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Mini Budget 2022

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Government's Gamble for Growth

Up until two months ago, most taxpayers whether they be individuals or businesses were resigned to the fact that tax rates could only go up in the foreseeable future given the £400 billion cost to the government in fighting covid during 2020 and 2021.

Turn the clock forward to today and it is quite astonishing that we have just seen the government announce the biggest tax cuts in the last 50 years, particularly on the back of the introduction of the Energy Relief schemes which in themselves will have a very significant cost to the government.

Despite media commentary in the run up to today's Mini-Budget, there were still a few surprise announcements. Kwasi Kwarteng's "rabbit out of the hat" moment was undoubtedly the abolition of the 45% rate of income tax, which means that we return to 40% being the top rate of income tax which was the case back in 2010.

So how are the government going to pay for these record tax cuts and large spending commitments? In the short term there will be significant borrowing, but Liz Truss and Kwasi Kwarteng are of the firm belief that these record tax cuts will generate future economic growth that will ultimately lead to additional tax revenues from higher wages and increased business profits.

Will this strategy work? We think it is fair to say that this radical approach is something of a financial gamble and the outcome is far from certain. Kwasi Kwarteng certainly has an impressive CV which suggests he has the potential to be a successful chancellor – putting politics to one side, we hope he plays his hand very well!

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Income Tax

It was previously announced that the basic rate of income tax would be reducing from 20% to 19%, but this was not coming into force until April 2024. The new chancellor Kwasi Kwarteng has announced today that he will accelerate this tax reduction and bring this into effect from April 2023.

In a surprise addition, it was also announced that the very top “additional rate” of income tax (currently charged on taxable income over £150,000 at 45%) will be abolished from April 2023.

Please note that the abolition of the 45% income tax rate does not apply to taxpayers in Scotland, who will continue to have a top rate of 46%

National Insurance Contributions (NIC)

We have seen several tweaks to national insurance thresholds and rates this year, but the latest announcement today effectively reverses the 1.25% rise in both employee’s and employer’s national insurance announced earlier this year by Rishi Sunak.

NIC rates will therefore drop by 1.25% and revert back to their previous rates before the increase came into effect.

The rates will reduce with effect from 6 November 2022 so we will again have another mid-year tweak to rates.

Self employed taxpayers will also see the benefit of this reduction and will benefit from an equivalent saving in their class 4 NIC.

Dividend Tax

The previous 1.25% increase to NIC was also applied to dividend tax. This link has been continued with the announcement this morning that dividend tax rates will also benefit from this reversal and will drop by 1.25% back down to their previous levels from April 2023.

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Corporation Tax

UK businesses have benefitted from a relatively low corporation tax rate of 19% for the last 5 years (the lowest in the G20) and will welcome the news that the previous chancellor's planned increase to 25% in April 2023 has been cancelled.

This 6% rate change cancellation is a very large tax saving measure for businesses and some commentators have even gone as far to call it huge! This is because UK companies would have been facing an almost one-third increase in their annual corporation tax bill if the planned increase had gone ahead. This measure alone has a cost to the government of £18 billion per year which the chancellor is hoping will be clawed back by increased tax revenues from future economic growth.

Many companies should see an increase in their balance sheets following today's announcement because deferred tax liabilities in their most recent accounts will have been based on the 25% tax rate, but these liabilities can now be calculated using the existing 19% tax rate given that the 6% increase is no longer going ahead.

Capital Allowances

The chancellor announced that the Annual Investment Allowance (AIA) will remain at £1 million and that this will now be permanent. It was scheduled to reduce to £200,000 from 1 April 2023. It remains to be seen whether this will give businesses more confidence to invest, although at least it should make the rules somewhat simpler and clear given the complications that would have resulted for accounting periods that overlapped the previously planned reduction in the threshold from 1 April 2023. The AIA has been increased and decreased several times since it first came into being, so it is good to know that it is not going to be decreased again, at least under the current Government.

The super deduction remains in place for companies until 31 March 2023. This gives tax relief on 130% of the cost of general pool qualifying brand-new plant and machinery and has essentially become even more valuable for the remaining 6 months to 31 March 2023, given that corporation tax rates are no longer increasing to 25% next year. Hence, we anticipate that companies will be very keen to acquire new plant and machinery before 1 April 2023, rather than afterwards when the super-deduction will no longer exist.

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Investment Zones

The Chancellor has announced the introduction of Investment Zones which will benefit from time-limited lower taxes and accelerated planning development. The need for planning applications will be minimised and where planning applications remain necessary, they will be radically streamlined.

The Government is in discussions with 38 local authorities to establish Investment Zones in England and intends to work with the devolved administrations to drive local growth in Scotland, Wales and Northern Ireland also. Cumbria County Council is one of the local authorities that the Government is in contact with, although it is not clear from today's publication whether there will be Investment Zones in both halves of Cumbria after the 1 April 2023 Local Council reorganisation. Hopefully there will be! It is likely that the zones will be relatively small areas and not county wide.

