Tolley®CPD

Mini-Budget 23 September 2022

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CONTENTS

The Growth Plan (Lecture B1337 – 14.46 minutes)

On 23 September 2022, the Chancellor of the Exchequer published a Policy Paper confirming that the government is making growth their central economic mission, setting a target of reaching a 2.5% trend rate. Sustainable growth will lead to higher wages, greater opportunities and provide sustainable funding for public services.

As part of this plan, the Chancellor of the Exchequer delivered his Mini-Budget to the House of Commons, outlining cuts to income tax, reversal of the NIC increases, scrapping of the planned increase in corporation tax, permanent £1m annual investment allowance, unwinding of the 2017 and 2021 off-payroll working rules changes, and cuts to SDLT.

https://www.gov.uk/government/publications/the-growth-plan-2022-documents/the-growth-plan-2022-html

Business tax

Corporation tax rates

The planned increase in April 2023 to the corporation tax rate (from 19% to 25%) for companies making more than £250,000 profit has been cancelled. The rate will remain at 19% for all companies, so the reintroduction of the concept of a main rate and a small profits rate, and the need for marginal relief, has also been done away with. The Growth Plan 2022 states that "[t]his will maintain a competitive business tax regime, which will support investment, innovation and economic growth in the UK".

Some of the technical provisions for the super-deduction (the 130% first-year capital allowance for qualifying plant and machinery assets and the 50% first-year allowance for qualifying special rate assets) will be amended. These changes are to ensure that the relief operates as intended, despite the corporation tax rate remaining at 19% from 1 April 2023. The super-deduction is available from 1 April 2021 until 31 March 2023.

As a result, the proposed reduction in the rate of the bank corporation tax surcharge is also cancelled. This means that the combined rate of tax on profits paid by banks and building societies will remain at 27%. However, the surcharge allowance increase, from £25m to £100m, will still go ahead as planned from April 2023. This is to ensure "that the tax system is supportive of growth within the UK banking market, promoting competition to the benefit of consumers".

The costings included with the growth plan include the "direct behavioural response expected to result from the measures". The expectation is that cancelling the corporation tax rate increase means that companies will shift less profit overseas and so additional revenue is included in the costing. However, the aggregate indirect impact of the policy package on the wider economy and the fiscal consequences of this are not included. Any increased investment (and resultant increase on the size of the economy) that may result from the rate charge is therefore not incorporated into the costings.

An accompanying Factsheet sets out some academic evidence which suggests that cutting Corporation Tax can boost investment and growth. The factsheet states that in the short term a rate cut can provide immediate support to businesses and in the medium to long term it can lead to increased business investment, productivity and growth. This statement is, however, caveated. It is noted that the strength of the relationship between tax rates and growth can be difficult to measure and is also dependent on different macroeconomic factors. The level of impact is therefore impossible to determine, with different studies suggesting different levels of impact.

The Growth Plan 2022, para 3.9

https://www.gov.uk/government/publications/the-growth-plan-2022-factsheet-on-corporation-tax/corporation-tax-rise-cancellation-factsheet

Annual investment allowance

The Annual Investment Allowance (AIA) had been temporarily increased from £200,000 to £1m and was due to revert on 31 March 2023.

The government will now make the £1m AIA permanent. This is intended to "further support businesses to invest and grow" and should provide more stability for businesses. The Growth Plan states that it will also "make tax simpler for any business investing between £200,000 and £1 million in plant and machinery" on the basis that it can deduct 100% of the costs in the first year.

The Growth Plan 2022, para 3.11

Investment zones – reliefs for businesses in designated tax sites

The government is to introduce new investment zones across the UK which will provide tax incentives, planning liberalisation and wider support for the local economy in designated areas. Investment zones will be chosen following an expression of interest process and after local consent is confirmed. The Government has indicated that it is in discussion with 38 local authorities on establishing an investment zone in their area.

The tax incentives which the government is considering are 100% relief from business rates on newly occupied or expanded business premises; 100% first-year capital allowances on plant and machinery; increased structures and buildings allowances at 20% per year; no employers' NICs on salaries of new employees up to £50,270 and full SDLT relief both for land and buildings for commercial use or development and for land or buildings for new residential development.

The new scheme will not replace the existing freeport programme. The government plans to ensure that the two programmes complement one another.

The Growth Plan 2022, para 3.16

Income tax rates and national insurance

Reduction in basic rate

The basic rate of income tax is currently 20% and it was due to be reduced to 19% from 6 April 2024. This reduction has been brought forward so that from 6 April 2023 the new reduced rate of 19% will apply to non savings, non dividend taxable income falling within the basic rate band in England, Wales and Northern Ireland.

