HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

4 March 2021

Dear Colleague,

BUDGET 2021: PROTECTING THE JOBS AND LIVELIHOODS OF THE BRITISH PEOPLE

One year ago, we promised the British people we would do whatever it takes to provide security and stability. We are delivering on that promise: over this year and next, accounting for measures announced at Spring Budget 2020 and Spending Review 2020, we are providing £407 billion of support for families, jobs and businesses, more than almost any other country in the world. Despite this unprecedented support, the damage COVID-19 has done to our economy has been acute. Since March, 700,000 people have lost their jobs, the economy has shrunk by 10 per cent – the largest fall on record – and our borrowing is at the highest it has ever been outside of wartime.

This Budget protects the jobs and livelihoods of the British people with a three-part plan to:

(1) support people and businesses through this moment of crisis
(2) begin fixing the public finances with a fair and honest plan about how to do so
(3) build our future economy.

Our plan is working. The OBR now expects the UK economy to recover to its pre-crisis level six months earlier than they expected in November.

SUPPORTING PEOPLE AND BUSINESSES THROUGH THIS CRISIS

Furlough extended until the end of September. The furlough scheme has supported 11.2 million jobs across the UK, worth £53.8 billion. But to provide further certainty, we are extending the scheme until the end of September. Employees will continue to receive 80 per cent of wages for hours not worked, but as businesses reopen, we will ask them to contribute 10 per cent of wages in July, and 20 per cent in August and September. Furlough remains among the most generous schemes of its kind anywhere in the world.

Two further grants for the self-employed. We will introduce a fourth grant covering the period February to April, worth 80 per cent of three months' average trading profits. A fifth grant will cover May to September and will be more targeted towards those most affected by the pandemic: people whose turnover has fallen by at least 30 per cent will receive the full grant worth 80 per cent of three months' average trading profits, while those whose turnover has fallen by less than 30 per cent will receive a 30 per cent grant. More than 600,000 people, many of whom were newly self-employed in 2019-20, and who filed their 19/20 tax return by 2 March, may now be eligible for both grants. Overall, we will have spent over £33 billion on the self-employed during this crisis, among the most generous anywhere in the world.

Restart Grants to help our businesses get going again. Non-essential retail businesses will open first and therefore receive grants of up to £6,000, while hospitality and leisure businesses – including personal care, hairdressers and gyms – will likely open later or with more restrictions and so will receive grants of up to £18,000. These will be worth an extra £5 billion – taking our total cash grant support to £25 billion. We are providing local councils with £425 million discretionary funding to support other local businesses.

Business rates holiday. Last year we provided an unprecedented 100 per cent business rates holiday for all eligible businesses in the retail, hospitality and leisure sectors – a tax cut worth £10 billion. This year, we will continue that 100 per cent holiday for the first three months until June, before cutting rates by two-thirds for the remaining nine months, up to a maximum £2 million per business. Over 350,000 properties will pay no business rates for three months, with the vast majority of eligible businesses receiving 75% relief across the year – a tax cut worth £6 billion – a tax cut worth £6 billion.

VAT cut extension. To protect the 150,000 hospitality and tourism businesses which employ around 2.4 million jobs and have been hardest hit, we are extending the 5 per cent reduced rate of VAT for a further six months until the end of September. The rate will then increase to 12.5 per cent from October until the end of March, before returning to the normal 20 per cent rate from April 1. Overall, that's a £4.7 billion tax cut next year.

Extension to the stamp duty cut. To avoid purchases not completing in time for the end of March, the £500,000 nil rate band will be extended until 30 June, before tapering down to £250,000 until the end of September (60 per cent of buyers will pay no stamp duty), before returning to its normal level of £125,000 from 1 October.

A new mortgage guarantee scheme for homebuyers. Even with the stamp duty cut, there is still a significant barrier for people to get on the housing ladder: the cost of a deposit, given that 95 per cent loan-to-value loans have retracted from the market since the start of the pandemic. That is why, from April, lenders who commit to providing loan-to-value ratios of between 91 to 95 per cent can get a government guarantee on a portion of the value of those mortgages.

New Recovery Loans to replace our existing loan schemes. Our schemes have provided £70 billion of support to 1.5 million companies. But as these come to an end, we are introducing new Recovery Loans to take their place: loans from £25,000 up to £10 million, with an 80 per cent government guarantee.

Support for the lowest paid and most vulnerable. The temporary £20 uplift to Universal Credit will continue for a further six months. Due to the way the system works operationally, we need to give Working Tax Credit claimants their equivalent of 6 months of support through a one-off payment of £500. We have also increased the National Living Wage to £8.91 from April, and extending it to people over 23 – worth almost a £350 pay rise.

