Spring Budget 2023 Analysis

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Spring Budget 2023 Overview

The Chancellor referred to his announcements today as a "Budget for Growth", which some may view as somewhat surprising given that the OBR's updated forecast predicts that the UK economy will contract by 0.2% this year. On a more positive note, the OBR believes that the UK economy will now avoid a technical recession (of two consecutive quarters of negative growth) and the economy will expand by 1.8% next year and 2.5% in 2025.

The media build up to today's Budget had called it a "back to work Budget" and as expected the Chancellor announced a range of measures that targeted the over-50s, parents with young children and the long term sick and disabled. Only time will tell how many of the estimated 7 million adults of working age who are not in work, will return to work and fill the current 1 million job vacancies.

Jeremy Hunt had largely boxed himself into a corner with the previously announced corporation tax rate increase from 19% to 25% but tried to reduce its impact by announcing a new "full expensing" capital allowances regime for companies. This new regime has a lot of similarities to the current 130% super-deduction capital allowances scheme (which ends on 31 March 2023) including being very expensive for the government at a cost of £9 billion per annum.

There were very few other new tax announcements, but perhaps the rabbit out of the hat was the surprise that the pensions LTA (Lifetime Allowance) of £1.07m was completely abolished. The expectation was that the LTA would increase back to its former level of over 10 years ago of £1.8m, but its complete removal is very welcome as it simplifies what has become a very complex area of the tax/pensions legislation. Many of us can remember Gordon Brown announcing a new Pensions Tax Simplification regime back in 2006 and after almost 20 years it may now have finally arrived!

Corporation Tax

Despite intense lobbying from the business community, the Chancellor confirmed that the main rate of corporation tax will be increased from 19% to 25% with effect from 1 April 2023.

Small companies will continue to benefit from the 19% corporation tax rate going forward, as the first £50,000 of annual taxable profits will continue to be taxed at 19%. This approach by the government has resulted in the reintroduction of a marginal rate of corporation tax (for profits that fall between £50,000 and £250,000) which is actually higher than the 25% main rate. Hence, from 1 April 2023 the UK will have the following rates of corporation tax:

Profits between nil and £50,000:	19%
Profits between £50,000 and £250,000:	26.5%
Profits above £250,000:	25%

We anticipate that the 26.5% marginal rate of tax will be an area of focus for owner-managed businesses when considering tax planning such as payments into their personal pension schemes, so as to ensure that they obtain the maximum amount of tax relief.

One further point to note in relation to today's Budget is that the relatively complex rules concerning "associated companies" will apply to the above profit bands/rates, which is to prevent businesses from splitting their company into several smaller companies with a view to maximising the amount of profits that are subjected to the lower 19% corporation tax rate e.g. if an individual owns 4 companies, the "associated companies" rules will result in each company only having £12,500 of profits that are subjected to the 19% corporation tax rate (as opposed to £200,000 of total profits being subjected to the 19% corporation tax rate).

Having said this, the "associated companies" rules have a concession whereby family members can each control separate companies with each company benefiting from £50,000 of profits being subjected to 19%, providing there is no substantial commercial interdependence between the companies. It might be appropriate therefore to review current company structures, particularly where different business activities are undertaken within a singleton company, although other factors will naturally have to be considered as well as the potential corporation tax savings.

One final point to note with the changes that are being introduced on 1 April 2023 is that the "associated companies" rules will now also need to be considered for the purposes of determining whether a company has to pay its corporation tax liability earlier than normal via quarterly instalments.

Capital Allowances

Full Expensing

The Chancellor has replaced the Super Deduction with Full Expensing for companies with effect from 1 April 2023. The tax saving impact should be very similar for companies that will be paying the full rate of corporation tax, which will become 25% from 1 April 2023. That is because with the pre 1 April 2023 corporation tax rate of 19% and the 130% Super Deduction, that represents a tax saving on qualifying expenditure of 24.7%. So, arguably, from 1 April 2023, Full Expensing will be 0.3% better for Companies paying 25% corporation tax as they will get tax relief at 25%. What the Chancellor did not say is that companies with profits below £50,000 that will still be paying corporation tax at 19% post 1 April 2023, will only get tax relief at 19% as a result of Full Expensing, compared to 24.7% currently with the Super Deduction.

