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Sunak's Spring Statement

At the start of this year very few tax changes would have been expected in today's Spring Statement (these are usually saved for the main budget in Autumn), but a perfect storm of rising costs and future inflationary pressures for both households and businesses forced the chancellor's hand to announce a range of tax and NIC cuts.

One of the main headlines was a reduction in the basic rate of income tax for the first time in 16 years – although it is disappointing that its introduction is not until 2024 (but partly understandable given its cost of over £5 billion per year).

Individuals have been given more earlier support by the alignment of the NIC threshold with the personal income tax allowance of £12,570 – this increase in the NIC threshold by £3,000 in July 2022 will save taxpayers £330 per annum and largely offset the additional cost of the 1.25% health and social care levy that was announced last year and takes effect on 6 April 2022.

Whilst the chancellor resisted calls to abolish the 5% VAT rate on home electricity and fuel bills, he acknowledged the rising costs of energy for homeowners by abolishing VAT on energy saving materials, such as insulation, heat pumps and solar panels.

A cut in fuel duty would have been unheard of last year against the backdrop of important environmental initiatives such as the UN Climate Change Conference in Glasgow, but the chancellor today announced a temporary reduction of 5p/litre which will help both households and businesses during the next 12 months.

Businesses were also given welcome support with a £1,000 increase in the Employment Allowance (effective from 6 April 2022) and the promise of further tax reforms which the government will consult on during the Summer in the run up to the main Autumn budget. It will be very interesting to see if the government still push ahead with the one-third increase in UK corporation tax rates (from 19% to 25%) which was announced last year and is set to be introduced in April 2023. Naturally we will keep you informed during the course of this year on any significant developments that take place in relation to these tax consultations.

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Income Tax Rates

In a surprise announcement, it was confirmed that the basic rate of income tax will be reduced from the current 20% rate, down to 19%. This is the first time the basic rate of income tax has been reduced in 16 years.

This tax reduction is however not being introduced until April 2024 so taxpayers will have to wait another couple of years to feel the benefit of this.

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National Insurance Contributions (NIC)

With the rising cost of living, pressure was building to scrap/delay the upcoming 1.25% NIC rise which was announced last year as part of the health and social care reform.

The increase will go ahead as planned from April 2022, however as a softener, the threshold at which NIC begins to be levied is being significantly increased from the current £9,568 threshold to be in line with the tax free personal allowance of £12,570.

This tweak will result in 70% of workers actually being better off than they were before, even after taking into account the 1.25% increase to the rate.

The self employed will also benefit from this increase as their class 4 NIC thresholds will rise in line with the class 1 NIC thresholds relevant to employees. In addition, the £3.15 per week class 2 NIC payable by the self employed will not be levied unless profits exceed the £12,570 personal allowance which will ensure that absolutely no tax or national insurance is charged for anyone earning under this threshold, regardless of whether they are employed or self employed.

The threshold at which employers start to pay employers NIC has not seen the same increase and this will just see a relatively small increase to £9,100 as originally planned (despite also being subject to a 1.25% on their employers NIC rate from April 2022). Employers were not forgotten entirely however, as the “employment allowance” will be increased from £4,000 to £5,000 from 6 April 2022.

Due to the lack of time for software developers to make changes to their software in time for 6 April 2022, these NIC thresholds will actually be increased with effect from 6 July 2022.

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VAT in the Hospitality and Tourism Sector

In July 2020 the Government announced the introduction of a temporary VAT rate to help support businesses in the hospitality and tourism sector due to the Covid pandemic. The spring 2021 Budget saw an extension to the temporary VAT rate granted, with an interim VAT rate also announced to ease the transition back to the standard VAT rate from 1 April 2022. No doubt for businesses within this sector the temporary VAT rate has been a welcome measure – however it will soon come to an end. From 1 April 2022 the VAT rate for this sector will revert to the standard rate.

VAT Thresholds and Rates

The VAT registration threshold will remain set at £85,000 for 2 years from 01/04/2022 and the VAT deregistration threshold of £83,000 will also remain unchanged.

There will be no increase in UK VAT rates.

Making Tax Digital

After the success of the previous Making Tax Digital roll out in 2019, the scheme has now been extended to draw in all VAT registered businesses with a taxable turnover below the current VAT threshold. These businesses will be required to operate Making Tax Digital for their VAT reporting and record keeping obligations from 01/04/2022.

VAT Cut for Energy Saving Materials

Although a VAT relief already exists to allow 5% VAT to be charged on certain energy saving materials, this relief will be extended, simplified and the rate of VAT cut from 5% to 0% for the 5 years from 1 April 2022.

The previous relief had several tests or catches. Installers had to look at whether the customer met a “social policy condition” (such as being aged over 60 or in receipt of benefits), and whether materials were less than 60% of the total installation cost. Both tests have now been removed and the zero rate will be available to all and regardless of the particular split of materials and labour.

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VAT Cut for Energy Saving Materials (CONT)

As well as having these two restrictions removed, the relief has been extended to include wind and water turbines, as well as the existing solar panels, air and ground source heat pumps, wood fuelled boilers, micro combined heat and power units, insulation, draught stripping and controls for central heating and hot water systems.

In summary a simpler, wider and enhanced VAT discount will be available for energy saving installations from 1 April 2022.

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Fuel Duty

In a welcome move to address rapidly escalating fuel prices, fuel duty will be cut by 5p/litre from 6pm on 23 March 2022. The government has committed to keeping this reduction in place for a full year until March 2023, and state that it will save an average car driver £100 a year, an average van driver £200 a year and an average haulier £1,500 a year. Before the reduction, petrol fuel duty at 57.95p/litre represented about 1/3 of the cost of each tank at the filling station.

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Household Support Fund

In September 2021 the government announced that vulnerable families would be able to access a new £500 million support fund to help them cover essential living costs over the Winter. Local Authorities administer the funding with vouchers often worth up to £144 issued to those in need to help them pay for food, clothing and other household bills. To be eligible for the funding, households must be receiving a qualifying benefit such as Universal Credit or Pension Credit.

An additional £500 million funding was announced today and this will be available to Local Authorities from April 2022, doubling the funding to £1billion in total. To check on eligibility, or to obtain further information on the Household Support Fund, please contact your local authority about the funding.

No changes were announced with regard to Universal Credit

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Research & Development (R&D) tax relief reform

The Chancellor reminded us that, as set out in the Autumn 2021 Budget, R&D relief will be extended by expanding qualifying expenditure to include data and cloud costs and now also pure mathematics. R&D relief will also be reformed so that support is refocussed towards innovation in the UK and to ensure the system is globally competitive while properly incentivising innovation, increasing compliance and combating abuse.

The Government has recognised that there are some cases where it is necessary for the R&D to take place overseas and will, therefore, legislate so that expenditure on overseas R&D activities can still qualify where there are material factors such as geography, environment, population or other conditions that are not present in the UK and are required for the research (e.g. deep ocean research), and regulatory or other legal requirements that activities must take place outside of the UK (e.g. clinical trials). It will also consider whether the large company RDEC scheme should be made more generous.

Details of the reforms have not yet been decided. Further announcements will be made in the Autumn and changes will come into effect from April 2023.