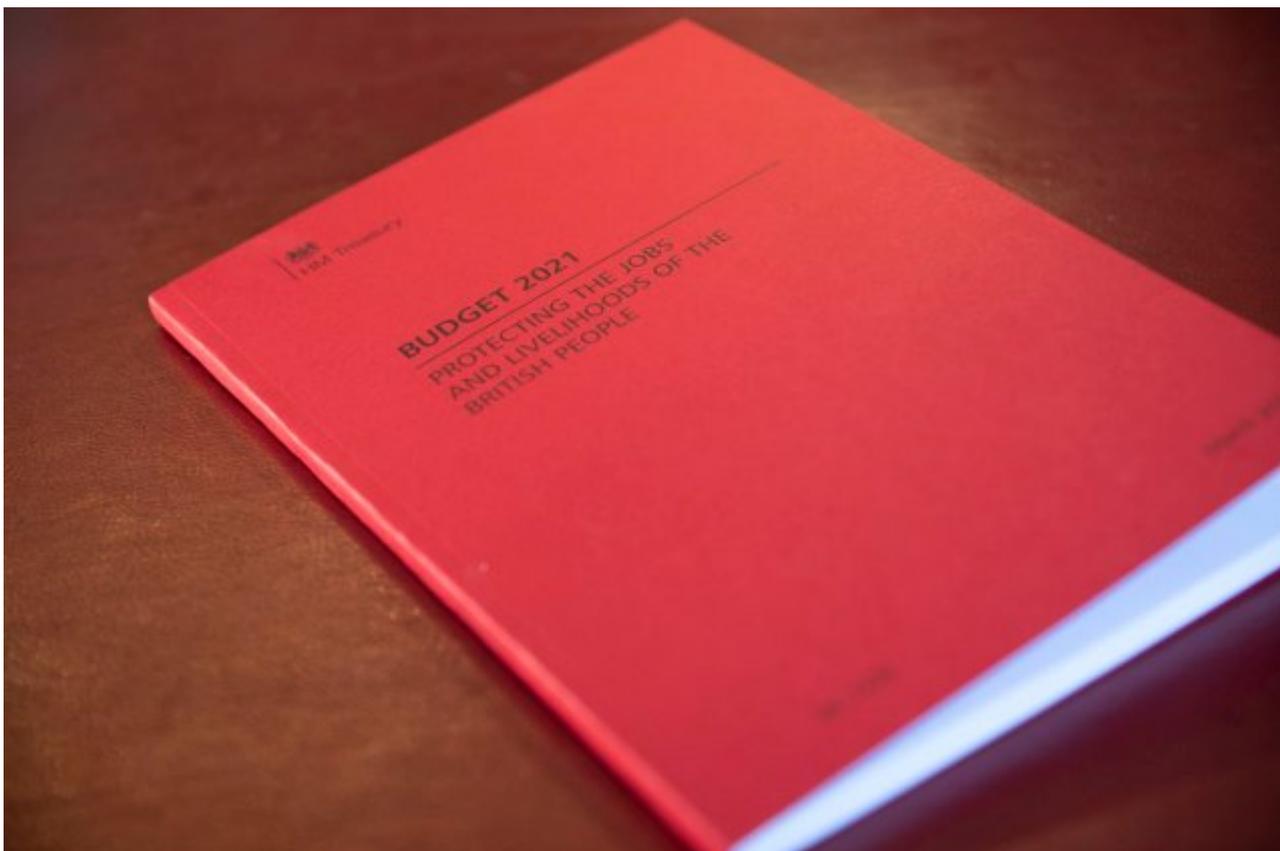


Today's Budget was largely as expected. Much of the content had been flagged beforehand, and then there were the big manifesto pledges that were off limits. But that's not to say it wasn't a significant Budget, and it may indeed be the last, or penultimate, big spending Budget. Rishi Sunak today announced £37.5 billion of spending in the current financial year and the next. Apart from last year's Budget, it is, by any historical comparisons outside of the pandemic, a huge amount of spending. What's concerning though is that spending in future years is going to be cut at progressively larger amounts, and next April will therefore herald the start of four consecutive years of public spending cuts. On the tax front, there were further cuts or extensions of existing tax cuts in some areas but also tax rises in others.