Also, Full Expensing only applies to companies and is only relevant if the £1M threshold of the Annual Investment Allowance (AIA) is breached. So, for the majority of businesses, it will have no impact. The fact that Full Expensing is to stay for at least 3 years until 31 March 2026 is good, as it gives companies time to plan.

Full Expensing only applies to main rate qualifying assets, as is the case with the Super Deduction pre 1 April 2023. Special Rate qualifying assets will qualify for 50% tax relief. However, this is only relevant if the £1M AIA threshold is breached as the AIA gives 100% relief in the year of purchase and applies to both companies and unincorporated businesses.

Unincorporated businesses do not qualify for Full Expensing but the £1M Annual Investment Allowance still applies. It was announced in 2022 that this would stay at £1M and not be reduced back down to £200,000.

R&D and Creative Industries

The reforms set out in the November 2022 Autumn statement will apply from 1 April 2023. 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%.

However, today the Chancellor announced a new R&D SME scheme for loss-making, R&D intensive companies, which mitigates the impact the forthcoming 1 April 2024 changes will have on such companies.

To be eligible, the company must have qualifying R&D spend worth at least 40% of its total expenditure. Eligible loss-making companies will be able to claim £27 from HMRC for every £100 of R&D investment, instead of £18.60 for non R&D intensive loss makers.

This new scheme is expected to be worth around £500 million a year across some 20,000 SMEs. It is expended that around 1,000 claiming companies will come from the pharmaceutical and life sciences industry, to support the development of life saving medicines. Around 4,000 digital SMEs will be from the computer programming and related activities sector, to support the development of AI, machine learning and other digital based technologies. Around 3,000 other manufacturing firms, and another 3,000 professional, scientific, and technical activities firms will also qualify for the enhanced support.

The consultation on moving to a single R&D scheme for all companies that was also announced at the November 2022 Autumn Statement closed on 13 March 2023. The results and any reforms are awaited, and any changes are expected to come in from 1 April 2024.

A range of measures were announced to support the creative sectors; an audio-visual expenditure credit with a rate of 34% for film, high end television and video games and a rate of 39% for animation and children’s TV will be introduced, while the temporary higher rates of 45%/50% for theatre tax relief, orchestra tax relief and museums and galleries exhibition tax relief will be extended for another two years.

Income Tax & NIC

As we already had an Autumn Statement in November 2022, where all income tax and NIC rates were announced for the upcoming 2023/24 tax year, there wasn't much left to announce today! However please see below for a reminder of the changes already announced for 2023/24 from the previous Autumn Statement:

Income Tax Rates

The biggest change to income tax is 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 in tact.

There is a small tweak 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.

The tax-free personal allowance will remain at £12,570 for another five years to April 2028. The point at which 40% tax is charged is also frozen at £50,270 for the same period to April 2028.

National Insurance Contributions (NIC)

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.

The main rates of 12% for employees and 9% for the self-employed will continue into the new tax year from April 2023.

Pensions & Investments

Changes to Pensions Allowances

Rumours in advance of today's budget suggested that the Chancellor would raise the pensions Lifetime Allowance (LTA) from the current £1,073,000 to £1,800,000. The rumour mill also predicted that Annual Allowance would increase from the current £40,000 per year to £60,000 from 6th April 2023.

Annual Allowance has indeed been increased from £40,000 to £60,000 per year but it came as a surprise that Jeremy Hunt decided to abolish the LTA altogether.

