

Autumn Statement (Lecture B1347 – 15.32 minutes)

Personal Taxes

Reduction to the additional rate band threshold

The additional rate threshold for income tax will reduce from £150,000 to £125,140 with effect from 6 April 2023.

The new threshold is £125,140 because the personal allowance is abated where the individual's taxable income is between £100,000 and £125,140 (ie £100,000 plus (£12,570 x 2)). Had the new additional rate threshold been £125,000, this would have led to an effective marginal tax rate of 67.5% for income between £125,000 and £125,140 due to the withdrawal of the personal allowance and the 45% tax rate.

This change affects the taxable income of English, Welsh, Northern Irish and non-resident taxpayers and the savings and dividend income of Scottish taxpayers. Scottish taxpayers pay income tax on non-savings non-dividend income (commonly referred to as 'non-savings income' in practice) in accordance with the Scottish income tax rates and bands. Although the Welsh Government has the power to vary the rate of income tax that applies to non-savings income of Welsh taxpayers (although no such changes to the rates have been implemented to date), it cannot vary the levels of the tax bands or create new tax bands.

The Scottish Budget is due to take place on 15 December 2022, but even if the Scottish Government decides not to mirror this change and retains the threshold for the top rate (the name for the Scottish additional rate) at £150,000, this does not mean that Scottish taxpayers with non-savings income between £125,140 and £150,000 in 2023/24 will pay less income tax than those in the rest of the UK. This is because the gap between the higher rate threshold that applies to Scottish taxpayers (£43,662) compared to the rest of the UK (£50,270) on which the difference in the tax rate is 21% (41% Scottish higher rate less 20% basic rate) outweighs the larger gap between the top rate and additional rate thresholds on which the difference in the tax rate is 4% (45% additional rate less 41% Scottish higher rate).

Individuals with income between £125,140 and £150,000 may wish to consider accelerating income or delaying income tax reliefs in order to increase their taxable income in 2022/23 and reduce their taxable income in 2023/24 to ensure more income is taxed at 40% rather than 45%.

Income tax, NIC, CGT and IHT allowances and thresholds

The following announcements were made in respect of allowances:

1. Personal allowance — the allowance was already frozen at £12,570 until 5 April 2026 and has now been extended to 5 April 2028. This also means that the transferable tax allowance (also known as the marriage allowance) is frozen at £1,260 until the same date.
2. Blind person's allowance — the allowance is £2,870 for 2023/24 (increased from £2,600 for 2022/23).
3. Married couple's allowance — the maximum allowance is £10,375 for 2023/24 and the minimum allowance is £4,010 (increased from £9,415 and £3,640 in 2022/23). The level of

the taxpayer's adjusted net income determines whether the allowance is abated, but the threshold for 2023/24 has yet to be released.

The blind person's allowance and married couple's allowance are uprated by the consumer prices index (CPI) in line with the rules in s.57 ITA 2007. Note that this section is specifically disapplied to order to freeze the personal allowance.

The Chancellor also announced:

1. Dividend nil rate band or dividend allowance — reduced from £2,000 to £1,000 from April 2023, and to £500 from April 2024.
2. Income tax higher rate threshold — the higher rate threshold (which is the basic rate band plus the personal allowance) is frozen at £50,270 until 5 April 2028. This means that the basic rate band remains £37,700 for this period. The higher rate threshold applies to the taxable income of English, Welsh, Northern Irish and non-resident taxpayers and the savings and dividend income of Scottish taxpayers. A Scottish Budget announcement is expected on 15 December 2022 to clarify the position for Scottish taxpayers.
3. NIC for employed persons — the upper earnings limit for employees and the upper secondary threshold, apprentices' upper secondary threshold and veteran upper secondary threshold for employers will remain frozen at £50,270 until 5 April 2028.

The lower earnings limit for employees will be frozen at £6,396 (the 2022/23 level) in 2023/24.

The primary threshold for employees will remain frozen at £12,570 (ie the level of the personal allowance) until 5 April 2028.

The secondary threshold for employers will be fixed at the current level of £9,100 from 6 April 2023 to 5 April 2028.

