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All

What the Budget means for you

The Chancellor's 2021 Budget focused on continued support as the UK moves towards what is hoped to be the end of the Covid pandemic this year. Homebuyers, businesses, employees and the self-employed are among those who should continue to benefit from these measures, though Rishi Sunak warned that businesses should prepare for a corporation tax rise – even if this won't kick in until 2023. Here are the main measures in summary:

Furlough to be extended: The Coronavirus Job Retention Scheme, known as furlough, will continue to be in place until the end of September.

Self-employed furlough (SEISS) also extended: The self-employed equivalent of the furlough scheme is the Self-employed Income Support Scheme (SEISS). The Chancellor has extended this scheme to those newly self-employed, meaning that over 600,000 people can now claim a SEISS grant. The scheme is now open to those who filed their first self-employed tax return in 2019/20 or before.

95% mortgages return: First-time buyers and existing buyers alike will find more 95% mortgages available, thanks to government guarantees to lenders.

Stamp duty holiday extended again: Another extension has been added to the stamp duty land tax holiday, which will now finish at the end of June. There will then be a further stamp duty holiday from 1st July until the 30th September on residential properties worth up to £250,000 and on non-residential land and properties up to £150,000. After this, the system will return to normal, with stamp duty starting at £300,001 for first-time buyers and £125,000 for everyone else.

New grant scheme for businesses as they reopen: There is a new £5 billion grant scheme for businesses, called 'restart grants', worth up to £18,000 per firm (£6,000 for most non-essential businesses). These will be available from April via local authorities.

Business rates holiday extended: The retail, hospitality and leisure sectors will continue to be exempt from business rates until the end of June, with a further two-thirds discount applying for the remaining nine months of the 2021/22 tax year.

Warning of corporation tax rise to come: The 2021 Budget wasn't all generosity. Recognising that the huge levels of state support would need to be paid for eventually, Rishi Sunak announced that corporation tax would rise from 19% to 25% in April 2023. However, the smallest 1.5 million companies will continue to pay it at 19%.

Property Owner

The lowdown on 95% mortgages

When the Chancellor, Rishi Sunak, announced his budget last week, he talked about the government's goal of turning generation rent into "generation buy". The measures he outlined to help would-be homebuyers had been heavily trailed – an extension to the stamp duty holiday he launched last year for England and Northern Ireland, and a new UK scheme to bring back 95% mortgages. But the budget documents brought more detail. We have looked at the small print to see what the measures will mean for homebuyers. The initiative aims to encourage banks and building societies to offer 95% mortgages again. It will do this by giving them the chance to buy a guarantee on the portion of the mortgage between 80% and 95%. If a borrower gets into financial difficulty and their property is repossessed, the government will cover that chunk of the lender's losses. The scheme will open for new mortgage applications in April and run until the end of 2022. This scheme is for any "creditworthy" household struggling to save for a higher deposit. These will be standard residential mortgages – so no second homes or buy-to-lets – and the property has to cost £600,000 or less. The mortgages must be on a repayment basis, not interest-only. In terms of interest rates, we don't know yet but experts are predicting they will come in at below 4%. As part of the scheme, the government has told lenders they must offer a five-year fixed-rate deal so borrowers can lock their repayments at a set level for the medium term.

All

Help for flat owners stuck in cladding limbo

New guidance has been released aimed at reducing the number of wall safety surveys being requested by banks and building societies on blocks of flats. Thousands of flat owners have been unable to sell or re-mortgage because they cannot get the checks done. The Royal Institute of Chartered Surveyors (RICS) said it would help lenders save time when the inspections were not needed. Most lenders are likely to follow the advice but there is no guarantee. To begin with, only those who owned flats in tall buildings with dangerous flammable cladding were affected. But after the government extended its advice to smaller properties in January 2020, mortgage lenders began demanding fire surveys from a much wider range of sellers. Hundreds of thousands of leaseholders have since been asked for EWS1 external wall safety forms when they sell or re-mortgage. This requires a specialist survey - but there haven't been enough qualified surveyors to do the checks, leaving thousands of owners "in limbo", according to the government. Some owners have also reported being asked for EWS1s when there appears to be little or no flammable materials attached to their building. RICS said its new guidance would clarify types of properties which will, and will not, require additional inspections to speed up mortgage approvals. The guidance is anticipated to result in a reduction in the number of EWS1 requests which will therefore allow more focus on the assessments of higher risk buildings, which should speed up the overall process whilst ensuring appropriate protection for lenders and purchasers.