A 1% reduction will also apply from 6 April 2023 to the:

- savings basic rate which applies to savings income for taxpayers across the UK, and
- default basic rate that applies to non-savings and non-dividend income of any taxpayer that is not subject to either the main rates or the Scottish rates of Income Tax

For the purposes of Gift Aid, the 20% basic rate of income tax will continue to apply until April 2027 so that there is a four-year transition period.

For the purposes of Relief at Source for pension contributions, a one year transition period will apply meaning that pension schemes are permitted to continue to claim relief at 20% until 5 April 2024.

Removal of additional rate

The additional rate of income tax is currently 45%. From April 2023 this rate will be removed and will no longer apply to the non-savings, non-dividend taxable income of taxpayers in England, Wales and Northern Ireland.

The removal of the additional rate will apply to all taxpayers in the UK in respect of savings, dividends and the default rates.

The current Personal Savings Allowance of £500 for higher rate taxpayers will apply to all higher rate taxpayers including those that were additional rate taxpayers before this change.

Scottish rates

Any changes to Scottish rates will be determined by the devolved Scottish government which will receive appropriate funding.

The Growth Plan 2022, para 4.27

National insurance contributions

The following changes to national insurance contributions (NIC) are expected to be made:

- the increase in the rate of Class 1 primary and secondary, Class 1A, Class 1B and Class 4 contributions by 1.25 percentage points that applied from 6 April 2022 will be cancelled with effect from 6 November 2022

- the health and social care levy (HSCL) of 1.25% that was due to be introduced from 6 April 2023 will now not go ahead

For Class 1 NIC, the reduced rates apply to earnings paid on or after 6 November 2022 only. For directors, who are assessed to Class 1 NIC on an annual basis, composite rates of 12.73% (main primary percentage) and 2.73% (additional primary percentage) apply for the individual and a composite rate of 14.53% applies for the employer for the 2022/23 tax year. For Class 1A and Class 1B, a composite rate of 14.53% applies for the 2022/23 tax year. For Class 4 NIC, this is achieved by way of composite rates of 9.73% (main Class 4 percentage) and 2.73% (additional Class 4 percentage) for the 2022/23 tax year. The appropriate rates in the annual maxima calculation in SI 2001/1004, regs 21, 100 are similarly changed for the 2022/23 tax year.

These changes will be applied by way of the Health and Social Care Levy Repeal Bill. According to the business statement from Parliament on 22 September 2022, this is expected to be enacted on 11 October 2022.

The increase to the primary threshold for Class 1 primary contributions and the lower profits limit for Class 4 contributions introduced from July 2022 are unaffected by these changes.

Although not mentioned in today's document, it is assumed that the changes to Class 2 NIC that were to be introduced by way of regulations back dated to 6 April 2022 will still come into force. These changes would mean that Class 2 contributions would be credited to those with profits between the small profits threshold and the lower profits limit without the need for the individual to make the payment. Those below the small profits threshold would still need to pay voluntary Class 2 contributions if they wished to maintain their state benefit entitlement.

The Growth Plan 2022, para 3.20

Reversal of the dividend tax increase

The government is reversing the 1.25 percentage point increase in dividend tax rates applying across the UK from 6 April 2023. The ordinary and upper rates of dividend tax will be restored to 2021/22 levels of 7.5% and 32.5% respectively (currently at 8.75% and 33.75% respectively).

Due to the abolition of the additional rate of income tax, dividend income that was previously taxed at the additional rate (39.35% in 2022/23), will now be taxed at the upper rate of 32.5%. No details have been made regarding the rate applicable to trusts (which mirrors the additional rate) and it remains to be seen if this will now follow the upper rate.

The Growth Plan 2022, para 3.23

IR35/Off Payroll Working

In a significant reversal, from April 2023 the Government has decided to completely cancel the IR35 or 'off payroll working' obligations previously placed on end users of services (ie 'clients'). These obligations were introduced in the public sector in April 2017, and for medium and large private sector clients, from April 2021. However, from April 2023 the onus to decide whether an engagement contract falls inside or outside IR35, and to account for any PAYE/NIC accordingly, now falls on the contractor's personal service company (the IR35 obligation therefore reverts to where it was before the 2017 and 2021 changes were introduced).

The switch in onus will be a welcome administrative easement for hirers, but those public and private sector clients affected will rightly ask why they have been forced to set up extensive IR35 review processes (often at considerable cost), only for the extra obligation to be removed within a couple of years?

It was always perceived that personalised IR35 reviews were very labour-intensive, from HMRC and the contractor's viewpoint. Therefore, on the assumption that contractors will not just be left to 'go their own way', it will be important to understand what sort of IR35 compliance activities HMRC will undertake in future.

