AUTUMN STATEMENT 2022

AT A GLANCE

Introduction

Chancellor Jeremy Hunt has delivered the Autumn Statement 2022.

This is a time of significant economic challenge for the UK and global economy. Inflation is putting significant pressure on households and the cost of living, and businesses in many sectors are feeling the impact. Central banks are raising interest rates to combat inflation pushing up borrowing costs for families, businesses and governments. Economic growth is slowing and the UK and much of the global economy is expected to fall into a period of recession this year and next.

For the UK this all comes against a backdrop of higher levels of government borrowing, partly caused by the economic impacts of the Covid-19 pandemic and the current energy crisis. This year the amount the UK is spending on debt interest is expected to reach a record £120.4billion. These factors have contributed to a significant gap between government revenue and spending. The Chancellor has sought to close this gap, partly by reductions in spending and partly by increasing taxes.

The Chancellor spoke of the government's three priorities; stability, growth and public services.

The Autumn Statement sets out the government's plan to ensure that national debt falls as a proportion of the economy over the medium term. It is hoped that this will reduce debt interest costs, allow more spending on public services, support the Bank of England in tackling inflation, and result in a shallower period of recession.

The Chancellor announced some increases in spending for the NHS and social care, and for education, which he said were the two public services which are the government's priority. The Chancellor also confirmed that the government will maintain all of its existing infrastructure spending commitments.

Government support for households energy costs will continue after April 2023 but will be tapered and become more targeted to the vulnerable. The government will also raise benefits, including working age benefits and the state pension, in line with inflation from April 2023. The pensions Triple Lock has also been protected.

The Chancellor spoke about the need to drive economic growth; saying that this is the

only way to sustainably fund public services, raise living standards and level up the country. Also, the Chancellor announced measures designed to boost growth and productivity by investing in people, infrastructure, and innovation. These include support and incentives for people to work longer and for working age adults who have become economically inactive to return to work, investment in infrastructure and R&D, and delivering planned skills reforms. The government wants to ensure that those sectors identified as being the growth areas for the future UK economy (such as financial services, digital, artificial intelligence and robotics, renewable energy, technology and life sciences) will be supported.

The Autumn Statement was very light on direct tax changes. There were no

increases to any headline tax rates for individuals. There was however a freezing of many tax allowances and thresholds until 2028, and also some notable reductions such as the threshold at which the additional rate of income tax is paid and significant drops in the dividend allowance and capital gains tax annual exemption. The inheritance tax nil rate band was frozen again – it has been at its current level since April 2009. The result of the freezing and reduction in tax allowances and thresholds will be that fiscal drag will raise £billions of extra tax revenue from individuals in the next five years.

For businesses, the freezing of the employers national insurance threshold until 2028 will increase the tax cost of employing people. There will be some help on business rates. The VAT registration threshold will be frozen until 2026. There will be changes to R&D tax relief rules to ensure fairness and that tax relief is properly targeted. For energy companies there will be an increase to the so-called windfall tax; the Energy Profits Levy and a new temporary Electricity Generator Levy.

In this summary we provide some details of the tax changes that have been announced that will be of interest to owner managed businesses, entrepreneurs and private clients. We hope you enjoy reading this summary, and if you would like to discuss anything within your own context further, please do not hesitate to get in touch.

Impact on businesses

Companies and businesses did not escape the Chancellors desire to raise more taxes in the coming years.

The upcoming increase in Corporation Tax was already announced but the Chancellor went further with additional changes to Research and Development tax relief and the taxation of company cars.

Corporation Tax rates

The rates of Corporation Tax are increasing from 1 April 2023. The headline rate of Corporation Tax is to increase to 25% for companies with taxable profits in excess of £250,000 per annum. The rate will remain at 19% for companies with taxable profits below £50,000 per annum. For profits falling into the margin between these bands the effective rate is 26.5%. These limits are reduced based on the number of associated companies (see below). Despite the rises, the new rates remain the lowest of the G7 countries.

