Budget 2021

A granular Budget in a messy world

Introduction

The Budget delivered by Chancellor of the Exchequer Rishi Sunak MP comes in the context of a complicated economic picture. There is a mixture of good news and bad news out there.

GDP has recovered to near pre-pandemic levels, the government budget deficit is below previous OBR estimates but overall borrowing is at levels not seen since the 1960s. However, inflation is on the rise increasing living costs and, while unemployment has dropped, the full impact of the furlough scheme and other measures put in place to protect businesses are yet to fully unwind.

Much of what was going to be in the budget was well trailed before-hand, as alongside the Budget a spending review was also delivered. This led to far fewer 'rabbits out of hats' than might have been the norm in the past.

Due to the sheer number of items announced we've limited our analysis to those announcements which will impact the majority of employers, employees and their pension and savings consideration. We also have a sister publication which deals with some of the broader budget announcement areas.

Key announcements

National Insurance increase

In the attempt to overhaul social care Rishi confirmed that tax on earnings will be going up by 2.5%, initially by way of an increase to National Insurance Contributions (NIC), later changing to a specific levy, shared between both the employer and employee. This means that from April 2022:

- For employers, the effective NIC tax rate will increase from 13.8% to 15.05% of an employee's earnings.
- For employees, the effective NIC tax rate will increase from 12% to 13.25%.

Broadstone comment

This may appear an unavoidable hit on employers and employees. However, if you're an employer that hasn't yet introduced pension salary exchange (aka salary sacrifice) for your staff this would be something to consider as a way to mitigate cost impacts for both parties. To read more on this see our more detailed comments on this **here**.

Defined contribution charge cap relaxation

The government has long been interested in using pension assets to invest in long-term projects such as infrastructure and renewables via funds managed by private equity but these can attract higher charges. This puts them in conflict with the charge cap on default funds used by auto-enrolment compliant pension schemes. The government will be consulting on ways to relax the charge cap to allow schemes and their members to invest in these projects. The emphasis, we understand, will be on protecting savers exposed to this more illiquid asset class.

"We're taking steps to give the pensions industry more flexibility to unlock billions of pounds from pension funds into innovative new ventures." Rishi Sunak MP, October 2021.

The government's consultation will consider options to amend the scope so that the cap can better accommodate "well-designed performance fees" to ensure savers can benefit from higher return investments.

Broadstone comment

Lack of transparency and mismatches of risk and reward are often the reasons trustees and members do not invest in longer-term investment options and relaxing the cap may not be the issue to solve. Trustees and employers will need to carefully consider where the value and chance for higher returns for their members is balanced with an increase in costs, which may exceed the low costs they've secured to date. This is going to be a fine balance for members but the political juggernaut is behind this move having been discussed as an open secret

through the most of 2021. However, the government intends to consult before the end of the year on this measure.

Tax relief solution for low earners

There has been a long running issue for low-earning individuals. Employees contributing to Relief at Source schemes receive a top-up at 20% on their pension contributions, even if they pay no, or a lower rate of income tax. In contrast, employees contributing to a net pay arrangement scheme receive tax relief at their marginal rate, which for those with taxable earnings at or below the personal allowance (“low earners”) is 0%. This creates an anomaly in which individuals in similar situations receive different levels of tax relief and consequently have differing levels of take-home pay depending on how their pension scheme administers pensions tax relief.

The proposed solution will be a top-up payment in respect of contributions made in 2024/25 onwards. This will impact up to £1.2m savers a year. This will go a long way to helping those lower earners benefit by an average of £53 a year. This will also benefit many women who are disproportionately impacted by this, as well as other ongoing gender pensions gap issues, that sees many women reach retirement with lower pension savings than men. However, it should not be understated that this will be a major logistical challenge. The solution will involve direct communication with members and require a response directly to them. In the words of the late great Bruce Forsyth, good game good game.

> Net pay arrangements (NPA) – an individual receives tax relief when pension contributions are taken out of their pay by their employer before tax is calculated. This method is most common for Trust based occupational schemes.
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> Relief at source (RAS) – a pension scheme claims tax relief at the relevant basic rate from HM Revenue & Customs (HMRC) because individuals make pension contributions out of their earnings after tax has been calculated. Individuals who pay tax at rates higher than the basic rate can claim any extra relief directly from HMRC. Often run by personal pension providers, insurers and some MasterTrusts.

Green Savings Bonds

Issued by NS&I, these were launched in September 2021 and are the first sovereign green retail product of their kind. They are aimed at helping to finance important projects to tackle climate change and other environmental challenges. The bonds are issued for a fixed 3 year term, for savings of £100 or more, backed by HM Treasury.