The Growth Plan 2022, para 3.44

Stamp duty land tax

The nil-rate band that applies to purchases of residential property in England and Northern Ireland will be doubled to £250,000. The threshold for first-time buyers will increase to £425,000 and the maximum value of a property on which first-time buyers' relief can be claimed will also increase to £625,000. These are set to be permanent cuts, effective from 23 September 2022. Although SDLT does not apply in Scotland and Wales, separate funding will be provided to the Scottish and Welsh Governments to allocate as they see fit.

The Growth Plan 2022, paras 3.29, 3.30 and 4.24

https://www.gov.uk/government/publications/the-growth-plan-2022-factsheet-on-stamp-duty-land-tax/stamp-duty-land-tax-factsheet--2

VAT-free shopping scheme

A VAT-free shopping scheme will be introduced with the aim of providing a boost to the high street and creating jobs in the retail and tourism sectors. The delivery will include modernising the scheme that currently operates in Northern Ireland and introduce a new scheme in Great Britain. The previous VAT refund scheme (the VAT Retail Export Scheme) was withdrawn in Great Britain on 31 December 2020.

The new VAT-free shopping scheme for non-UK visitors to Great Britain will enable them to obtain a VAT refund on goods bought in the high street, airports and other departure points and exported from the UK in their personal baggage. The mechanism through which VAT will be reclaimed is expected to be digital, rather than via paper forms.

A consultation will gather views on the approach and design of the scheme, to be delivered as soon as possible. The date of implementation has not been confirmed, although Government forecasts suggest it will be sometime in 2024.

The Growth Plan 2022, para 4.19

Other changes

SEIS/ EIS/ VCT

From April 2023, the maximum amount of Seed Enterprise Investment Scheme (SEIS) investment that can be raised by a qualifying company will increase from £150,000 to £250,000. Qualifying criteria will also be relaxed to allow more access to the SEIS scheme by increasing the:

- gross asset limit from £200,000 to £350,000
- age limit from 2 to 3 years

To encourage greater investment the annual investor limit will be increased from £100,000 to £200,000.

The government has also stated that it remains supportive of the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) and sees the value of extending them in the future. The EIS is currently due to end, with EIS no longer being available for shares issued on or after 6 April 2025. There has been no specific announcement about an extension to this date.

The Growth Plan 2022, paras 4.7, 3.12

CSOP reform

The value of options which may be granted under a HMRC approved Company Share Option Plan (CSOP) will be increased to £60,000 from April 2023, the previous upper limit having stagnated for years at £30,000. Also, the restrictions on certain classes of shares are set to be eased, albeit the precise detail on this is not yet available. It is hoped the new limits will encourage wider employee share ownership, and in turn this will help British companies to attract and retain employee talent.

One main advantage of a CSOP is that the options do not have to be offered to all employees. Also, whilst the Enterprise Management Initiative (EMI) scheme can provide higher maximum share option values, unlike EMI schemes, the CSOP does not require the employing company to be carrying on a ‘qualifying trade’ nor is there a ‘gross company assets’ limit; hence CSOPs might be offered more widely.

The Growth Plan 2022, para 4.7

Freeze on alcohol duty and further details of wider reform

Alcohol duty rates will be frozen for all categories from 1 February 2023 as a measure to address the cost of living crisis.

In addition, a response to a consultation on broader reform of alcohol duty and reliefs was published as well as draft legislation that the Government intends to introduce in the next Finance Bill. The proposed reforms will broadly create a standardised series of tax bands based on alcohol by volume (ABV). They are set to be introduced from 1 August 2023. Relief will be available for certain small producers and draught containers. A temporary easement for certain wine products is also proposed. Some amendments to the original proposals have been made as a result of the consultation and a further technical detail consultation has been launched with a closing date of 21 October 2022.

The Growth Plan 2022, para 3.45

https://www.gov.uk/government/consultations/the-new-alcohol-duty-system-consultation

https://www.gov.uk/government/publications/reform-of-alcohol-duty-rates-and-reliefs

Office of Tax Simplification

The Office of Tax Simplification is to be closed down. The Office currently provides the government with independent advice on simplifying and improving the UK tax system with the objective of reducing compliance burdens on both businesses and individual taxpayers. The government's intention is instead to embed tax simplification directly into the institutions of government, setting a mandate to the Treasury and HMRC to focus on simplification.

As the Office has been a statutory body since 2016, its abolition requires the repeal of the relevant legislation. The closure will therefore take effect when the Finance Bill 2023 receives Royal Assent. In the meantime, the Office expects to publish its report on the taxation of property income in October 2022 and will continue to gather evidence on its hybrid and distance working review.

The Growth Plan 2022, para 3.43

Other announcements

To encourage global banks to locate themselves in the UK, the Chancellor announced abolition of the cap on bonuses. Regulatory reform is also expected later this year.

The Chancellor also mentioned the government's commitment to review the tax system to make it 'simpler, more dynamic and fairer for families.

The Chancellor also outlined the government's energy price support for both businesses and households, as previously announced.