Focus on Financial Services Sector

Hansuke

UK 2021 Budget

"A well constructed Budget that positions the UK as an open and internationally competitive place to do business and we welcome the measures set out by the Chancellor to achieve this vision."

David Postings, Chief Executive of UK Finance

Corporation Tax (CT)

From 1 April 2023, an increased 25% corporation tax rate will apply on profits of £250,000 and above. Companies with profits of £50,000 or less will continue to be taxed at the current 19% rate. A tapered rate will be introduced for profits between the lower and upper thresholds. The Chancellor highlighted that the 25% rate would still be the lowest in the G7.

Sunak announced that the additional bank surcharge of 8% on profits would be reviewed as the increase in the main corporate tax to 25% would render UK taxation of banks 'uncompetitive'. As part of the overall C19 relief measures, the Chancellor announced:

- Companies with losses in 2020/21 and 2021/22, will be able to utilise up to £2 million of these losses though a three-year carryback.
- To encourage investment in the economy, a time-limited "super-deduction" of up to 130% on new plant and machinery has been announced.

Capital Gains Tax (CGT)

Despite much speculation that CGT rates would be upwardly aligned with income tax rates in the March 2021 Budget, investors have been spared for now. There has been considerable activity to realise gains ahead of the widely-anticipated rate hike.

There were no changes announced in the Budget to the rates of CGT, with the higher rate remaining at 20% and the basic rate at 10%.

The 28% and 18% rates continue to apply to chargeable gains made on the disposals of residential property. Where CGT treatment applies in respect of carried interest, the flat 28% rate continues to be applicable.

UK funds regime overhaul

Following Brexit, the UK government has committed to a 'root-and-branch' review of the financial services industry. In January 2021, HM Treasury announced a broad consultation on boosting the international competitiveness of the UK's asset management industry.

Whilst the UK's expertise in portfolio management is already well-recognised, the UK has not remained a favoured jurisdiction for fund location and administration. Fund domicile will form part of the review. The wide-ranging regulatory and taxation review shall shortly assess the VAT treatment of fund management fees.

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UK stock market set to attract tech and SPACs

It is recognised that there is an increasing shift towards fast-growth technology, e-commerce and science companies coming onto public markets, versus more traditional industries. Lord Jonathan Hill, the erstwhile European Commissioner for Financial Stability, Financial Services and Capital Markets Union, has carried out a systematic review and proposed reforms to the UK listings regime, designed to attract the most innovative and successful firms and to help companies finance their growth.

The final findings of Lord Hill's review will be reported to HM Treasury in early 2021, after gathering evidence from a wide set of stakeholders. The key recommendations have been welcomed and are expected to be acted upon speedily, including:

- Allowing dual-class share structures (DCSS) that give more powers to founders, a practice pioneered by Google which is now commonplace in US equity markets;
- Lowering free float requirements from 25% to 15%, to enable companies to offer smaller chunks of their businesses for sale in initial public offerings; and
- Liberalising the listing rules for special purpose acquisition companies (SPACs) such that the UK can tap into the recent global boom in this market.

SPACs are shell companies that raise money through an initial public offering to fund an acquisition of a private company. In the last year, SPAC popularity in the US has exploded. SPAC deal volume grew sixfold in 2020, having been identified as 'a major area of growth'.

These deals are designed to make it easier for private companies to go public, while SPACs offer investors access to private businesses at attractive prices.

Enforcement powers

HMRC has been granted additional powers, including their new ability to issue targeted Financial Institution Notices (FINs) to obtain customer information from financial institutions (including banks and fund managers).

The new FINs obviate the need for the financial institution to seek the consent of the taxpayer (the subject of the information request), or the prior approval of a tax tribunal upon application.

Hansuke is working closely with client financial insitutions and industry bodies in respect of the above. If you wish to discuss how it would affect your business, please contact us at **info@hansuke.co.uk**

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