Investor / Saver

Stealth income tax raid

The Chancellor said action was necessary to begin fixing the public finances, which have been ravaged by the coronavirus pandemic. Rishi Sunak kept the promise in the Conservative party 2019 manifesto not to raise income tax, national insurance or VAT. But he announced he would freeze the thresholds at which the basic and higher rates of income tax are paid from April 2022 to April 2026, in a move that is likely to hit more than 2m people. The changes will bring 1.3m individuals into the income tax net by 2025-6 and lift 1m taxpayers into the higher tax bracket, according to the government's Office for Budget Responsibility. Under the Budget plans, the Income Tax personal allowance - which rose dramatically under the Tories and Lib Dems - will rise slightly in April but then be frozen at £12,570 until 2025/26. So will the 40p tax rate threshold of £50,270. The freeze will only cost low earners around £13 in lost tax breaks in its first year but will pile up as the cumulative impact mounts. They go from raising £1.6bn for the Treasury in 2022-23, to £8.2bn in single year in 2025-26. The IFS think tank warned the UK could have more than 5million people in the 40p tax band by 2025 due to the freezes - up from 4.1million now and 3million in 2010. Meanwhile financial expert Sir Steve Webb has warned hundreds of thousands of families could lose their child benefit by 2025 as a threshold for starting to pay it back in tax remains at £50,000.

Investor / Saver / Retired / Parent

Take advantage of 'Free wills week'

Inheritance tax bills can be managed by the effective use of wills, which can ensure assets are passed onto the correct beneficiaries and that the correct amounts are paid. Many experts in the estate planning field encourage families to create wills as soon as possible and in the UK, March is designated to be free wills month, an initiative backed by a number of charities. Research from Which? found the number of people who made a will during the first lockdown in early 2020 surged, with a 682 percent increase seen in April when compared to the previous year. Changing relationship trends are also set to impact IHT plans and unfortunately, the government is somewhat lagging behind: "Fewer people are getting married, with ONS finding that cohabiting couple families are the fastest-growing family type. Sadly, the law hasn't caught up with this fact, meaning that unmarried couples are largely unprotected if one should die. Unlike for married couples or those in a civil partnership, there is no legal right to property not jointly owned. If you have children together then this could mean that your partner risks not being able to stay in the family home or have enough money to bring up your children. To make sure they are protected, it's crucial that you have a will in place expressing your wishes regarding children and assets. IHT bills can also be reduced or avoided all together if certain actions are taken. Putting assets, such as cash, property, or investments, into a trust can mean they're no longer part of your estate for inheritance tax purposes. However, the rules around trusts are complicated and have changed over the years; for example, you could be taxed as you pay in or take money out, so make sure to seek advice if you're considering this option.