Capital allowances

The Annual Investment Allowance, which provides 100% relief on qualifying capital expenditure, will now permanently remain at £1m per annum after it was announced in 2021 Autumn Budget that it would be reduced to £200,000 from 31 March 2023. The generous 130% first year allowance on qualifying new and unused plant and machinery is still set to end on 31 March 2023.

To incentivise businesses to invest in charging infrastructure, the 100% first year allowance on expenditure on electric vehicle charging points is being extended to 31 March 2025 which was planned to end on 31 March 2023.

Associated company rules

The associated company rules, which are an extension to the current 51% related company rules, come into effect on 1 April 2023. This extension aims to broaden the scope of companies that are deemed to be related and will have an impact on the Corporation Tax rates that apply to associated companies and the timing of the payment of their Corporation Tax liabilities.

Research and Development (R&D) relief

It was noted by the Chancellor that the R&D regime has experienced abuse and potentially spurious claims by companies and their advisors. HMRC are cracking down on such claims but, alongside this, changes to the regime itself are to be introduced.

In an attempt to ensure that taxpayer support for R&D is as effective as possible, improve the competitiveness of the RDEC scheme and simplify the SME scheme, a number of changes will be made to both schemes from 1 April 2023.

The additional deduction available for qualifying R&D expenditure incurred under the SME scheme will reduce from 130% to 86% and the SME tax credit available to loss-making companies will decrease from 14.5% to 10%. Conversely, the RDEC credit will increase from 13% to 20%. It should be noted that these reductions are partially offset by the increase in Corporation Tax rates which mean that the underlying R&D relief is more valuable.

Company cars

The percentages used to calculate the taxable benefit on the provision of cars by companies to their employees are set to increase. For electric and ultra-low emission cars emitting less than 75g of CO2 per kilometre, the rate will increase by 1% for 2025/26, a further 1% for 2026/27 and a further 1% for 2027/28, up to a maximum of 5% for electric cars and 21% for ultra-low emission cars. For all other vehicles the appropriate percentage will increase by 1% for 2025/26 up to a maximum of 37% and will then be fixed for 2026/27 and 2027/28.

Additionally, from 1 April 2025, electric cars, vans and motorcycles will begin to pay Vehicle Excise Duty in the same way as petrol and diesel vehicles to ensure that all road users begin to pay a fair contribution as the take up of electric vehicles continues to accelerate. From 6 April 2023, car and van fuel benefit charges and the van benefit charge will increase in line with CPI.

VAT

Businesses are required to register for VAT when taxable supplies exceed the compulsory VAT registration threshold of £85,000 per annum and can deregister from VAT if taxable supplies reduce to below £83,000 per annum. These thresholds are at least double the EU and OECD averages and will remain at this level until 31 March 2024.

Diverted profits tax

From 1 April 2023, the rate of Diverted Profits Tax will increase from 25% to 31% in order to retain the six percentage point differential above the headline Corporation Tax rate. This should ensure that it remains an effective deterrent against diverting profits out of the UK.

Energy Profits Levy

The government acknowledged that a windfall tax can be an appropriate measure in the right circumstances. The Energy Profits Levy will increase to 35% from 1 January 2023 and be extended to 31 March 2028.

The rising rates of Corporation Tax will represent an additional cost for companies that needs managing like any other expenditure, particularly at a time when businesses are already feeling the squeeze. While the rates of relief for R&D are decreasing, this is against a backdrop of a higher underlying Corporation Tax meaning this still represents a valuable relief for companies that should be explored and maximised where applicable.

Jon Kicks
Corporate Tax Partner

Impact on individuals

The changes announced at this Autumn Statement will increase the amount of tax individuals will pay, not through an increase in the rates of tax but, as expected, through a freeze in allowances and tax bands affecting income tax, National Insurance contributions (NICs), capital gains tax and inheritance tax.