No dates have yet been announced as to when the first Investment Zones will be set up. The announcement implies that this will depend on discussions with Local Authorities, Mayoral Combined Authorities, Devolved Administrations and local partners.

Tax benefits

Businesses in designated areas in investment zones will benefit from 100% business rates relief on newly occupied and expanded premises. Local authorities hosting Investment Zones will receive 100% of the business rates growth above an agreed baseline in designated sites for 25 years.

Businesses will receive full stamp duty land tax relief on land bought for commercial or residential development and a zero rate for Employer National Insurance contributions on new employee earnings up to £50,270 per year.

To incentivise investment there will be a 100% first year enhanced capital allowances for qualifying plant and machinery used within designated sites and accelerated Enhanced Structures and Buildings Allowances (SBAs) of 20% per year. SBAs are available on the construction cost of commercial buildings and structures where all construction contracts were signed on or after 29 October 2018. Purchasers of used buildings can only claim if the original building qualified and their claim is based on the original construction cost post 29 October 2018, unless there is some subsequent announcement of a relaxation of these rules for Investment Zones.

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Stamp Duty Land Tax (SDLT)

As had been suggested in the press in the week leading up to today's Mini-Budget, the Chancellor announced a 'cut' to Stamp Duty Land Tax (SDLT) which will result in a reduction to the tax charged on many residential property purchases completing on or after 23 September 2022.

From 23 September 2022, the "0% band" (where no SDLT is charged) will be permanently increased from £125,000 to £250,000, resulting in a saving of up to £2,500.

In a further measure, it was announced that the relief available to first-time buyers would be extended. A first-time buyer will now pay no SDLT on the first £425,000 of consideration paid for a residential property, provided the property does not cost more than £625,000. Previously these limits had been £300,000 and £500,00 respectively.

It is important to note that these changes relate only to residential property purchases in England and Northern Ireland (both Scotland and Wales have their own transaction taxes).

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Business Energy Bills

The Energy Bill Relief Scheme aims to protect businesses and other non-residential users of electricity and gas such as charities, from increasing power bills. The scheme will last for six months and will effectively cap the rate that businesses pay for electricity at £211/MWh and for gas at £75/MWh. The discount will be applied automatically to energy bills, so businesses do not need to take any action in order to receive the support.

Domestic Energy Bills

The domestic Energy Price Guarantee will cap the unit prices of electricity and gas for two years from October 2022, meaning a typical household will pay no more than £2,500 a year for their fuel.

All households will also receive the £400 discount on their energy bills under the Energy Bills Support Scheme, spread over 6 months from October 2022. If households are not on the gas grid (eg rely on oil to heat their home) then they will receive an additional payment of £100 to compensate for their rising bills.

Structural improvements are also planned to help manage long term supply and prices, such as expanding North Sea oil and gas licencing, restarting fracking, and developing options for nuclear power. The Treasury will implement a scheme to guarantee certain loans to the energy market, to improve liquidity, and a taskforce will aim to smooth long term energy prices.

On a more practical level, energy suppliers will be obliged to help customers, particularly the most vulnerable, implement energy saving measures.

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IR35 - repealing the 2017 and 2021 off-payroll working reforms

The 2017 and 2021 reforms to the off-payroll working rules (commonly known as IR35 since their introduction back in 2000) will be repealed from 6 April 2023. From this date, workers across the UK providing their services via an intermediary, such as a personal service company, will once again be responsible for determining their employment status and paying the appropriate amount of tax and NICs i.e. the responsibility for assessing whether IR35 applies will shift from the engager to the worker. This will take us back to the position we were in before 2017.

We anticipate that today's announcement will lead to an increase in workers being engaged via personal service companies. This is because workers are typically more willing to take a risk with the IR35 rules, whereas engagers (i.e. public sector bodies and larger businesses) have invariably adopted a more cautious approach since 2017 and 2021 when they have had the responsibility (and carried the risk of getting it wrong) in applying the IR35 rules.

IR35 is a notoriously complex area of the tax system, as has been shown by a number of high profile court cases involving media stars in recent years, and if you need any advice in this area please do not hesitate to contact our tax team.

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Universal Credit

With the current rise in unemployment, it was announced today that there will be changes made to the universal credit system by increasing support and incentives for claimants to secure or obtain better paid work.

From January 2023, it is expected that the Administration Earnings Threshold will increase to 15 hours a week at National Living Wage for individuals and 24 hours a week for couples.

More claimants in work are expected to move onto a more intensive scheme and will be expected to attend weekly or fortnightly appointments at a jobcentre to obtain more hours or better paid work unless claimants may see their benefits reduced.

These changes are expected to give claimants more chance of becoming financially independent of universal credit.

VAT Free Shopping

A new system will be introduced to allow overseas visitors to receive a VAT refund for goods bought during their visit to the UK. The system will be digital and is hoped to provide a boost to the retail sector.

Alcohol Duties

The planned increase in alcohol duty rates has been cancelled, and rates will be frozen until 1 February 2024.