Autumn Statement 2023

What will the changes mean for you?

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Chartered Accountants,
Business & Financial Advisers

Summary

The countdown (to the general election next year) has clearly started with a range of tax cuts being announced in today's Autumn Statement.

Whilst cuts to inheritance tax (or even its abolition) had been much debated in the last few weeks, it didn't even get a mention today and instead it was class 2 NIC (which is paid by the self-employed) that was abolished. It will be interesting to see if the Chancellor has kicked his much-rumoured changes to inheritance tax into the long grass or is keeping them under wraps as a potential vote winner in next year's Spring Budget.

NIC was a clear target for the Chancellor today, with a 2% reduction in the main rate of employee NIC which will enhance a worker's net pay by up to £754 per year. There was further good news as the change will be introduced on 6 January 2024 (rather than the traditional 6 April 2024) – presumably so that voters will feel the benefit for a few extra months before next year's election!

The main rate of NIC for the self-employed was also reduced, but only by 1% (from 9% to 8%) which was probably to take account of the self-employed also benefitting from the abolition of class 2 NIC.

There were several welcome announcements for businesses, the main one being the permanent extension of the "full expensing" capital allowances regime for companies (which was due to expire in March 2026). This announcement was the largest tax cut, costing the Government £11 billion per year (which is much more than the £7 billion that the abolition of inheritance tax would cost). The extension of the 75% business rates discount for the Retail, Hospitality & Leisure sector should help these businesses who are facing a challenging 2024.

Whilst today's tax cuts are very welcome, the continued freezing of the tax thresholds (which is estimated to raise in the region of £50 billion per year of additional tax through "fiscal drag") makes it feel as though the Chancellor is giving with the one hand and taking away with the other. Perhaps today is just an appetizer and the main course of tax cuts will be served in next year's Spring Budget, which is only 4 months away - so we don't have long to wait!

Income Tax Rates

No changes were announced with regards to income tax directly.

We therefore have the same £12,570 tax free personal allowance, basic rate tax band (20%) to £50,270, higher rate tax band (40%) to £125,140 and additional rate tax band (45%) thereafter, as we have had in recent years.

The tax-free personal allowance continues to be tapered between £100,000 and £125,140.

As previously announced, the tax-free dividend allowance is reducing again in April 2024 from £1,000 to £500.

National Insurance Contributions (NIC)

With the view of incentivising work, there were several measures announced to reduce the national insurance contribution (NIC) burden for both the employed and self-employed.

Firstly, the main rate of class 1 NIC paid by employees on earnings between £12,570 and £50,270 is being reduced from 12% to 10%. This is an NIC cut for every employee in the country earning over £12,570 and could be worth as much as £754 in NIC savings. This kind of change would ordinarily take place at the start of the following tax year but it is being introduced early with effect from 6 January 2024.

The equivalent class 4 NIC paid by the self-employed on profits between £12,570 and £50,270 is being reduced from 9% to 8% with effect from April 2024. This should benefit all self-employed individuals with profits over £12,570 and could be worth as much as £377 in NIC savings.

In addition to this, the flat rate class 2 NIC that is also paid by the self-employed (currently £179.40 per year) is being scrapped from April 2024. Access to contributory benefits such as the state pension will continue for all self-employed individuals with profits over £6,725 despite not paying any class 2 NIC. Those with profits under £6,725 can continue to elect to voluntarily pay class 2 NIC to retain these benefits.

Capital Allowances

In an announcement which had been widely flagged, the Chancellor has announced that Full Expensing for companies will now be permanent. When Full Expensing was announced in the Spring 2023 budget it was going to have an end date of 31 March 2026. Now it will have no end date, which is good news for companies.

Full Expensing enables companies who invest in brand new plant and machinery to qualify for 100% tax relief in the year of spend. It applies to general or main pool qualifying assets only. Special rate qualifying expenditure gets a 50% first year allowance. There are certain expenditures that don't qualify for Full Expensing, including cars and plant and machinery that is hired out without an operator.

The £1M Annual Investment Allowance (AIA) remains in force. So Full Expensing is only of benefit to companies whose expenditure exceeds the £1M AIA threshold. The Chancellor claims it is the biggest tax cut for business in 50 years, 8 months after increasing the main rate of corporation tax by 6p in the pound. We look forward to seeing its effects on the wider economy.

Research & Development

The Government has been reviewing its approach to UK innovation, including the Research & Development (R&D) tax relief schemes, with the aim of ensuring that UK science and technology can go from strength to strength, driving long term sustainable growth and productivity.