Better skills for people to get better jobs. We have already launched the Restart scheme to help hundreds of thousands of long term unemployed; committed to doubling the number of Work Coaches; introduced the Lifetime Skills Guarantee to fund Level 3 Qualifications for all adults; and launched the Kickstart scheme to help 250,000 young people into work. We are going further by doubling the incentive payment to SMEs to take on apprentices of any age to £3,000, alongside £126 million sufficient to triple the number of traineeships next year.

Support for culture and sport. We are providing over £700 million to support local and national arts, culture and sports institutions as they reopen. We're also piloting a new portable apprenticeship, that will help sectors like the creative industries and extending our successful £500 million Film and TV Production Restart Scheme.

BEING HONEST ABOUT THE NEED TO FIX THE PUBLIC FINANCES

The Conservative record on the economy means we came into this crisis in a strong position. By 2010, the deficit had risen from £13 billion to £153 billion. Thanks to sensible Conservative management of the economy, we reduced this by over 80 per cent by 2019. Between 2010 and 2019, we grew the economy by 19 per cent – faster than France, Italy and Japan. And during this period, we helped 3.4 million more people into work.

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That has enabled us to respond with £407 billion of support over this year and next. That's equivalent to 19 per cent of 2020 GDP and is one of the largest fiscal support packages of any country globally. Our plan is working. The OBR now expects the UK economy to recover to its pre-crisis level six months earlier than originally thought – the second quarter of 2022, instead of the fourth. And unemployment is now expected to peak at 6.5 per cent instead of nearly 12 per cent, as feared last summer.

But despite this, our economy and public finances have been hit hard. In five years' time, the OBR still expect the economy to be 3 per cent smaller than it would otherwise have been. Debt and borrowing have shot up – this year we are forecast to borrow 17% of GDP. Without further action, this would continue, even *after* we have recovered from the crisis and *with* strong growth. So we need to act now – both to ensure we can respond to future events, but also because we are much more sensitive to interest rate changes.

That is why we must balance support for the economy – but also begin to fix our public finances. This Budget puts in place measures to grow the economy into the future. But just hoping for **growth** alone to rescue us won't work – because our economy has been permanently scarred. And we can't reduce **spending** if we want stronger public services. Therefore, asking large, profitable companies to pay more **tax** must also play its part. And if we take these actions, the OBR forecast that in five years' time, debt should be broadly stable or declining.

In 2023, the rate of Corporation Tax paid on large company profits will increase to 25 per cent. To help fix the problems the pandemic has created, we are asking only the largest, most successful companies to contribute more, from April 2023, on the rate of tax on their *profits*. In total, 90 per cent of businesses will pay less than the 25 per cent.

- Even after this change the UK will still have the **lowest rate in the G7** – lower than the US, Japan, Canada, France, Germany and Italy – and the **fifth lowest in the G20**.
- The new rate **won't come in until two years' time in April 2023** – well after when the OBR and Bank of England expect the economy to have recovered.
- Because it is charged on **profits**, **any struggling business will by definition be unaffected**.
- We will create a **Small Profits Rate**, maintained at the current rate of 19 per cent, for businesses with profits less than £50,000 – meaning nearly 70 per cent of businesses will be unaffected.
- There will be a taper above £50,000, so **companies only start paying the full rate on profits from £250,000**.
- We are **extending tax loss carry backs for businesses from 1 year to 3 years:** if businesses are making a loss now, they can claw back tax paid on previous profits for an HMRC refund of up to £760,000.
- We will also **review the 8 per cent bank surcharge** make sure the combined rate of tax on the UK banking sector doesn't increase significantly from its current level, to ensure financial services remains globally competitive.
- Corporation Tax cuts have **not led to a significant increase in investment.**

We will support business investment through an unprecedented super-deduction. Even with the lowest Corporation Tax rate in the G7, we must do even more to encourage companies to invest now and unlock their cash reserves. Historically, the UK has invested a lot less than our peers, but investment drives innovation, productivity and growth. That is why, for the next two years, when companies invest, they can reduce their tax bill by 130 per cent of the cost of that investment. The OBR have said this will lift business investment by 9 per cent and lift us from thirtieth in the OECD's world rankings for business investment to first. And for the two-year period this is in place, this will be the biggest business tax cut in modern British history – worth £25 billion.

Personal tax thresholds will be increased next year and then maintained at that level. The Income Tax Personal Allowance has nearly doubled over the last decade to £12,500, standing now as the highest basic personal tax allowance of any G20 country and meaning a typical basic rate taxpayer now pays £1,200 less tax than in 2010. Next year, it will rise in line with inflation to £12,570 – but we will keep it at this higher level until April 2026. Similarly, the Higher Rate will also increase next year to £50,270 until April 2026. Current take home pay is not affected by this policy. This is a progressive measure: the richest households will contribute the most. This only starts in 2022 and even then only raises revenue slowly over time, supporting our recovery.