National Living Wage Increase

The National Living Wage is an obligatory minimum wage payable to workers aged 23 and over. As of April 2021 it is £8.91 per hour for those aged 23 and over, £8.36 for those aged 21–24, £6.56 for ages 18-20.

Mr Sunak announced a rise in the National Living Wage to £9.50, to come into effect from 1 April 2022. This is a rise of 6.6% more than twice the cost of living, 3.1%. The increases to the wage rates follow recommendations made by the Low Pay Commission, an independent advisory board.

The assistance to cost of living for staff is likely to be less than the annual sums touted by the government, especially if they are universal credit claimants, and taking into account that the higher wage will also typcially be subject to tax and National Insurance.

Pause in triple-lock

The government is also suspending the earnings link for State Pension uprating next year to ensure that the public finances remain sustainable in a manner that is fair across all generations. This approach avoids the distortion in the annual growth in earnings caused by the pandemic driving a disproportionately inflated rise in the State Pension. This action will protect taxpayers from a significant fiscal pressure, while protecting pensioners from higher costs of living - saving 6.7bn (according to OBR).

The treasury papers also confirm that the earnings link element of the triple lock will be suspended for next year’s State Pension increase. It is anticipated that this move will save £6.7bn. The State Pension is expected to be £185.15 per week.

Business rates

After much delay, following a review business rates will be overhauled to make the system fairer and more timely, with 3 year revaluations from 2023. Also from 2023, investments in property improvements will see no increase to their rates bills for 12 month after making qualifying improvements (for example solar panels) to a property that they occupy. The business rates multiplier will be frozen for the 2022-23 tax year, supporting ratepayers of all sizes with bills that will be 3% lower than had planned increases not been cancelled. During the next year, to support sectors still recovering from significant pandemic challenges, retail, hospitality and leisure properties will be eligible for a 1 year 50% reduction to rates.

The government will ‘continue to explore’ the issue of an Online Sales Tax, with a consultation to be published in due course, with receipts aimed at reducing business rates for retailers in England.

Corporation tax reliefs

Following the consultation launched within the Spring Budget, R&D tax reliefs will be reformed with effect from April 2023 to include cloud computing and data within qualifying expenditures. This will be well received by businesses, many of whom are seeing increased need for spending in this area.

The temporary £1m level of Annual Investment Allowance will be extended until 31 March 2023.

Skills spending

The Chancellor announced an increase in total spending on skills over the Parliament of £3.8bn. The statistic quoted in his speech was that 80% of the 2030 workforce are already in work, meaning that continuing to upskill adults is crucial to UK productivity. This additional funding will be used to quadruple the number of places on Skills Bootcamp, extend access to free Level 3 qualifications under the Lifetime Skills Guarantee, and improve numeracy skills through a new national programme – Multiply.

Apprenticeships funding will also increase to £2.7bn by the end of the parliament, helping businesses onboard and train future talent. Help to Grow schemes for SMEs will also provide management skills training and support for digital adoption.

Lifetime Allowance

The fine print also confirms what had been previously announced around the continued freezing of other pension allowances such as the Annual Allowance and Lifetime Allowance.

Broadstone summary

This is a quiet budget directly for pensions but there are some key challenges for employers which will have an impact on their costs.

From a pensions perspective the net pay anomaly solution will probably not directly impact the pension scheme but those with net pay arrangements may want to consider forwarning members nearer the time that they should engage with HMRC to get their top-up from the government. It is going to be a major challenging uniting 1.2m with their tax relief, and Trustees and sponsoring employers that genuinely want to ensure their members benefit with rightly see this as a significant and ongoing communications and engagement project.

The relaxation of the charge cap to allow more esoteric investments is also controversial as it comes not long after the cap was set and appears to be driven more by economic expedience than improving member outcomes. We, as an industry, will need to ensure that members get good value for their investments where we have the fiduciary duty to look after their best interests.

Freezing pension allowances, notably areas like the Money Purchase Annual Allowance (MPAA), feels like a missed opportunity. Leaving the MPAA at the controversially low level of £4,000 gross (including employer contributions and tax relief) for those that have accessed defined contribution pension savings is essentially a stealth tax on ordinary people that may have needed to fall back on their pension savings during the pandemic.

In general, this is a busy budget with many intitiatives as the economy feels its way out of a difficult time. There are many opportunities and challenges for employers and trustees within it to consider into 2022.

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