The LTA capped the amount people could put into their pensions before facing a tax penalty. Individuals who breached the LTA – which was set at £1,800,000 in 2010 but started to reduce in 2012, down to £1,000,000 in 2016 – paid a 25% tax rate on regular pension withdrawals above the limit, and a 55% rate on amounts above the limit withdrawn as a lump sum.

The government will remove the Lifetime Allowance charge from 6 April 2023, before fully abolishing LTA altogether in a future Finance Bill.

The maximum Pension Commencement Lump Sum (PCLS), commonly referred to as 'Tax-Free Cash' for those without pension protections will be retained at its current level of £268,275 and will be frozen thereafter. This £268,275 is 25% of the current LTA of £1,073,100, meaning anyone with a pension value below this level can access 25% of its value tax-free.

The Annual Allowance is the maximum amount of pensions savings an individual can make each year with tax relief without incurring a tax charge which aims to effectively recoup some of the tax relief given. In addition to using the current year's allowance, individuals will continue to be able to carry forward unused Annual Allowances from the 3 previous tax years.

There are two situations where Annual Allowance can be reduced. Firstly, high earners can be subject to a tapered Annual Allowance, currently the taper can reduce the Annual Allowance down to £4,000 per year, this will be changed to £10,000 per year. This budget also increases the adjusted income level required for the tapered AA to apply to an individual from £240,000 to £260,000.

The second reduction to Annual Allowance occurs when one has flexibly accessed benefits from their money purchase pension, but PCLS as detailed earlier isn't relevant here. In the event that one does access benefits other than PCLS they will become subject to the Money Purchase Annual Allowance (MPAA). The MPAA aims to prevent people recycling their pensions. The MPAA is currently £4,000 per year but will increase to £10,000.

The motivation behind these significant pension changes is that the government is concerned that the Annual Allowance and Lifetime Allowance may be acting as disincentives to remain in work. It believes that increases to the AA, MPAA, and tapered AA, alongside removal of the LTA, will help to tackle labour supply issues. The changes to pensions tax relief limits are intended to persuade those currently considering retirement to remain in work, and to encourage those who have already left the workforce to return.

Freezing savings tax reliefs

The starting rate for savings will 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.

Individual Savings Accounts

Annual subscription limits for Junior Individual Savings Accounts (ISA) and Child Trust Fund accounts will remain at £9,000 and the annual subscription limit for adult ISAs will remain at £20,000.

Trusts & Estates

Following a consultation in Summer 2022 the government has announced its intention to legislate the proposals outlined in the consultation document as part of a package of simplification reforms.

The reforms will:

- provide that trusts and estates with income up to £500 do not pay tax on that income as it arises. Where a settlor has made other trusts, the amount is the higher of £100 or £500 divided by the total number of existing trusts (subject to some exceptions)
- remove the default basic rate and dividend ordinary rate of tax that applies to the first £1,000 slice of discretionary trust income
- provide that beneficiaries of UK estates do not pay tax on income distributed to them that is within the £500 limit for the Personal Representatives
- make technical amendments to ensure for beneficiaries of estates that their tax credits and savings allowance continue to operate correctly

The first 3 changes will apply for tax year 2024 to 2025 onwards. The last change will apply for tax year 2023 to 2024 onwards.

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Childcare & Supporting People into Work

The Chancellor has today announced a number of measures which he thinks will help to break down the barriers that stop people working. The main changes to take effect are as follows:

Childcare Changes

We were expecting a number of changes or new measures to be introduced with regard to childcare and the announcements made today are as follows:

- 30 hours free childcare in England will be extended to cover all children over 9 months old from September 2025 provided all adults in the household work at least 16 hours per week. The entitlement will be introduced in phases. Parents of 2 year olds will receive 15 hours free childcare from April 2024 while children aged 9 months and over will be included within this from September 2024. All parents of children aged 9 months to 4 years will be entitled to 30 hours of free childcare by September 2025.

- For those parents claiming Universal Credit, childcare costs will now be paid upfront which is a welcome change to the previous payment by arrears.