Investor / Saver

Bonds away – look elsewhere for protection from equity volatility

This time last year, markets were in the grip of the coronavirus crisis. Stock markets were tanking and central banks were embarking on aggressive interest rate cuts and other stimulus measures to steady the financial system. It all sent bond prices rocketing, pushing yields to rock-bottom levels. Now, the issue for investors is that those bond prices have been falling back and yields are rising. Some hedge funds are raking in big returns. But other institutional investors are fretting that it could yet seriously destabilise markets. So what's going on? In short: inflation. Serious consumer price rises themselves are not here yet — the global economy is still only tentatively creeping out of its coronavirus hibernation. But investors have good reason to think it could start to bite. Commodity prices have already shot higher in anticipation of a global economic recovery. Copper has hit its highest price point in a decade. Oil is back above $60 per barrel, having wiped out the coronavirus shock. Companies in the US and elsewhere are reporting shortages of goods and rising costs for raw materials. It all looks like a recipe for consumer price rises. This isn't good news for bond holdings. By any sensible historical measure, bond prices are still sky high, thanks to the vast monetary stimulus launched by central banks seeking to soften the blow of the pandemic. But the pullback at the start of 2021 has been fierce as investors try to price in inflation before it happens. It is the worst start to a year in bonds since 2015. When bond prices fall, yields rise. In the US, 10-year yields have pierced 1.5% for the first time since the pandemic struck, with a particularly wild day's trading on February 25. The UK, which not so long ago was flirting with cutting interest rates below zero, has seen a rapid rise in yields to around 0.8%. On top of this, the Budget revealed government plans to borrow even more than banks had previously expected. The classic split for an investment portfolio is 60% equities, 40% bonds. The premise is that as one asset class falls, the other usually rises. But this orthodoxy has been looking shaky for years, as yields have sunk so low that they offer little scope for further gains if stocks take a knock. HSBC believes the UK Government bond market is exaggerating the risk of a rise in interest rates from the Bank of England, but it warns clients to buckle up for a "choppy ride" in gilts.

Property Owner

House prices dip but a surge could be on the cards

House prices in the UK edged downwards in February, but are predicted to hit record highs again after the stamp duty holiday was extended by Chancellor Rishi Sunak in this week's Budget. The average price of a home in the UK last month was £251,697, a marginal 0.1% drop compared to January. This still represented a significant 5.2% uptick compared to February 2020, thanks to the rush of buyers that have flooded into the market since last summer when the tax holiday was initially announced. Annual house price growth has now topped 5% for seven consecutive months. However, the year-on-year growth in February did not hit the highs of more than 7% annual growth seen between September and November. At the height of the market in November, the average house price was £252,890 according to Halifax. However, economists have been forced to tear up their forecasts for the rest of the year thanks to announcements in this week's Budget. Although the market appeared to cool in February, it is widely tipped to heat up again now that buyers will still be able to benefit from the stamp duty holiday in some form or another until the end of September. The stamp duty holiday will continue to apply to the first £500,000 of a home's purchase price until June 30, 2021. It will then taper off, applying to the first £250,000 for residential properties and first £150,000 for land and non-residential properties until the end of September, before returning to £125,000 at the beginning of October. The stamp duty holiday will continue to apply to the first £500,000 of a home's purchase price until June 30, 2021. It will then taper off, applying to the first £250,000 for residential properties and first £150,000 for land and non-residential properties until the end of September, before returning to £125,000 at the beginning of October. As many as 300,000 additional home purchases are expected to now benefit by the end of June deadline, according to Rightmove, following Rishi Sunak's announcement.

Investor / Saver / Retired

Pensions lifetime allowance frozen

The pensions lifetime allowance will be frozen at its existing level until April 2026, in a move that effectively decreases its value when inflation is taken into account. The Chancellor last week said the lifetime allowance would remain at its current £1,073,100 for the next five years, rather than increasing in line with inflation. The move will raise around £1bn between now and the 2025/26 tax year, and if CPI were to rise in line with official OBR forecasts, it would imply that without the policy, the lifetime allowance could increase by around £85,000 by 2025/26.The lifetime allowance is a limit on the amount that can be drawn from pension schemes – whether in lump sums or retirement income – and can be paid without triggering a tax charge. At its most generous the lifetime allowance stood at £1.8m in 2011/12, but was gradually reduced to £1m in 2016/17 before creeping back up to its current value. The policy fell flat with those working in the pension sector. Aegon pensions director Steven Cameron said freezing the lifetime allowance was likely to send the wrong signals to savers.

Past performance is not a guarantee to future performance. You may get back less than invested.

Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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