Indeed, in 2021/22, alongside the huge amount of spending, there are also very large cuts in tax to stimulate a recovery. However, there is then a phasing out of tax cuts and a phasing

in of tax rises. Indeed, with regard to the tax rises, we are only now seeing the thin end of the wedge. From 2023/24, the increase in tax will significantly outweigh any reductions. This means a swing of almost £37bn in the space of two financial years, from £24bn of tax cuts in 2021/22 to £12.8bn of tax rises in 2023/24. And this doubles in the subsequent year.

On the spending front Mr Sunak will be dubbed the Big Extender, as most of the big announcements were extensions of existing schemes. The biggest spending item announced today related to self-employment grants, amounting to almost £12.8bn. The extension of the Job Retention Scheme is also a big outlay, amounting to £7bn. Meanwhile the extension of the business rates holiday in England will cost £8bn. But it remains to be seen what the NI Executive does with the money it receives in Barnett consequential. In total, the NI Executive will receive £410m according to the Chancellor (£3.7bn since the onset of Covid). In other spending extensions, the temporary increase in Universal Credit of £20 per week has been extended for six months, but there is a concern around the impact on many households, particularly in Northern Ireland, whenever this expires at the end of September. The extensions though weren't just to spending. There were also extensions to tax cuts which included the continuation of the VAT cut for the hospitality and leisure industry, meaning a VAT reduction for another 12 months, which will cost £4.7bn.

Perhaps the biggest announcement of the day though was the 'Super Deduction' aimed at stimulating business investment. It will mean a 130% tax allowance for capital investment by businesses over the next two years. This is a massive commitment of over £29bn. This will hopefully act as a much needed defibrillator for private sector investment in Northern Ireland where under investment has been a long-standing problem. But it was not all one-way traffic for businesses as there was also an increase in corporate tax announced. The top rate will rise from 19% to 25% meaning firms that make over £250,000 in profit will pay more - incidentally at twice the prevailing rate in the Republic of Ireland.

The Super Deduction to capital allowance stole the headlines, but freezes to tax thresholds could be dubbed the super income deduction. This so-called fiscal drag means more and more people will be dragged into paying higher rates of tax as the bands, or thresholds, fail to move up in line with inflation. This will bring in an additional £19bn over the next five years. Pension lifetime allowance, and the annual capital gains tax allowance were also frozen until 2025/26. The VAT registration threshold and the annual tax-free ISA limit were frozen for two and one years respectively.

Whilst Sunak under wrote the labour market with the two employment support schemes which will keep unemployment down, he also underwrote the housing market with a series of initiatives which will keep prices up. This included the extension of the Stamp Duty holiday to October and the government guarantee on 95% mortgages. This though is perhaps a mixed blessing for first time buyers. Prices in Northern Ireland were already rising firmly and first time buyers were perhaps wanting the market to cool. This announcement provides another adrenalin shot for the market that will keep upward pressure on prices into next year.

Overall, the Budget includes a lot of big numbers. But are they going to be enough to secure the recovery? There will be a cliff edge on public spending once the Covid-19 support measures come to an end. At this stage, the legacy of Covid will continue and many of the economy's underlying challenges will come to the fore. This provides a difficult context, and the thicker end of the wedge on taxation is still to come.

# 2 Policy decisions

**2.1** The following chapter sets out all Budget 2021 policy decisions. Unless stated otherwise, the decisions set out are ones which are announced at the Budget.

**2.2** Table 2.1 shows the cost or yield of all Budget 2021 decisions with a direct effect on PSNB in the years up to 2026-27. This includes tax measures, changes to Departmental Expenditure Limits (DEL) and measures affecting annually managed expenditure (AME).

**2.3** The government is also publishing the methodology underpinning the calculation of the fiscal impact of each policy decision. This is included in 'Budget 2021: policy costings' published alongside the Budget.

**2.4** The supplementary document 'Overview of Tax Legislation and Rates', published alongside the Budget, provides a more detailed explanation of tax measures.