A single R&D scheme

The consultation on moving to a single R&D scheme for all companies, combining the Research and Development Expenditure Credit (RDEC) and small and medium-sized enterprises (SME) schemes, closed on 13 March 2023. Today the Chancellor announced that R&D tax relief would change for companies with accounting periods commencing on or after 1 April 2024. (Originally the proposition was that it would change for expenditure incurred from 1 April 2024, so a company with an accounting period which straddled 1 April 2024 would have had to deal with both the "old" R&D rules and the "new" R&D rules, but that is no longer the case).

To summarise, the "old" RDEC and SME schemes will be combined from 1 April 2024 in what is referred to as a "merged" R&D scheme. All companies under this combined R&D scheme will get tax relief at a headline rate of 20% of qualifying R&D expenditure. The merged scheme will contain a measure that is currently used in the RDEC scheme but not in the SME scheme; relief will be reduced by a "notional" tax charge based on the company's applicable tax rate (if profit making) or at a flat 19% if loss making. Any "notional tax" retained can be carried forward as a credit against the company's next available corporation tax liability (subject to having a large enough PAYE/NIC liability for employees to cover it).

The current complexities around grant funding and subsidised expenditure will be removed so that, for example, if a company receives a grant that covers part of the cost of its R&D, or if the cost of the R&D is otherwise met by another person, then this will not reduce the amount of tax relief available under the merged scheme.

In addition, the current complexities in the scheme concerning contracted R&D and which company in a chain of contractors can claim R&D relief will be removed so that the claim rests with the "instigator" of the R&D. Therefore, where a company (A Limited) with a valid R&D project contracts a third party to undertake some of the work connected with an R&D project, it is the contracting company (A Limited) that can claim the R&D relief. The third party cannot claim it. Alternatively, if a company (B Limited) is contracted to do some general work for another company (C Limited), but the work does not form part of an R&D project for C Limited and was instead initiated by B Limited, it is B Limited who can make the claim. The aim of the changes around contracted R&D is to make it easier to establish who can make the claim, and to avoid the position under the current rules whereby sometimes neither party can claim R&D relief.

An "intensive SME" scheme

There will also be a separate R&D scheme for "SME R&D intensive companies". From 1 April 2023, a specific R&D SME scheme for loss-making, R&D intensive companies was introduced, under which eligible loss-making companies can claim £27 from HMRC for every £100 of R&D investment (being an 86% uplift on spend x 14.5% "cash back"), instead of £18.60 for non R&D intensive loss makers (under the current SME scheme). From 1 April 2024, those companies entitled to the £27 rate of R&D relief will claim under the "intensive" scheme rather than under the merged scheme. There was a requirement for a company to have qualifying R&D spend worth at least 40% of its total expenditure to be classed as an "intensive SME"; today this was reduced to 30% for accounting periods which start on or after 1 April 2024, to bring more companies into this category. Note that this "intensive SME" scheme is only for loss making companies. Any eligible company that makes

a valid “intensive SME” claim in year 1 will also be able to make a claim in year 2 (even if it no longer meets the 30% ratio).

It was also noted that further action may be needed to reduce the unacceptably high levels of non-compliance in the R&D reliefs, and HMRC will be publishing a compliance action plan in due course.

Construction Industry Scheme (CIS)

A consultation into the Construction Industry Scheme (CIS) concluded earlier in 2023. As part of the Autumn Statement the Government has announced that it will:

- add compliance with Value Added Tax (VAT) obligations to the Gross Payment Status (GPS) compliance test
- expand the grounds for immediate cancellation of GPS. VAT, Income Tax Self-Assessment, Corporation Tax and PAYE will be added to the taxes where HMRC is able to immediately cancel GPS if they have reasonable grounds to suspect that the GPS holder has fraudulently provided an incorrect return or information
- introduce regulations to remove the majority of payments from landlords to tenants from the scope of the CIS

In addition to the legislative changes to the GPS compliance test, the Government will bring forward the first review of a GPS holder’s compliance history from 12 months after application to 6, reverting to 12 months thereafter.

Given that Gross Payment Status is vital for those operating in the Construction Industry Scheme to maintain a healthy cash flow, the above changes show that it is more important than ever before to ensure that a business’ tax obligations are up to date. Speak to your usual Dodd & Co contact if you have any concerns.

GPS and CIS registrations and applications will no longer be available via telephone (apart from those who cannot apply digitally or via post).

