HMRC UPDATES

AUTUMN STATEMENT

NOVEMBER 19, 2022

DAVID BOWES MICB PM.DIP
BOOKSMART ACCOUNTANCY SOLUTIONS
info@booksmart.co

Contents

Disclaimer

Every care has been taken by BookSmart Accountancy Solutions in compilation of the data contained herein and in verification of its accuracy when published, however the content of this guide is subject to change without notice due to factors outside the control of BookSmart Accountancy Solutions, therefore this should only be used as a guide.

Autumn Statement 2022

Introduction

When the Chancellor of the Exchequer makes a fiscal statement to Parliament -whether it is called a Budget, a mini-Budget or an Autumn Statement – the headline sare in the speech and the details are in the Treasury Red Book that is published on the internet when he sits down. In normal times, it is hard enough to keep track of changes that come in immediately, changes that are coming soon, and proposals that are on the horizon.

This year is not normal. There have been four Chancellors and three fiscal statements. The challenge following Jeremy Hunt’s first Autumn Statement has been to identify what, if anything, of Kwasi Kwarteng’s proposals survived, as well as understanding the steps he has taken to fill the holes in the government coffers that the ill-fated September ‘Plan for Growth’ helped to create. There has been a great deal of speculation about what Mr Hunt might do, and sometimes an awareness of what has not been said can be important too.

This document summarises the main changes that were announced by Mr Hunt, as well as setting out what has survived and what has been cancelled from the September plan, and points out some of the rumoured possibilities that have come to nothing. One of Mr Hunt’s tax-raising measures is a promise to freeze the main thresholds for Income Tax and Inheritance Tax for the next five years. That may be something of a relief after a year in which three different sets of National Insurance rates have applied, but the effects of inflation will draw more people into paying these taxes and more of them into liability for higher rates. There are also more obvious tax rises through reductions in reliefs and exemptions and a lowering of the point at which the top rate of Income Tax applies.

Significant points

- Basic rate of Income Tax to remain at 20% and additional rate at 45% for 2023/24
- Most tax rate bands frozen at current levels until 5 April 2028

- 45% rate will apply to income above £125,140 in 2023/24
- Dividend income and Capital Gains to be more heavily taxed from 2023/24
- No changes announced to pension tax reliefs
- Inheritance Tax thresholds now frozen until 5 April 2028
- Corporation Tax rate increase to 25% from 1 April 2023 restored
- VAT registration threshold frozen at £85,000 for two more years, to 31 March 2022
- Affirmation of support for the State Pension 'triple lock' with an inflation-linked increase from April 2023

Personal Income Tax

In March 2022, Rishi Sunak announced his intention to cut the basic rate of Income Tax from 20% to 19% from 6 April 2024. In September, Kwasi Kwarteng proposed to bring the cut forward by a year to 6 April 2023, and to abolish the 45% rate of tax that applies to income above £150,000 from the same date.

The reversal of these tax cuts had already been announced before the Autumn Statement. The current forecasts are based on the rates remaining 20%, 40% and 45% for the foreseeable future. Mr Hunt announced that the tax-free personal allowance and the 40% tax rate threshold will be fixed until 5 April 2028, while the 45% rate will apply to income above £125,140 from 6 April 2023. A person with earnings above £150,000 will pay an additional £1,243 compared to 2022/23.

Although 'freezing the thresholds' avoids the appearance of a direct tax increase, it is obvious that the effect of inflation will bring many more people into the higher rate bands. Apart from the increase in the proportion of income that will be taken in tax, more people are likely to have to file Self-Assessment returns because they will have tax liabilities that are not completely settled under PAYE.

Two other thresholds remain fixed, as they have been since they were introduced: the income levels at which the High Income Child Benefit Charge begins to claw back Child Benefit receipts (£50,000 since 2012/13) and at which the tax-free personal allowance is withdrawn (£100,000 since 2010/11). These measures create a higher marginal tax rate in the income bands £50,000 – £60,000 (for those in receipt of Child Benefit) and £100,000 – £125,140 (as the personal allowance is reduced to nil). The effective marginal rate of tax for someone earning between £100,000 and £125,140 is 60% (as £1 of allowance is lost for every £2 of income); in 2022/23 the marginal rate falls to 40% for income between £125,140 and £150,000, but in 2023/24, it will be 45% above £125,140.

These rates and thresholds will not automatically apply in Scotland, where tax rates on non-savings, non-dividend income are set by the Scottish Parliament, which will announce its Budget on 15 December. The Welsh Assembly also has the right to set its own tax rates for non-savings, non-dividend income, but has so far kept to the main UK rates. Savings and dividend income are subject to the same rates throughout the UK, regardless of residence.

Dividend income

In Mr Sunak's Spring Budget, the tax rates on dividend income over £2,000 were increased to correspond to increases in National Insurance Contributions (NICs) taking effect from 6 April 2022 and the Health and Social Care Levy (HSCL) that was to have applied to earned income from 6 April 2023. The ordinary dividend rate, paid by basic rate taxpayers, rose from 7.5% to 8.75%; the upper rate (for higher rate taxpayers) is 33.75% (from 32.5%) and the additional rate (for those with income above £150,000 a year) is 39.35% (from 38.1%). These rates apply across the UK for the 2022/23 tax year.