We will also maintain Inheritance Tax, Capital Gains Tax and the Pensions Lifetime Allowances, and the VAT threshold at present levels. The Inheritance Tax-free thresholds will remain at existing levels until April 2026 (the Nil Rate band has been frozen since 2009). A surviving spouse or civil partner can pass on up to £1 million to their family without inheritance tax. The Lifetime Allowance will be maintained at just over £1 million until April 2026, but 92 per cent of individuals approaching retirement will be unaffected by this change. And for two years from April 2022, the VAT threshold will remain at £85,000, still more than twice as high as the EU and OECD averages.

We are standing by our manifesto pledge NOT to increase Income Tax, National Insurance Contributions or VAT and we are FREEZING alcohol and fuel duty. We are sticking to our manifesto pledge on Income Tax, National Insurance Contributions and VAT. To keep the cost of living down, all alcohol duties will be frozen for the second year in a row, and fuel duty will be frozen for the eleventh year in a row, saving motorists a £1,600 since 2010.

We will tackle fraud in our business loan schemes. We are investing £100 million in a new Taxpayer Protection Taskforce, with 1,000 investigators seeking out and penalising fraud in our generous loan schemes. We are also introducing new steps to clamp down on tax avoidance and evasion.

BUILDING OUR FUTURE ECONOMY

Levelling up our country and spreading opportunity everywhere. We are announcing 45 new Town Deals, launching the £150 million Community Ownership Fund to help communities buy local assets such as pubs and theatres, and opening the first round of bids for the £4.8 billion Levelling Up Fund we announced at Spending Review last year to fund the infrastructure of everyday life.

Announcing the locations of eight freeports in England. To encourage free trade and bring investment to all regions of the country through lower taxes and cheaper customs, we are revealing the locations of the first eight freeports in England: Teesside, Humber, Felixstowe & Harwich, Thames, Solent, Plymouth and South Devon, Liverpool and the East Midlands Airport. We will announce details of freeports in the devolved nations in due course.

Creating green jobs. We are investing in offshore wind port infrastructure in Teesside and Humberside, announcing a new environmental retail savings product to build on our world-leading sovereign green bond, making the City a leader in carbon offset markets trading, and launching the first ever UK Infrastructure Bank, located in Leeds, to invest in public and private projects to drive green growth and create green jobs.

Launching a new Help to Grow scheme to boost the productivity of our small businesses. Too often our brilliant small firms don't have the time or resources to get the extra skills they need to be more

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productive. So our new Help to Grow: Management scheme will help 30,000 SMEs get world-class management training through government-funded programmes delivered through business schools, with businesses contributing only £750, just 10 per cent of the overall cost of the course. Help to Grow: Digital will level up the digital skills of our small businesses with a voucher entitling them to 50 per cent off the purchase of new productivity-enhancing software, up to a total of £5,000 each. Help to Grow will launch this Autumn and could benefit 130,000 SMEs.

Making the UK the best place in the world for high growth, innovative companies. These businesses account for just 1 per cent of companies but generate 80 per cent of our employment growth. We are launching a wide-ranging consultation to make sure our Research and Development Tax Credits are internationally competitive; reviewing our Enterprise Management Incentive scheme so it supports growing companies to retain talent; attracting world-class talent to the UK through visa reforms aimed at highly skilled migrants, including a new unsponsored points-based visa and new visa processes for scale ups/entrepreneurs; ensuring high growth firms have access to capital by giving the pensions industry more flexibility to unlock billions from pension funds into innovative new ventures; launching a new Future Fund: Breakthrough to support innovative tech businesses; and taking forward Lord Hill's review of the UK's listing regime.

WE WILL STRENGTHEN ALL FOUR PARTS OF THE UNITED KINGDOM

Our future economy depends on remaining a United Kingdom. It is only because of the extra firepower we have from our four nations acting together that we've been able to provide such a significant fiscal response to the pandemic. As a result of the policies announced in Budget, Scotland will receive £1.2 billion, Wales £740 million, and Northern Ireland £410 million in Barnett consequentials. Taken together with additional funding from last year's Spending Review, the devolved nations are receiving an extra £7 billion in 2021-22.

Furthermore, many of the policies are UK-wide, including: extensions to furlough and self-employed schemes, Recovery Loans Scheme, our reduced VAT cut, mortgage guarantee, super-deduction for capital investment, Community Ownership Fund, Levelling Up Fund, freeports, investment in green jobs, Help to Grow, visa reforms, Future Fund: Breakthrough, reforms to pension funds, and our vaccines studies.

This Budget is also delivering bespoke projects in Scotland, Wales and Northern Ireland. We are committing funding towards the Aberdeen Energy Transition Zone, North Sea Transition Deal, and Global Underwater Hub in Scotland; the Global Centre for Rail Excellence and Holyhead Hydrogen Hub in Wales; accelerating six growth deals in Wales and Scotland, and exempting the Northern Ireland Housing Executive from Corporation Tax.

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