The employment allowance available to most small employers which reduces their liability to secondary Class 1 NIC will remain unaffected at £5,000.

The freeport upper secondary threshold will be fixed at £25,000, but it is unclear as to how long the freeze will remain in place.

4. NIC for self-employed persons — the Class 4 NIC lower profits threshold increases to £12,570 on 6 April 2023 and will remain frozen at this level until 5 April 2028.

The Class 4 NIC upper profits limit will remain frozen at £50,270 (i.e., the same as the higher rate threshold) until 5 April 2028.

The Class 2 NIC weekly contributions for 2023/24 will be £3.45 (increased from £3.15 per week in 2022/23).

There is some confusion surrounding the Class 2 NIC small profits threshold as paragraphs 5.17 and 5.18 of the Autumn Statement contradict each other. The HMRC Press Office has been approached for clarification.

NIC voluntary contributions — the Class 3 weekly contributions for 2023/24 will be £17.45 (increased from £15.85 per week in 2022/23).

As expected, the Inheritance tax nil rate band and residence nil rate band are frozen for a further two years until 5 April 2028 at £325,000 and £175,000 respectively. The residence nil-rate band taper will continue to start at £2million.

Finally, then Chancellor announced that the CGT annual exempt amount will be reduced from £12,300 to £6,000 from April 2023 and to £3,000 from April 2024.

Car, van and fuel benefit charges

From 6 April 2023 car and van benefit charges will rise in line with the Consumer Price Index (CPI). The same will apply to car and van fuel benefit charges.

Company car tax

It is intended that there remains an incentive for the provision of electric and ultra-low emissions cars, and that taxpayers have long term certainty in this area. Therefore, it has been announced that the Autumn Finance Bill 2022 will set rates until April 2028.

From 2025/26 onwards appropriate percentages for electric and ultra-low emission cars with CO₂ emissions of less than 75g/km will increase by 1% per year until 2027/28. A maximum appropriate percentage of 5% will apply for electric cars and 21% for ultra-low emission cars

Rates for all other vehicles bands will also increase by 1% in 2025/26. A maximum appropriate percentage of 37% and will then be fixed in 2026/27 and 2027/28.

The state pension triple lock

The basic state pension generally rises by the greater of either:

- 1) the average annual increase in UK earnings; or
- 2) the annual increase in the cost of living, as calculated by the consumer price index;
- 3) 2.5%.

For 2022/23 only 1) above has been disregarded in determining the increase.

The government confirmed that it is increasing the state pension from April 2023 by inflation, in line with the commitment to the triple lock. Per week, a full basic state pension will increase from £141.85 to £156.20, and the new state pension will increase from £185.15 to £203.85.

The standard minimum income guarantee in pension credit will also increase in line with inflation from April 2023, rather than in line with average earnings growth.

Under s.27 Pensions Act 2014, the Government is required to review the state pension age every six years. The first review was published in March 2017 and the Chancellor announced that the next review will be published in early 2023.

Business Taxes

OECD Pillar 2 and the UK multinational top-up tax

The Government confirmed it will continue with the implementation of the OECD's Pillar 2 proposals as expected, but with a little more detail on expected timescales. In July 2022, draft legislation was published setting out the provisions needed for the UK's adoption of the Income Inclusion Rule (IIR), the main charging mechanism of the OECD's Global Anti-Base Erosion (GloBE) rules, by introducing a new multinational top-up tax in the UK. The new tax will apply for accounting periods beginning on or after 31 December 2023.

In today's announcement, the Government confirmed its commitment to implement the second charging mechanism of the GloBE rules, the Undertaxed Profits Rule (UPR), but with effect no earlier than accounting periods beginning on or after 31 December 2024. It has also been confirmed that a supplementary Qualified Domestic Minimum Top-up tax (QDMTT) rule will be introduced with effect for accounting periods beginning on or after 31 December 2023. This rule will require large groups, including those operating exclusively in the UK, to pay a top-up tax where their UK operations have an effective tax rate of less than a prescribed minimum of 15%. This would allow any top-up tax due under the Pillar 2 framework from UK economic activities to go directly to the UK Exchequer, rather than to another country. Draft legislation for the QDMTT has not yet been published, although the provisions will be included in Spring Finance Bill 2023 along with those referred to above for the IIR.