**Table 2.1: Budget 2021 policy decisions (£ million)<sup>1</sup>**

	Head <sup>2</sup>	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
<b>Protecting the jobs and livelihoods of the British people</b>							
1	Coronavirus Job Retention Scheme (CJRS): extension to September 2021	Spend	0	-6,945	0	0	0
2	Self-employment income support scheme (SEISS): two further grants <sup>3</sup>	Spend	-55	-12,760	+1,650	0	0
3	Restart Grants and Additional Restrictions Grants	Spend	0	-5,005	0	0	0
4	Business Rates: three months 100% holiday, nine months 66% relief with cap <sup>4</sup>	Tax	+135	-6,835	+135	-35	0
5	VAT: extension to reduced rate for hospitality, accommodation and attractions (5% to 30 September 2021 then 12.5% to 31 March 2022)	Tax	0	-4,720	0	0	0
6	VAT: extend the window for starting deferred payments through the VAT New Payment Scheme by up to three months	Tax	-80	0	0	0	0
7	Stamp Duty Land Tax: maintain nil-rate band at £500k until 30 June 2021, £250k until 30 September 2021	Tax	-255	-1,350	*	*	-5
8	Fuel Duty: one year freeze in 2021-22	Tax	0	-795	-885	-910	-925
9	Alcohol Duty: one year freeze in 2021-22	Tax	-45	-315	-320	-325	-340
10	Traineeships: extension for 16-24 year olds in England	Spend	0	-100	-50	0	0
11	Universal Credit: maintain £20 increase to standard allowance for six months	Spend	0	-2,240	0	0	0
12	£500 payment to eligible Working Tax Credit recipients <sup>5</sup>	Spend	0	-765	-20	0	0

	Head <sup>3</sup>	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
13 Universal Credit: three month delay to Minimum Income Floor reintroduction	Spend	0	-25	-60	-5	0	0
14 Universal Credit: maintain surplus earnings de minimis at £2,500 in 2021-22	Spend	0	-110	0	0	0	0
15 Shared Accommodation Rate (SAR): accelerate introduction of exemptions	Spend	0	-10	-10	-5	0	0
16 Statutory Sick Pay Rebate Scheme: extension	Spend	0	-35	0	0	0	0
17 COVID-19: HMRC exemptions	Tax	0	-105	-5	*	*	*
<b>Investment-led recovery</b>							
18 Capital allowances: 130% Super Deduction for main rate assets and 50% First Year Allowance for special rate assets for two years	Tax	-1,735	-12,255	-12,695	-2,395	+2,090	+2,780
19 Loss carry back: extended to 3 years with £2,000,000 cap	Tax	-840	-205	+580	+325	+160	+80
20 Help to Grow: management	Spend	0	-60	-75	-85	0	0
21 Help to Grow: digital	Spend	0	-50	-115	-130	0	0
<b>Strengthening the public finances</b>							
22 Corporation Tax: 19% rate for profits up to £50,000, tapering to main rate of 25% for profits over £250,000, from April 2023	Tax	-5	+20	+2,390	+11,900	+16,250	+17,200
23 Income Tax: maintain personal allowance and higher rate threshold at 2021-22 levels up to and including 2025-26 <sup>4</sup>	Tax	0	*	+1,555	+3,655	+5,790	+8,180
24 VAT: maintain registration threshold at £85,000 up to and including 2023-24	Tax	0	0	+55	+125	+135	+165
25 Inheritance Tax: maintain thresholds at 2020-21 levels up to and including 2025-26	Tax	0	+15	+70	+165	+290	+445
26 Pensions Lifetime Allowance: maintain at £1,073,100 up to and including 2025-26	Tax	-10	+80	+150	+215	+255	+300
27 Capital Gains Tax: maintain the Annual Exempt Amount at £12,300 up to and including 2025-26	Tax	0	*	+5	+10	+20	+30
<b>Fair and sustainable tax system</b>							
28 Corporation Tax: exemption for the Northern Ireland Housing Executive	Tax	0	-20	-10	-10	-10	-10
29 EU Interest and Royalties Directive: repeal	Tax	0	+10	+10	+10	+5	0
30 Red Diesel: exemptions	Tax	0	0	-80	-85	-100	-110
31 Vehicle Excise Duty: freeze for HGVs in 2021-22	Tax	0	-5	-5	-5	-5	-5
32 HGV Road User Levy: suspend for a further 12 months from August 2021 and freeze rates	Tax	0	-140	-75	-5	-5	-5
33 Carbon Price Support (CPS) rate: maintain in 2022-23	Tax	0	0	-5	-10	-10	-5
34 Aggregates Levy: one year freeze in 2021-22	Tax	0	-10	-15	-15	-15	-15
35 Interest harmonisation and tax penalty reform	Tax	0	0	+5	+90	+155	+155