- The maximum amount parents can claim for childcare under Universal Credit will also be increased from £646 to £951 for one child and from £1,108 to £1,630 for two children (we understand this uplift in payments will not apply to those parents claiming Child Tax Credits rather than Universal Credit and advice is likely to be needed whether a move to Universal Credit might therefore be beneficial as a result of these changes).

- Funding for wraparound care for school age children will also be increased, so that all parents of school age children can drop children off between 8am and 6pm.

- In recognition of the importance and short supply of childminders, incentive payments of £600 will be piloted from Autumn 2023 for those signing up to the profession (rising to £1,200 for those who join through an agency).

Employment changes for disabled workers

- To support people to remain in work for longer, the work capability assessment (which determines if a person has a disability which impacts their ability to work), will be scrapped.

- A new voluntary employment scheme known as Universal Support will be introduced for disabled people. This is likely to be worth £4,000 of support per person to help them find a suitable role for up to 50,000 people.

- An additional scheme will be introduced to provide more support for the mental and physical health of employees with health problems.

- For those people claiming Universal Credit, who do not have health problems, they will now face more stringent tests to ensure they are actively engaged in searching for work and they will meet more regularly with their work coach to help find work or increase their hours.

Employment changes for the Over 50s

To encourage more people aged 50 and over into work, the DWPs ‘mid-life MOT’ will be expanded to help them assess their financial, health and career situation. A new apprenticeship system known as “returnerships” will be introduced for over 50s wanting to return to work in a new area or sector and to provide training to assist with this.

Capital Gains Tax

In welcome news today’s Budget confirmed that the proposed changes to the no gain/no loss rules for divorcing couples are to go ahead from 6 April 2023. Currently married couples and civil partners can transfer assets between themselves on a no gain/no loss basis for Capital Gain Tax (CGT) purposes in a tax year where they are living together. However, following separation that rule only continues until the end of the tax year. Transfers in later tax years are generally deemed to be made at market value and CGT is chargeable in the normal way.

The new rules will allow no gain/no loss transfers for separating couples from 6 April 2023 for up to three full tax years after separation and an unlimited time if the assets are the subject of a formal divorce agreement.

In addition, where one party has left the matrimonial home, they will be given an option to claim private residence exemption when it is sold and relief for a share of sale proceeds received following a transfer of the property to an ex-partner.

Inheritance Tax

It has been announced that the government is exploring elements of the tax treatment of environmental land management schemes and ecosystem service markets.

Included in this exercise is a consultation about the scope of Agricultural Property Relief (APR) from Inheritance Tax. This follows concerns raised by some tax advisors and industry representatives that the scope of APR is a barrier to some agricultural landowners and farmers making long-term land use change from agricultural to environmental use. The aim is to explore these issues and whether potential updates to the scope of the existing land habitat provisions in the relief may be necessary.

Land that has been taken out of agriculture production over an extended period for an environmental scheme or project is unlikely to qualify for APR. However, owner- occupiers may still benefit from Business Property Relief (BPR) if the land is still used in the business and the overall business is not one of wholly or mainly making or holding investments. The government is not considering changes to Business Property Relief (BPR).

Duties

Air Passenger Duty

Two new duty rates will be introduced in 2023/24. The first is for domestic flights, which will have a reduced rate of £6.50 and a standard rate of £13, both half of the previous rate that would be paid on the same flight.

The second new duty is for ultra long-haul flights (over 5,500 miles) which will be a reduced rate of £91 and a standard rate of £200.

Alcohol Duty

Alcohol duties will increase by RPI from 1 August 2023.

A lower rate of duty will apply for draught beer, cider, wine and spirits in order to support the hospitality industry. Duty rates vary by the ABV% of the product, but for instance the duty rate for draught beer will be around 9% lower than that on bottled beer.

Fuel Duties

Rates will continue to be frozen for another 12 months from 23 March 2023.

Vehicle excise duties will increase by RPI from April 2023 however.