Research and development

The government announced changes to the rates of relief for research and development expenditure under the RDEC and SME relief schemes. The changes will apply to expenditure incurred on or after 1 April 2023 and will be included in the Spring Finance Bill 2023. The intention is to rebalance the reliefs available under the two schemes and is a step towards a single RDEC-like scheme for all companies. The new rates are as follows:

1. RDEC—20% (currently 13%)
2. SME additional deduction—86% (currently 130%)
3. SME tax credit—10% (currently 14.5%)

The government intends to consult on the design of a new single scheme and will work with industry to understand whether further support is needed for research intensive SMEs. The Spring Finance Bill 2023 will also include changes to R&D reliefs announced at the Autumn Budget 2021: expanding qualifying expenditure to include data and cloud costs, refocusing support towards innovation in the UK, and targeting abuse and improving compliance.

Anti-avoidance on share for share exchanges

The government will introduce legislation in the Spring Finance Bill 2023 to treat shares in a non-UK company held by an individual as located in the UK where the shares were acquired in exchange for shares in a UK company. In particular, the new rules are intended to prevent non-UK domiciled individuals from applying the remittance basis to gains realised on a subsequent disposal of the non-UK company shares and to dividends received in respect of those shares. The new rules will apply with immediate effect to share exchanges and schemes of reconstruction carried out on or after 17 November 2022.

The rules will apply only where both companies are close companies (or would be if they were resident in the UK). A UK company for this purpose is one incorporated in the UK and a non-UK company is one incorporated outside the UK. The individual must hold at least 5% of the shares in the UK company before the exchange and 5% of the shares in the non-UK company afterwards. Exchanges involving debentures also fall within the rules.

Where the conditions are met, the new holding of shares in the non-UK company is treated as located in the UK for CGT purposes, as a 'deemed UK holding'. Distributions in respect of such a holding are not foreign income for income tax purposes. Deemed UK holding treatment will continue following a disposal to a spouse or civil partner and to new holdings following further share exchanges. Additional shares acquired in the same non-UK company will also be treated as located in the UK.

It will be possible for an individual to opt out of deemed UK holding treatment by electing to disapply the CGT share reorganisation provisions on the exchange. The effect is that a capital gain will arise at the time of the exchange. An election must be made by the first anniversary of 31 January following the tax year in which the exchange took place.

Windfall taxes - energy profits levy and electricity generator levy

The Energy Profits Levy (EPL, also commonly referred to as the Oil and Gas Windfall Tax) will increase to 35% from 1 January 2023 and will apply until 31 March 2028 (ie it will not be phased out before then). This brings the headline tax rate for the oil and gas sector to 75%. The investment allowance will also reduce to 29% for all investment expenditure (other than decarbonisation expenditure), to maintain its existing cash value. Decarbonisation expenditure (such as installing bespoke wind turbines to power the production installation) will continue to qualify for the existing 80% investment allowance rate. Legislation for this is expected in the Autumn Finance Bill 2022 (with the decarbonisation expenditure changes to be included in the Spring Finance Bill 2023).

A new, temporary Electricity Generator Levy (EGL) will apply from 1 January 2023 at a rate of 45% to 'extraordinary returns' made as a result of the current high price of low-carbon electricity. The structure of the UK energy market means that cheap, low-carbon electricity is priced at a more expensive rate when oil and gas prices are high, leading to higher profits. 'Extraordinary returns' will be defined as 'the aggregate revenue that generators make in a period from in-scope generation at an average output price above £75/MWh'. The cumulative tax rate on earnings over £75Mwh will be 70%. The EGL will only apply to larger electricity generators and large returns, namely those generators whose output exceeds 100GWh across a period and returns exceeding £10 million. Legislation will be included in the Spring Finance Bill 2023.

The EGL technical note published alongside the Autumn Statement 2022 sets out some details of the design of the levy.

It will apply to companies that undertake electricity generation from nuclear, renewable and biomass sources in the UK and are either connected to a national grid or connected to local distribution networks.

It will not apply to electricity that is generated under a contract for difference entered into with the Low Carbon Contracts Company Ltd.