	Head <sup>1</sup>	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
36 VAT: powers to tackle Electronic Sales Suppression (ESS)	Tax	*	+5	+20	+20	+20	+20
37 OECD Mandatory Disclosure Rules	Tax	0	0	*	+5	+5	+5
38 HMRC: investment in compliance <sup>2</sup>	Tax	-55	-500	-460	+110	+750	+1,310
39 HMRC: investment in digital infrastructure	Spend	0	-30	-25	-15	-5	*
40 DWP: investment in compliance	Spend	0	-10	+190	+235	+250	+250
<b>Financial Transactions</b>							
41 Public sector net borrowing impact of changes to financial transactions and guarantees	Spend	-2,690	-945	+280	+365	+410	+435
<b>Previously announced policy decisions</b>							
42 CJRS: extension to April 2021	Spend	0	-2,665	0	0	0	0
43 Research and Development PAYE Cap: updated design	Spend	0	*	-20	-80	-105	-115
44 Business rates: changes to tax deductibility of business rate repayments	Tax	-160	-30	0	0	0	0
45 UK Emissions Trading Scheme	Tax	0	+15	+50	+35	+15	0
46 VAT: Tour Operators Margin Scheme	Tax	-5	-30	-45	-70	-100	-105
47 VAT: reversal of the removal of Second Hand Margin Scheme for cars	Tax	*	-5	-5	-5	-5	-5
48 VAT: repeal the VAT Treatment of Transactions Order 1992	Tax	0	+5	+15	+15	+15	+15
49 Self-assessment: penalty easement	Tax	-105	+100	*	*	*	0
50 COVID-19: easement for employer-provided cycles exemption	Tax	-5	*	0	0	0	0
51 HMRC: additional resource for debt pursuit, delay from September 2020 to April 2021	Tax	-55	*	0	0	0	0
52 UK-EU Future Relationship Agreement on Social Security Coordination: benefit rules	Spend	*	*	+5	+5	+5	+5
53 Local government: exceptional financial support for Local Authorities through a capitalisation direction	Spend	-60	-55	+30	+30	+30	+30
<b>Total policy decisions<sup>3</sup></b>		<b>-6,010</b>	<b>-58,865</b>	<b>-7,785</b>	<b>+13,105</b>	<b>+25,025</b>	<b>+29,735</b>
<b>Total spending policy decisions<sup>4</sup></b>		<b>-2,765</b>	<b>-34,770</b>	<b>+215</b>	<b>+345</b>	<b>+720</b>	<b>+875</b>
<b>Total tax policy decisions<sup>5</sup></b>		<b>-3,245</b>	<b>-24,095</b>	<b>-8,005</b>	<b>+12,760</b>	<b>+24,305</b>	<b>+28,860</b>
Memo: Resource DEL: maintain real terms growth assumption for future years, reflecting latest OBR deflators (2.1% real)		0	0	+3,975	+3,520	+3,875	+4,160

<sup>1</sup> Negligible.  
<sup>2</sup> Costings reflect the OBR's latest economic and fiscal determinants.  
<sup>3</sup> Many measures have both tax and spend impacts. Measures are identified as tax or spend on the basis of their largest impact.  
<sup>4</sup> Self-Employment Income Support Scheme grants are taxable income and also subject to National Insurance contributions.  
<sup>5</sup> Business rates are deductible for corporation tax and income tax self-assessment. Increased business rates relief reduces the amount of business rates paid and so increases these other tax receipts.  
<sup>6</sup> Includes measure to exempt payment from income tax.  
<sup>7</sup> Including the National Insurance Upper Earnings Limit and Upper Profits Limit, which will remain aligned to the higher rate threshold at £50,270 for these years.  
<sup>8</sup> Includes funding for HMRC, impacts on compliance yield reflecting reprioritisation (including to respond to COVID-19), and additional compliance yield from higher staffing levels and new programmes.  
<sup>9</sup> Totals may not sum due to rounding.

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