Mr Kwarteng proposed to reverse these increases in dividend taxation with effect from April 2023, as well as cancelling the HSCL altogether and reversing the increases in NICs from 6 November 2022. The cancellation of HSCL and the reductions in NICs are the most significant parts of Mr Kwarteng's mini-Budget to survive; however, the dividend rates will remain at their current higher levels in 2023/24 and for the foreseeable future. The additional rate of 39.35% will apply to those with total income above £125,140 in 2023/24.

In addition, the dividend allowance will be reduced. It was introduced in April 2016 at £5,000, then cut in April 2018 to £2,000; it will now fall to £1,000 on 6 April 2023 and £500 on 6 April 2024. This will raise about £0.5 billion in the first year and nearly £1 billion a year after that, roughly the same as the reduction in the 45% rate threshold. A company owner who takes profits mainly in the form of dividends, and has total income between £50,000 and £125,140, will pay £337 more tax in 2023/24 as a result of this change. However, the benefit of the allowance is not just financial: it means that taxpayers with a small amount of dividend income do not have to report it to HMRC, because there is no tax to pay. The reduction in the allowance will require many more people to file self-assessment tax returns to settle what will often be a relatively small tax liability.

Employees

National Living Wage (NLW)

From 1 April 2023, there will be an increase io the NMW and National Minimum Wage (NMW). NLW relates to those aged 23 and over, while NMW relates to those of a younger age. The new rates are:

Age 23+	£10.42 (from £9.50)
21 – 22	£10.18 (from £9.18)
18 – 20	£7.49 (from £6.83)
16 – 17	£5.28 (from £4.81)
Apprentices	£5.28 (from £4.81)

National Insurance Contributions (NIC)

From 6 April 2022, Class 1 NIC paid by employers and employees, and Class 4 NIC paid by self-employed people, increased by 1.25%. This was intended as a temporary measure for the tax year 2022/23, pending the introduction of a separate Health and Social Care Levy (HSCL) to be paid by the same people on the same income from 6 April 2023. Chancellor Sunak moderated the effect of the increase by significantly increasing the primary threshold at which employees' contributions start, to match the level at which Income Tax starts to be payable – an annual figure of £12,570. This was done 'as soon as practicable', taking effect on 6 July.

In September, Mr Kwarteng decided to cancel the HSCL altogether, and to reverse the increases in NIC, once again from the earliest practicable date – 6 November 2022. Changing the rates of NIC twice in the middle of a tax year has created considerable complexity for employers and their software providers, and there are a number of situations in which anomalous and possibly unfair liabilities can result. Overall, however, the restoration of the original rates combined with the increased threshold (which was not changed in November) will lead to lower charges for many people.

The cancellation of the HSCL was costed in September as a reduction in government revenues of approximately £17 billion a year, and the decision not to reintroduce it has required the Chancellor to look for many other tax rises and spending cuts.

The Autumn Statement included details of the rates and thresholds for 2023/24. The Upper Earnings Limit (above which individual contributions fall from 12% to 2%) and the Secondary Threshold (above which employers pay 13.8% on all earnings) will remain fixed at their current levels (£50,270 and £9,100) until 5 April 2028. The Autumn Statement comments that many small businesses will not be adversely affected because of the Employment Allowance, which covers the first £5,000 of employer contributions for qualifying companies.

Savings and Pensions

In spite of speculation in some quarters that reducing tax reliefs on pension contributions or pension funds would be an area in which the Chancellor could find some of the money he needs, there were no announcements concerning tax on pensions. The tax reliefs and the restrictions on the amounts that can enjoy relief (Annual Allowance and Lifetime Allowance) remain the same.

Venture capital schemes

The Seed Enterprise Investment Scheme (SEIS) gives investors Income Tax and Capital Gains Tax reliefs on investments in shares of new start-up companies.

Mr Kwarteng’s Growth Plan increased the limit on the amount companies can raise through a SEIS share issue by two-thirds to £250,000 from 6 April 2023, to enable more companies to use the scheme. The gross assets limit for the company before the share issue will be increased to £350,000, the age limit will rise from 2 to 3 years, and the annual investor limit will double to £200,000. The Growth Plan estimated that 2,000 companies a year use the scheme and will potentially benefit from these changes, which have survived the overhaul of most of Mr Kwarteng’s proposals in September.

Capital Gains Tax (CGT)

Cut in annual exemption

There was much speculation about major reform to CGT, including possible increases in rates; however, the changes announced were more modest. The annual exempt amount (AEA), which is currently £12,300, is being reduced to £6,000 for 2023/24 and then to £3,000 for 2024/25. This will mean extra CGT being payable where gains are above the new limits. For someone with gains above £12,300, this will mean extra CGT payable on residential property gains (which have a maximum CGT rate of 28%) of up to £1,764 in 2023/24 and £2,604 in 2024/25. If the gains are on other assets, such as shares or antiques (where the maximum rate is 20%), this will mean increased CGT payable of up to £1,260 (2023/24) and £1,860 (2024/25). The total raised is not very significant in comparison to other taxes – only £1.6 billion in total over the five years from 2023/24 to 2027/28.