The above changes will come into force on 6 April 2024. In due course, the Government will mandate digital as the only channel for CIS applications.

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Business Rates

With many retailers continuing to close their doors due to both increased costs and more competition from online businesses, the Government has recognised that many businesses are still in a very vulnerable position and it is important to continue providing support to these businesses. Today it was announced that a business rates support package worth £4.3 billion will be introduced over the next five years to support small businesses and the high street.

It was announced that the small business rates multiplier will be frozen for a fourth consecutive year and support will also continue to be provided to the retail, hospitality and leisure sectors with 75% relief giving support up to a cash cap of £110,000 per business.

For large retailers, the standard rate multiplier will still be increased in line with CPI inflation although many large retailers have already recently benefitted from the 2023 business rates revaluation and other support packages announced in recent years. The Government also expects that many large retailers will also benefit from the full expensing relief, which as of today has been made permanent.

Universal Credit

The Chancellor has confirmed that Universal Credit payments will be increased by inflation from April 2024 in line with September's inflation figure of 6.7%. Payments should increase by an annual average of £470 for an estimated 5.5 million households currently claiming Universal Credit.

However, the Chancellor went on to announce new tougher measures being implemented within the benefits system. In a major overhaul of the current system, job seekers who claim benefits and fail to find work after 18 months of intensive support will be given mandatory work placements at that point. If the claimant does not comply with the new mandatory work placement for a period of 6 months, their benefits will then stop altogether at that point.

The Chancellor also confirmed a reform to the benefits process for those who are signed off work due to sickness or a disability. The reform will concentrate on the

current fit note process, concentrating on the treatment a person needs due to sickness rather than the time signed off work. The current work capability assessment will also be reformed to reflect the greater flexibility and availability of home working since the pandemic.

Pensions

Currently workplace pension arrangements tend to differ, with employers having their own dedicated scheme or having an arrangement with an external pension provider, to enable both the employer and their employers to make contributions.

However, today the Chancellor has announced plans to consult on a pension 'pot for life' model, designed to reduce the number of legacy workplace small pots within the UK pensions market.

The 'pot for life' will give employees the right to choose the scheme into which their employer pays pension contributions.

The Department of Work and Pensions (DWP) has in the past consulted on how best to reduce the number of deferred small pension pots in the UK, previously appearing to lean towards a 'default consolidator' approach for schemes of less than £1,000 in value. The 'pot for life' development is somewhat different as this would ultimately give employees greater choice as to where their auto-enrolment pension contributions are invested. A similar model currently operates in Australia.

The proposal looks to support the Government's aim of boosting investment in the UK economy via retirement savings, shrinking the number of small unmanaged legacy pots by absorbing them into larger schemes investing higher proportions in UK assets. Back in July after the Chancellor's Mansion House speech, some of the UK's largest pension schemes announced that they would commit to investing 5% of their default funds into unlisted equities by 2030, at the time they were investing less than 1% in such assets. Today the Chancellor claimed that "by 2023, the majority of workplace DC (Defined Contribution) savers will have their pension pots managed in schemes over £30bn".

It will have come as a great relief to pensioners that the Government is retaining the "triple-lock". Under the pension triple-lock, the rate of the state pension rises by the higher of inflation, wages or a flat 2.5%. With wage growth hitting record highs over 2023 some commentators suggested the end was nigh for the triple-

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lock. By retaining it, the value of the state pension will increase by 8.5% in April 2024, this means a revised pension of £221.20 per week, an extra £17.32 per week.

VAT

VAT reliefs are to be extended on energy saving materials.

VAT reliefs already exist to zero rate installations of certain energy saving materials such as solar panels, air and ground source heat pumps and insulation, when fitted in residential accommodation. From February 2024 the reliefs will be extended to installations of these (and some other) materials in buildings used solely for relevant charitable purposes.

It's important to remember that some buildings occupied by charities, frequently those where the charity charges for activities undertaken in it, do not qualify as "relevant charitable buildings" and so would not be eligible for the zero rating. It is worthwhile checking this point before relying on the VAT relief being available.

Duties

Alcohol duties have been frozen at current levels until 1 August 2024, but in line with the Government's goal of a smokefree generation, duty will increase on all tobacco products except hand rolling tobacco by RPI + 2% from 22 November 23. Duty on hand rolling tobacco will increase from the same date by RPI + 12%.

If you have any queries on the Autumn Statement 2023 please do not hesitate to contact one of our tax specialists on 01228 530913 or 01768 864466.