Autumn Statement 2022

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Overview

Today's Autumn Statement was very much targeted at the financial markets with a view to providing credibility and stability to the UK's public finances, which is not surprising given the fallout from the recent mini-budget and the fact that Jeremy Hunt is the 4th Chancellor in just over 4 months!

Austerity 2.0 has been mentioned a lot in the run up to today's Statement and everyone will have their own view on this, but with £55 billion being clawed back by the government through a combination of significant tax rises and spending cuts there is no doubt that 2023 is going to be a very challenging year for both households and businesses.

It is good to see the return of the OBR's independent report accompanying the government's Statement. Whilst this confirms the challenging outlook in that the UK economy will shrink by 1.4% in 2023, there are some positives with growth forecast to increase in 2024 by 1.3% and to exceed 2.5% in 2025 and 2026.

Jeremy Hunt rightly announced that the current high rate of inflation is his number one target in the short term and again there are signs for optimism beyond 2023, because the OBR's report forecasts inflation dropping dramatically to 0.6% in 2024 and actually becoming negative (-0.8%) in 2025. This should all help to alleviate the pressure on interest rates which will be very much welcomed by both businesses and homeowners.

As expected, there was no increase in income tax rates, but the Chancellor did announce the freezing of tax thresholds for a further two years to April 2028. This will generate a significant amount of additional tax revenues, particularly with earnings currently rising at an average rate of 5% through the so-called effect of fiscal drag. The headline grabbing tax announcement today (particularly given that we have a Conservative government) is the lowering of the 45% income tax threshold from £150,000 to £125,140 which will result in an extra 232,000 individuals paying the top rate of income tax.

The government naturally have one eye on the next general election in two years and announced a 10.1% increase in state pensions and benefits, which keeps their manifesto pledge and reinforces the compassionate approach that they have been keen to portray in recent weeks.

Hopefully today finally sees the last day of new tax announcements for 2022, but to quote Harold Wilson "a week is a long time in politics" and given that we still have 6 weeks to go, it is quite possible that we may be reporting to you again before we see 2023!

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Income Tax

The biggest change to income tax announced today was the reduction of the point at which the 45% "additional rate" tax is charged. Previously this rate kicked in when earnings hit £150,000, however this threshold is reducing to £125,140 from April 2023 which will cost high earners up to an extra £1,250 annually in tax. Unfortunately, the dreaded "60% tax band", where the personal allowance is tapered between £100,000 and £125,140, remains intact.

There were small tweaks to the tax-free dividend allowance which is currently £2,000. This will be reduced to £1,000 from April 2023 and then further reduced to £500 from April 2024.

Other announcements weren't really changes as such; they were effectively "more of the same"! Instead, the new chancellor opted for threshold freezes as a way of collecting more tax. The tax-free personal allowance will therefore remain at £12,570 for another five years to April 2028. The point at which 40% tax is charged is also being frozen at £50,270 for the same period to April 2028.

National Insurance Contributions (NIC)

There have been several changes to NIC rates and thresholds already this year, with some U-turns along the way. From April 2023, these fiddly tweaks and mid-year changes should hopefully settle down.

The point at which class 1 NIC begins to be paid by employees, and also the point at which the self-employed begin to pay their equivalent class 4 NIC, is now tied to the same level as the tax-free personal allowance of £12,570, which was a welcome simplification announced earlier this year.

The main NIC rates themselves were all increased by 1.25% from April 2022, however Kwasi Kwarteng reversed this increase in his infamous September mini budget. This 1.25% NIC reversal was one of a very few policies from Kwarteng's mini-budget to survive and we are therefore back down to the "previous" main rates of 12% for employees and 9% for the self-employed which will continue into the new tax year from April 2023.

For the avoidance of doubt, this 1.25% reversal on NIC rates did not follow through into the dividend tax rates, as these have remained at the now slightly higher levels of 8.75%, 33.75% and 39.35% for basic/higher/additional rate taxpayers accordingly.

Corporation Tax

The planned increase in the main rate of corporation tax to 25% for companies with over £250,000 in taxable profits, with a small profits rate of 19% for taxable profits up to £50, 000, will go ahead from 1 April 2023. Companies with profits between £50,000 and £250,000 will pay tax at the main 25% rate reduced by a marginal relief, which results in an effective tax rate of 26.5% for profits falling within this £200,000 band of profits.

The rate of Diverted Profits Tax will increase from 25% to 31%, on the same date, in order to retain a 6 percentage points differential above the main rate of Corporation Tax.

The planned change to make the Bank Corporation Tax Surcharge 3% will also go ahead which, added to the new 25% main rate, will give banking companies a tax rate of 28%.

The government is introducing an Electricity Generator Levy, a temporary 45% tax on companies that will be levied on "extraordinary returns" from low-carbon UK electricity generation arising from 1 January 2023 to 31 March 2028. Extraordinary returns will be defined as the aggregate revenue that generators make in a period from in-scope generation at an average output price above £75/MWh. The tax will be limited to generators whose in-scope generation output exceeds 100GWh across a period and will only then apply to extraordinary returns exceeding £10 million. The levy will therefore not affect those businesses generating small scale outputs or using low carbon generation methods for their own businesses.

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Business Rates

Whilst many businesses continue to wait for a fundamental reform to the business rates system (in particular to address the perceived unfairness between the hight street and online retailers), they will be partly pleased to see the government announce a £14 billion support package.

The main announcement is a freezing of the business rates multiplier for 2023/24 (which would otherwise have increased by 6%) and this will save businesses £9 billion over the next 5 years.