This reduction in the AEA will also mean that many more taxpayers will need to file the CGT pages of the Self-Assessment Tax return. These pages need completing unless both:

- net gains do not exceed the AEA; and
- the total proceeds from all disposals do not exceed 4 x AEA .

By 2024/25, this will mean filing the CGT pages if total proceeds exceed £12,000 or net gains exceed £3,000.

Trusts

As the AEA available to most trusts is half of an individual's AEA, this will become £3,000 for 2023/24 and £1,500 for 2024/25. As for individuals, no changes in the rates of CGT were announced; they remain 28% for residential property and 20% for other assets.

Anti-avoidance

For their first 15 years of UK residence, non-domiciled individuals can elect to be taxed on their foreign income and gains only if the proceeds are remitted to the UK (the 'remittance basis' of taxation). Significant changes to 'non-dom' taxation were expected in some quarters, but the only announcement was anti-avoidance to cover a particular planning strategy.

The new rules ensure that UK resident non-domiciled individuals are taxed on gains and distributions received after value has been built up in a UK business. This is achieved by amending the law so that where, on or after 17 November 2023, shares and securities in a UK close company (broadly, a company controlled by five or fewer shareholders) are exchanged for those in a non-UK company (that would be close if situated in the UK), the new shareholding will be deemed to be located in the UK.

This means that dividends paid by the non-UK company will be treated as UK dividends and any disposal of the securities will be treated as a disposal of a UK asset, so the remittance basis will not be available.

This change will only have effect where an individual has a material interest in both companies (i.e. holds at least 5% of the securities in the UK company before exchange and in the non-UK company after exchange). It is expected to raise £830m over 5 years.

Business Tax

Annual Investment Allowance (AIA)

The 100% AIA, which is available to companies and unincorporated businesses, is available for qualifying expenditure on plant and machinery (P&M) up to £1 million. When this limit was introduced, it was supposed to be a temporary measure in force until 31 March 2023, after which it would drop back to its former level of £200,000. In September, Mr Kwarteng announced that the higher limit would be made ‘permanent’, and Mr Hunt has confirmed that this measure will be retained. According to the Budget documents, 99% of businesses investing in P&M spend less than £1 million a year and are therefore able to claim full relief in the year of purchase.

First Year Allowance for Electric Vehicle Chargepoints

The Spring Finance Bill 2023 will legislate to extend the 100% First Year Allowance for expenditure incurred on electric vehicle chargepoints to 31 March 2025 for Corporation Tax purposes and 5 April 2025 for Income Tax purposes. This will ensure that the tax system continues to incentivise business investment in charging infrastructure.

Reform of basis periods

Neither Mr Kwarteng nor Mr Hunt mentioned any changes in the planned reform of basis periods for taxation of profits of unincorporated businesses and partners in Limited Liability Partnerships (LLPs).

In spite of concerns expressed by some that businesses may not be ready, taxation of profits arising in the tax year will be introduced in 2024/25; 2023/24 will be a transitional year for moving from the old to the new basis of assessment. Any self-employed trader, partnership or LLP with an accounting date other than 31 March or 5 April should consider the effect of this change as a matter of urgency.

Value Added Tax (VAT)

Registration threshold

The level at which a business is required to register for VAT (taxable turnover of £85,000 in the last 12 months, or expected in the next 30 days) has been fixed since 1 April 2017. It was previously announced that it would remain at the same level until 31 March 2024, but this has now been extended to 31 March 2026. The effect of inflation will require many businesses that are trading below the threshold to register and account for VAT.

The deregistration threshold is fixed at its current level of £83,000 for the same period.

Business Rates

From 1 April 2023, charges for business rates in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of targeted support worth £13.6 billion over the next 5 years will give transitional relief to businesses as they adjust to the new level of their charges.

- **Multiplier Freeze** – The business rates multipliers will be frozen in 2023/24. This will support all ratepayers, large and small, and will result in costs being 6% lower than without the freeze, before any reliefs are applied.

- **Upwards Transitional Relief** – This will support ratepayers by capping bill increases caused by changes in rateable values at the 2023 revaluation. The ‘upward caps’ will be 5%, 15% and 30% respectively for small, medium and large properties in 2023/24.

• **Retail, Hospitality and Leisure Relief** – Support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief, capped at £110,000 per business in 2023/24.

• **Supporting Small Business Scheme (SSBS)** – Bill increases for the smallest businesses losing eligibility for, or seeing reductions in, Small Business Rate Relief (SBRR) or Rural Rate Relief (RRR) will be capped at £600 per year from April 2023. This means the maximum bill increase in 2023/24 for a small business losing eligibility for SBRR or RRR will be £50 per month.

• **Improvement Relief** – First announced at the Autumn Budget 2021, this new relief will ensure ratepayers do not see an increase in their rates for 12 months due to making qualifying improvements to a property they occupy. It will be introduced from April 2024 and run until 2028, at which point the Government will review the measure.