The levy will apply to 'Exceptional Generation Receipts' calculated at an aggregate level across a group in respect of a qualifying period.

The measure of revenue used in the EGL calculation will be the revenue received in the qualifying period irrespective of when the relevant contracts were entered into.

The qualifying period will be aligned to the accounting period of the company responsible for administering the levy for the group.

It will not be deductible for corporation tax purposes and will be administered in the same way as corporation tax (and so will need to be included in the responsible company's Corporation Tax Return and paid on its normal payment dates for corporation tax).

HM Treasury and HMRC are consulting with electricity generators to discuss how the EGL will be implemented in legislation.

The government will also launch a consultation as part of a review of the long-term tax treatment of the North Sea, with a report expected by the end of 2023.

Other business and enterprise measures

The following measures were also announced:

1. First year allowances on electric vehicle charging points—expenditure incurred on new plant or machinery to be used solely for electric vehicle charging points attracts 100% first year capital allowances. This relief was due to end in 2023 but will now be extended for expenditure up to 31 March 2025 for corporation tax and 5 April 2025 for income tax.
2. From April 2023 multinational businesses operating in the UK will be required to keep and retain transfer pricing documentation in a prescribed and standardised format as set out in the OECD's Transfer Pricing Guidelines. This would apply to both the master file and the local file.

HMRC will continue to consult on a summary audit trail which is a questionnaire that businesses would be required to complete that covers the main steps undertaken in preparing the local file.

These measures were previously announced at Legislation Day 2022 along with draft clauses to be included in the Spring Finance Bill 2023.

3. The annual chargeable amounts for ATED for the 2023/23 charging period will be increased by the September CPI figure of 10.1% and will be implemented, as usual, through Treasury Order.

Corporation tax rates

The government confirmed that the increase in corporation tax rates for financial year 2023 onwards will come into effect as planned following the reinstatement of the CT increase.

It was also confirmed that the bank surcharge and the diverted profits tax will also increase from this date. Therefore from April 2023, banks will be charged an additional 3% on profits in excess of £100 million and the diverted profits tax will be increased to 31%.

VAT and Indirect Taxes

VAT registration threshold frozen for further two years

The government announced that the VAT registration and deregistration thresholds will not change for a further period of 2 years from 1 April 2024. This measure maintains the VAT registration threshold at £85,000 and the deregistration threshold at £83,000 (thresholds which have been in place since 1 April 2017).

The Office of Tax Simplification (OTS) had previously identified that the VAT registration threshold may cause distortions, particularly given that the UK's VAT registration threshold is more than twice as high as the EU and OECD averages. The OTS set out that a lead option to deal with such distortions would be to lower the thresholds. However, it was acknowledged that reducing the thresholds could simply move the point at which the distortion takes place. Despite this background, the maintenance of the current VAT registration thresholds aims to provide businesses with certainty and allow them to make decisions in the knowledge that current thresholds will not change until at least 31 March 2026.

CCL main rates and discounts

The government will legislate in Spring Finance Bill 2023 for the following CCL main rates and discounts in 2024-25:

1. the main rate of CCL on gas to £0.00775/kWh in 2024-25 (from £0.00672/kWh in 2023-24)
2. the main rate of CCL on electricity will be frozen at £0.00775/kWh
3. the main rate of CCL on solid fuels will rise to £0.06064/Kg (from £0.05258 in 2023-24)
4. the main rate of CCL on LPG will remain at £0.02175/Kg
5. the percentage discount on CCL main rates available through the Climate Change Agreement scheme will remain at 92% for electricity and 77% for LPG
6. the percentage discount on CCL main rates available through the Climate Change Agreement scheme for gas and solid fuels will be adjusted to 89% (from 88% in 2023-2024)

These changes will fulfil a commitment from Budget 2016 to equalise the main rates of CCL on gas and electricity.

Two-year removal of tariffs on certain goods

Tariffs will be suspended on over 100 goods for two years.

Goods affected will include (but are not limited to):

1. aluminium frames used by UK bicycle manufacturers
2. ingredients used by UK food producers

Vehicle Excise Duty on electric vehicles

From April 2025, Vehicle Excise Duty (VED) will apply to electric cars, vans and motorcycles under legislation that is to be introduced in Autumn Finance Bill 2022.