From 1 April 2023, properties will be revalued for business rates purposes and the Transitional Relief scheme will ensure that those businesses with lower valuations will benefit immediately, whilst those with higher valuations will see their rates bills gradually increased, in most cases, over a transitional 3 year period.

Businesses currently qualifying for Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) which lose or have reduced eligibility from SBRR or RRR (due to a rates bill increase) will see their increased bills capped at £600 per year from 1 April 2023.

There is welcome news for the Retail, Hospitality and Leisure sector as businesses will see their current business rates relief being increased from 50% to 75% for the 2023/24 year, again up to a cash limit of £110,000 per business (in a similar manner to 2022/23).

On a slightly disappointing note, the previously announced new Improvement Relief is to be deferred for a year until April 2024 before it is introduced.

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Capital Allowances

The much welcomed 130% super deduction rate for companies (that was introduced back in April 2021) will come to an end on 31 March 2023 as originally planned. This is to coincide with the main corporation tax rate increasing to 25% in April 2023.

The Annual Investment Allowance is staying at £1,000,000 indefinitely, which is broadly welcome, given that until September's Growth Statement it was reducing back down to £200,000 from April 2023, although calls by some for additional incentives have gone unheeded.

100% first year allowances for electric vehicle charge-points will be extended to 31 March 2025 for corporation tax and 5 April 2025 for income tax. They were previously going to come to an end on 31 March 2023 and 5 April 2023.

Capital Gains Tax (CGT)

The Chancellor announced that the CGT annual exemption, which is the level of capital gains that can be realised by an individual in a tax year without paying CGT, will be reduced from £12,300 to £6,000 with effect from 6 April 2023. This could mean an increased CGT liability for some taxpayers in the 2023/2024 tax year of up to £1,764.

He then went on to confirm that the annual exemption would be subject to a further reduction with effect from 6 April 2024, when it will be lowered to £3,000.

Trusts generally benefit from a CGT annual exemption equating to 50% of that available to individuals, and so many trustees will also see an increase in their annual CGT liability.

From a practical viewpoint, the reduced annual exemption will result in more taxpayers having a requirement to report capital gains and make CGT payments than was the case previously.

In more positive news for taxpayers, no changes were announced to the headline rates of CGT, nor were any changes announced to the reliefs that are available (which will be particularly welcome news to business owners who may be considering selling business assets).

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VAT

Although there were no changes to VAT rates or rules, the VAT registration and deregistration thresholds will be frozen at £85,000 and £83,000 respectively until 31 March 2026, effectively dragging more businesses into VAT registration as their turnover grows to try to keep up with inflation.

Benefits in Kind (BIKs)

The company car tax rates for 2023/24 and 2024/25 have already been announced and show no changes to 2022/23. The Autumn Statement increases the BIK percentages for electric and ultra-low emission cars (that's cars emitting less than 75g C02 per km) by 1% in 2025/26, a further 1% in 2026/27 and a further 1% in 2027/28. This will give a maximum rate of 5% for fully electric cars and 21% for ultra-low emission cars by 2027/28.

Rates for all other car bands will be increased by 1% in 2025/26, up to a maximum percentage of 37%, and will then be fixed in 2026/27 and 2027/28.

The van benefit in kind charge and the car and van fuel benefit charges will be increased in line with CPI inflation with effect from April 2023. These rates will be legislated in December 2022.

IR35

The 2017 and 2021 reforms to the off-payroll working rules – also known as IR35 – will be maintained.

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Stamp Duty Land Tax (SDLT)

Set against a backdrop of Kwasi Kwarteng increasing the 0% threshold for residential properties to £250,000 and enhancing the relief available to first time buyers, the Chancellor announced that he would not be disturbing the SDLT cuts that had been introduced by his predecessor in the short term.

He did however announce that the cuts would be temporary, and they would be reversed from 1 April 2025. The Chancellor noted that in the intervening period, it was hoped that the cuts would help to counteract the reduced activity in the housing market which has been forecast by the OBR.

This will be a relief for those in the process of buying a house, and the Chancellor has provided some certainty as to the position moving forward for all potential purchasers.

Investment Zones

One of the previous Chancellor's big announcements in the September 2022 Growth Statement was the planned introduction of Investment Zones, with significant tax and regulatory benefits. The new Chancellor appears to have significantly scaled these back in the Autumn Statement, although any tax changes have yet to be announced.

The Government instead will refocus the Investment Zones programme to catalyse a limited number of high potential clusters, working with local stakeholders. These will be announced in the coming months. The existing expressions of interest will therefore not be taken forward. Whether or not there will be any Investment Zones in Cumbria remains to be seen.

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R&D

Although public spending on R&D will increase to £20 billion a year by 2024-25, tax relief on R&D will change, particularly with regard to the SME scheme, as the government seeks to ensure that the objectives of the relief are met.

There is significant error and fraud in the small and medium-sized enterprises (SME) scheme, with the generosity of the relief making it a target for fraud. By contrast, the separate R&D expenditure credit (RDEC) – where the SME scheme cannot be used - represents better value but has a rate that is less internationally competitive. The government is therefore rebalancing the rates of the reliefs.

For expenditure on or after 1 April 2023, the Research and Development Expenditure Credit (RDEC) rate will increase from 13% to 20%, the small and medium-sized enterprises (SME) additional deduction will decrease from 130% to 86%, and the SME credit rate (at which R&D losses can be surrendered for a cash payment) will decrease from 14.5% to 10%.

As previously announced at Autumn Budget 2021, the R&D tax reliefs will also be reformed by expanding qualifying expenditure to include data and cloud costs, refocusing support towards innovation in the UK, and targeting abuse and improving compliance.

Interestingly, the government will also consult on the design of a R&D single scheme for the future.