SPRING BUDGET 2023

AT A GLANCE

Introduction

Chancellor Jeremy Hunt announced that the UK economy will avoid a technical recession in 2023 as he delivered his Spring Budget. Widely dubbed the 'back to work Budget', the focus was on delivery of three of the government's economic priorities: halving inflation, growing the economy, and reducing national debt.

With energy prices at record highs and inflation peaking at 11.1%, businesses and individuals alike have been feeling the financial strain. Structural factors – including low business investment and increased labour market inactivity – have also held back growth and likely supported inflation. The Bank of England has taken steps to mitigate inflation by raising interest rates and the government's Energy Price Guarantee has reduced energy bills for millions. Against this backdrop, the Office for Budget Responsibility (OBR) forecast that Consumer Price Index (CPI) inflation would fall to 2.9% by the end of 2023.

The emphasis was on economic growth in the Spring Budget. The Chancellor highlighted the improved UK GDP growth, despite the UK still being behind the growth rates of other major economies. In forecast terms, the UK economy is on track to avoid recession, with a prediction of GDP increasing and debt falling in the medium term.

Further support measures for households were announced, with a clear focus on getting people back to work. These include free childcare for children aged nine months to four years (from April 2024 at the earliest) and an extension of the energy price cap of £2,500 for a further three months.

The Spring Budget provided very few new direct tax changes, with the majority of rates and allowances that will apply in the years ahead having already been announced as part of Autumn Statement 2022. For businesses, the significant increase in the headline rate of corporation tax was marginally softened by a series of investment tax breaks. For individuals, there were notable announcements for pensions; most significantly the abolition of the lifetime allowance and increase in the annual allowance.

In this summary we provide an overview of the tax changes for both businesses and individuals. If you would like to discuss anything within your own context further, please do not hesitate to get in touch.

Impact on businesses

There were no changes to the previously announced increases in corporation tax rates. The Chancellor did however announce new 'full expensing' rules; changes to the capital allowances rules which will mean companies will be able to write off the full cost of much more of their expenditure in the year of investment.

Corporation tax rates

As previously announced the following corporation tax rates take effect from 1 April 2023:

Taxable profits	Coporation tax rate
£50,000	19%
£50,001 - £250,000	26.5%*
£250,001+	25%

**Effective marginal rate of tax.*

The taxable profit bands are based on a single company and are to be divided by the number of associated companies.

Capital allowances

The Chancellor announced the following changes for coporation tax purposes:

- The existing super-deduction capital allowances regime is to be replaced on 1 April 2023 with first year allowances (FYAs). These are to provide 100% capital allowances for new and unused plant and machinery expenditure (main rate) and 50% for special rate expenditure (such as integral fixtures and fittings). The FYAs are to run for three years to 31 March 2026. The rules will contain certain exclusions, notably for expenditure on cars and plant and machinery used for leasing.
- The Annual Investment Allowance (AIA), which currently provides 100% tax relief on up to £1million of main and special rate expenditure is to become a permanent £1million allowance.
- The current main and special rate writing down allowances will continue to apply to expenditure ineligible for FYAs and the AIA, along with structures and buildings allowances on the acquisition, construction or renovation of eligible buildings and structures.

The following table compares the current rates of capital allowances and the effect of the changes:

	1 April 2022 - 31 March 2023	1 April 2023 - 31 March 2026
Super-deduction - main rate	130%	-
Super-deduction - special rate	50%	-
FYA - main rate	-	100%
FYA - special rate	-	50%
Main rate	18%	18%
Special rate	6%	6%
Structures & buildings allowances	3%	3%
AIA	100%	100%
AIA limit	£1,000,000	£1,000,000

The combined effect of the FYAs and AIA is that businesses are able to obtain 100% tax relief on special rate expenditure up to the AIA limit of £1million and 100% tax relief on unlimited eligible main rate expenditure, with any residual special rate expenditure relieved at 50%. Where the FYA is claimed, the disposal proceeds are to be subject to an immediate balancing charge.