There were also announcements on the benefit in kind charges for company cars and vans, with rates continuing to reflect the government's aim of encouraging the take up of electric vehicles.

Income tax and NICs

The income tax personal allowance (currently £12,570), higher rate threshold (currently £50,270), and the NICs upper earnings limit and upper profits limit (both currently £50,270) were already fixed at their current levels until April 2026. These will now be frozen for an additional two years until April 2028. From July 2022 the NICs primary threshold and lower profits limit were increased to align with the personal allowance and will be maintained at this level from April 2023 until April 2028. The Class 2 lower profits threshold will also be fixed from April 2023 until April 2028 to align with the lower profits limit.

The income tax additional rate threshold will be lowered from £150,000 to £125,140 from 6 April 2023. This aligns with the point at which an individual's personal allowance is tapered down to zero. The additional rate of tax is currently 45% (39.35% for dividend income).

The dividend allowance, which has applied since April 2016, provides for a 0% tax rate on an individual's dividend income of up to £2,000 in a tax year. This rate applies regardless of the individual's overall level of income. It was announced at the Autumn Statement that this allowance will be reduced to £1,000 from April 2023, and to £500 from April 2024. Many individuals whose dividend income has previously been covered by the dividend allowance will now start to pay tax on their dividend income and will need to ensure that they are reporting their income correctly to HM Revenue & Customs (HMRC).

With effect from 6 April 2022 the dividend rates (except the 0% rate) were increased by 1.25%. The government announced in September this year that the dividend rates would revert to their pre-2022/23 levels from April 2023, however this has now been reversed and the dividend rates will remain at their current levels of 8.75%, 33.75% and 39.35%, for the basic, higher and additional rates respectively.

Capital gains tax

Currently, individuals can make capital gains of up to £12,300 per tax year before they start to pay capital gains tax. The Chancellor announced at the Autumn Statement that this annual exempt amount would reduce to £6,000 from April 2023 and to £3,000 from April 2024, bringing many more people into the scope of capital gains tax. It will also mean that more people will be required to report their capital gains to HMRC on a Self Assessment tax return and, where there is tax to pay on the disposal of a UK residential property, within 60 days of completion via a Capital Gains Tax on UK Property Disposal Return.

No changes were announced to the rates of capital gains tax and therefore the maximum rate remains at 20% (28% for gains on residential property). The lifetime limit on gains qualifying for business asset disposal relief remains at £1million and the lifetime limit for investors' relief remains at £10million; both of these reliefs afford a reduced tax rate of 10% applicable to qualifying gains.

Inheritance tax

The inheritance tax nil-rate bands are already set at current levels until April 2026 and will stay fixed at these levels for a further two years until April 2028. The nil-rate band will continue at £325,000, the residence nil-rate band will continue at £175,000, and the residence nil-rate band taper will continue to start at £2 million.

Stamp Duty Land Tax (SDLT)

In September 2022, the government increased the SDLT nil-rate threshold from £125,000 to £250,000 for all purchasers of residential property in England and Northern Ireland and increased the nil-rate threshold for first-time buyers from £300,000 to £425,000. The maximum purchase price for which first time buyers' relief can be claimed was also increased from £500,000 to £625,000. It has been announced that these changes will now be temporary but will remain in place until 31 March 2025.

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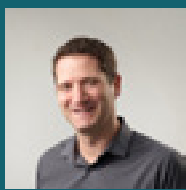
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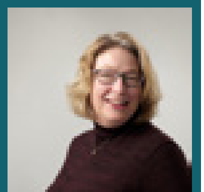
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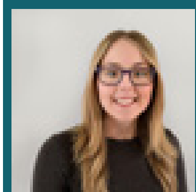
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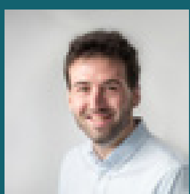
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