Research and development (R&D)

As previously announced the following changes to R&D tax relief are to take effect from 1 April 2023 (except where otherwise stated):

- Additional relief will be available to small and medium enterprises who undertake intense R&D, defined as where the company's qualifying R&D expenditure exceeds 40% of its total expenditure in a period. Eligible companies are able to claim a payable credit rate of 14.5% instead of the standard 10% credit rate. The additional deduction rate will remain at 86% on top of the normal 100% tax deduction, as for non-intensive R&D companies. The following table compares the current rates of relief and the effect of the changes:

	1 April 2022 - 31 March 2023	1 April 2023 - 31 March 2024
RDEC expenditure credit	20%	13%
SME additional deduction	130%	86%
SME payable credit	14.45%	10%
SME intensive payable credit	-	14.5%
SME intensive additional deduction	-	86%

- The scope of qualifying expenditure will be expanded to include the costs of datasets and of cloud computing.
- Companies which have not made a claim within the previous three years will have to notify HMRC of their intention to claim within six months of the end of the claim period.
- An additional information form will need to be provided to HMRC for all claims made on or after 1 August 2023. This will include a senior officer of the company who is responsible for the claim and the name of the agent who advised on the company's claim.

Share incentives

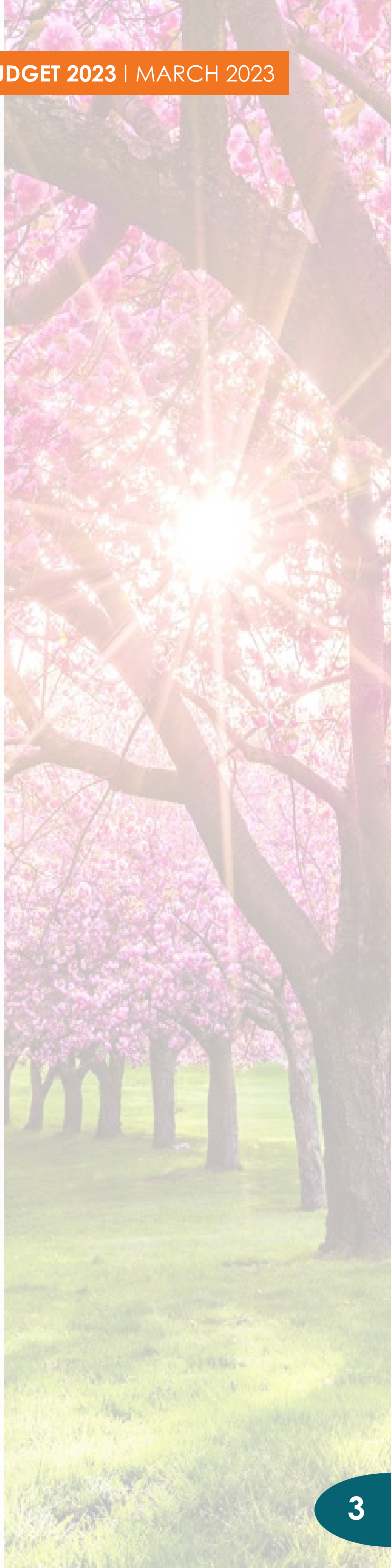
The Company Share Option Plan (CSOP) can provide a valuable alternative HMRC approved share scheme to the Enterprise Management Incentive (EMI) scheme for which some companies may not qualify. The previously announced doubling in value of options that can be granted to an individual under CSOP to £60,000, with effect from 1 April 2023, is therefore welcomed, along with the easing of minor technical requirements to the EMI scheme. 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.

Expansion of the Seed Enterprise Investment Scheme (SEIS)

As previously announced, from 6 April 2023, the amount that companies will be able to raise under the SEIS will increase to £250,000 (currently £150,000), the gross assets test limit will be increased to £350,000 (currently £200,000) and the age limit on a qualifying new trade will move to three years (currently two years). Finally, the investor annual limit will be doubled to £200,000.

"The existing super-deduction capital allowances regime is to be replaced on 1 April 2023 with first year allowances (FYAs). These are to provide 100% capital allowances for new and unused plant and machinery expenditure (main rate) and 50% for special rate expenditure."

Andrew Wilson
Corporate Tax Partner



Impact on individuals

With a focus on building the workforce, the Chancellor wants to encourage individuals to return to work to boost economic growth. There were no major changes to tax rates announced as most of these have been frozen at their current levels until April 2028, however there were significant changes announced to the taxation of pension savings to try and incentivise the over-50s to stay in work.

Income tax

As previously announced in Autumn Statement 2022, the income tax additional rate threshold will be lowered from £150,000 to £125,140 from 6 April 2023. The additional rate of tax is currently 45% (39.35% for dividend income). With effect from April 2023 the dividend allowance, which provides for a 0% tax rate on an individual's dividend income, will reduce from £2,000 to £1,000 (and then to £500 from April 2024).

The Chancellor confirmed that the starting rate for savings income would be frozen at £5,000, enabling individuals with less than £17,570 in employment income to receive up to £5,000 of savings income free of tax. Annual subscription limits for Junior ISAs and Child Trust Fund accounts will remain at £9,000 and the annual subscription limit for adult ISAs will remain at £20,000.

Pension savings tax limits

The pension annual allowance is the maximum amount of pensions savings an individual can make each tax year with tax relief without incurring a tax charge. The annual allowance is tapered down for individuals with income above certain limits.

With effect from 6 April 2023 the standard pension annual allowance will be increased from £40,000 to £60,000 and the money purchase annual allowance will be increased from £4,000 to £10,000 (the money purchase annual allowance is a reduced allowance for individuals who have flexibly accessed their pension savings). At the same time, the minimum tapered annual allowance will be increased from £4,000 to £10,000 and the income limit at which point the annual allowance starts to be tapered will be increased from £240,000 to £260,000. Individuals will continue to be able to carry forward unused annual allowances from the previous three tax years.

The pension lifetime allowance is the maximum amount of tax relievable pension savings an individual can benefit from over the course of their lifetime. If the lifetime allowance is exceeded, then the individual is subject to a tax charge on the excess.The Chancellor announced that the lifetime allowance charge would be removed from 6 April 2023 and the lifetime allowance abolished altogether from April 2024.

Finally, the current monetary cap on the amount of tax-free lump sum an individual can take when they become entitled to take their pension benefits is to be retained at £268,275. However individuals who already have a protected right to take a higher amount will continue to be able to do so.

Capital gains tax

There were no major changes announced to capital gains tax. The top rate remains at 20% (or 28% for residential property).

Lifetime limits for Business Asset Disposal Relief and investors relief remain at £1million and £10million respectively.

As previously announced, from April 2023 the capital gains tax annual exemption will reduce from £12,300 to £6,000 (and then to £3,000 from April 2024).

Another measure coming into force in April 2023 affects couples who are in the process of separating. The new rules will give spouses and civil partners more time to transfer assets between them following a separation, without incurring a possible capital gains tax charge. Under the current rules, spouses and civil partners are only able to transfer assets between them tax-free up to the end of the tax year in which they separate. After that, the normal capital gains tax rules apply, and a tax charge may arise. Legislation will be introduced to provide that spouses and civil partners be given up to three years after the year in which they cease to live together in which to transfer assets between them tax-free.

In addition, this treatment will also apply to assets that separating spouses and civil partners transfer between them as part of a formal divorce agreement. Further rules will be brought in to allow a spouse or civil partner who retains an interest in the former matrimonial home to be given the option to claim private residence relief when it is sold and for individuals who transfer their interest in the former matrimonial home, and are entitled to receive a proportion of the proceeds when the house is eventually sold, to be able to apply the same tax treatment to those proceeds as applied when they transferred the original interest.

Inheritance tax

The inheritance tax nil-rate band and residence nil-rate band will remain fixed at their current levels of £325,000 and £175,000 until April 2028.

The government will restrict the scope of agricultural property relief and woodlands relief to qualifying property situated within the UK from 6 April 2024. Currently, property situtated in the Channel Islands, Isle of Man and the European Economic Area qualifies for the relief.

Tax compliance, avoidance & evasion

Spring Budget 2023, whilst light on mainstream tax reform, did include some specific measures to tackle non-compliance, avoidance and evasion.

Tax administration and maintenance day

A new date has been added to the calendar with the government's introduction of a tax administration and maintenance day in Spring 2023. Whilst the exact date has not yet been announced, we expect this to follow shortly with the day being used to introduce tax administration policies and updates and publish consultation documents.

The last tax administration and maintenance day was 30 November 2021 and was said to be part of the further steps the government is taking to progress tax simplification, tackle non-compliance and ensure the UK tax system is fit for the modern world.

Capital gains tax

The government will legislate to close a loophole that can leave HMRC out of time to recover capital gains tax due when an asset is disposed of under an unconditional contract. The changes will apply in relation to contracts entered into on or after 1 April 2023 for corporation tax and 6 April 2023 for capital gains tax.

As announced in the Autumn Statement 2022, individuals who hold more than 5% of the shares and securities in a UK close company, and exchange some or all of those shares and securities for an equivalent holding in a non-UK company, will be deemed to have acquired shares in a UK company for the purposes of capital gains tax. This means that individuals will be subject to UK tax on any income or gains made in respect of the non-UK company shares, as if they were UK company shares. These rules apply from 17 November 2022. Whilst the changes will have no effect on UK resident, UK domiciled individuals, it will affect non-UK residents and those with a non-UK domicile who may have previously avoided UK taxation on the new non-UK company holding.

Simplification for trusts & estates

Currently a HMRC concession removes trusts and estates from the requirement to submit a self-assessment tax return where the trust or estate has a tax liability below £100 that has arisen solely from savings income in the tax year. This concession will now be formalised and extended, having legislative effect from April 2024. The extension means that trusts and estates with any income under £500 (reduced accordingly where the settlor has created multiple trusts, with a minimum of £100) in the tax year will also not be required to complete self-assessment tax returns.

However, as trusts and estates within these limits are deemed to have paid no income tax, this also affects the beneficiaries as no tax credit would be attached to distributions of income. For non-taxpayers this will remove the need for tax repayment claims to be made, but for taxpayers there may be additional tax to pay and tax returns may be required where this was not previously the case.

HMRC also intends to make changes to inheritance tax regulations to remove non-taxpaying trusts from reporting requirements.

Promoters of tax avoidance schemes

The government will consult shortly on the introduction of a new criminal offence for promoters of tax avoidance who fail to comply with a legal notice from HMRC to stop promoting a tax avoidance scheme and expediting the disqualification of directors of companies involved in promoting tax avoidance including those who exercise control or influence over a company.

Cryptoassets

Cryptoassets are becoming increasing popular, and with this comes increased interest from HMRC. In recent years HMRC have published a wealth of guidance in respect of the taxation of cryptoassets, in addition to sending 'nudge letters' to individuals they think may hold such assets.

Now the government is introducing changes to the self-assessment tax return requiring amounts in respect of cryptoassets to be identified separately. These changes will be introduced on the self-assessment tax return forms for the 2024/2025 tax year.

HMRC guidance

Following the closure of the Office of Tax Simplification, the government and HMRC are jointly responsible for the simplification of the UK tax system.

As part of this, the government announced that it will collaborate with businesses and representative bodies to undertake a systematic review of tax guidance and forms for small business over the next two years to make it easier for small businesses to interact with the tax system as they set up and grow. The aim is to ensure guidance is accessible to all and which is clear, simple and easy to find. There are also plans to introduce step-by-step interactive guidance and modernise HMRC forms.

Delay in making tax digital

As previously announced, the introduction of making tax digital for income tax self-assessment has been delayed until April 2026 for individuals. General partnerships will not be required to join until after this date.

Consultations

The government will explore the arguments for and against measures to combat business rates avoidance and evasion and will publish a consultation document in the near future.

The government will consult on expanding the cash basis of accounting with the view of increasing the number of eligible businesses and take-up.

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Alongside our wider business growth, our tax team is now over 30 people, providing a market-leading service dedicated to the needs of the private business world. If you would like to discuss the Spring Budget, or anything tax, feel free to contact any one of our specialists below.


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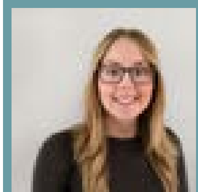
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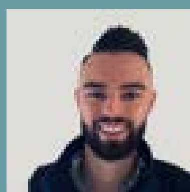
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