Zero emission cars first registered between 1 April 2017 and 31 March 2025 will be liable at the standard rate, which is currently £165 a year.

New zero emission cars registered after 31 March 2025 will be liable at the lowest first year rate, which currently applies to vehicles with CO₂ emissions from 1g/km to 50g/km at the rate of £10 a year. From the second year of registration onwards the standard rate will apply.

Other measures

Stamp duty land tax-expiry of changes in the Growth Plan 2022

In the Growth Plan 2022, Kwasi Kwarteng announced that the stamp duty land tax (SDLT) nil rate threshold for residential property purchases in England and Northern Ireland would increase from £125,000 to £250,000 with effect from 23 September 2022. Where all buyers in the transaction are first-time buyers and the purchase price is £625,000 or less, the nil rate threshold is £425,000 from the same date.

These changes are retained and will be legislated in the Stamp Duty Land Tax (Reduction) Bill, but the Chancellor announced that these amendments to the thresholds (including the maximum purchase price for first-time buyer relief) will expire on 31 March 2025. The Bill will be amended to implement this sunset date.

As such, the pre-23 September 2022 SDLT rates and thresholds will apply to all residential property transactions, including those involving first-time buyers, with effect from 1 April 2025 onwards. This is forecasted to raise significant amounts for the Exchequer and it remains to be seen whether a rush to take advantage of these thresholds will bolster an otherwise slumping market as interest rate rises, the cost of living crisis and recession bite.

Online sales tax

Following consultation, the government has decided not to introduce an online sales tax (OST), an idea looked at as a means to rebalance the taxation of the retail sector between online and in-store. The government's decision reflects concerns raised about an OST's complexity and the risk of creating unintended distortion or unfair outcomes between different business models. A response to the OST consultation will be published shortly.

Audio-visual creative tax reliefs

Various tax reliefs are available for businesses in the creative sector which include film, animation, high-end TV, children's TV and video games tax relief. The Government is consulting on simplifying and modernising these reliefs. The consultation does not cover creative tax reliefs available to museums, orchestras and galleries.

Business rates and Council tax

Business rates will be based on updated property valuations from 1 April 2023. Targeted support will be offered to support businesses through the transition. The business rates multipliers will also be frozen in 2023/24.

A number of reliefs are being introduced or extended, namely:

1. the transitional relief scheme, which will cap bill increases caused by the 2023 revaluation;
2. retail, hospitality and leisure relief, which is extended and will increase to 75% business rates relief up to £110,000 per business;
3. the supporting small business scheme, which will cap bill increases for certain of the smallest businesses at £600 per year from 1 April 2023;
4. improvement relief, available between April 2024 and 2028, which means ratepayers will not have increased business rates as a result of improvements they make to a property they occupy for 12 months.

Local authorities in England are being given additional flexibility in setting council tax rates. The referendum limit for increases in council tax will be raised to 3% per year from April 2023 and local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% per year.

Tax Conditionality: Licensing in Scotland and Northern Ireland

Tax conditionality refers to a principle whereby businesses are granted access to Government awards and authorisations only if they can demonstrate good tax compliance. From 4 April 2022, firms applying for licences in England and Wales to drive taxis and / or private hire vehicles (PHVs), to operate a PHV business or to deal in scrap metal are only able to obtain or renew a licence to operate if they carry out a tax check.

The government had planned to extend the provisions to Scotland and Northern Ireland from April 2023 for access to, or renewal of, licences to drive taxis. In Scotland it will also apply for access to licences to operate a private hire booking office, or deal in scrap metal. These provisions will now come into force for license renewals from October 2023 rather than April 2023. This measure will be legislated for in Spring Finance Bill 2023.

National Living Wage (NLW) and National Minimum Wage (NMW) Uprating

Following the recommendations of the independent Low Pay Commission (LPC), the government will increase the NLW for individuals aged 23 and over to £10.42 an hour from 1 April 2023.

The government has also accepted the LPC's recommendations for the other NMW rates to apply from April 2023, as follows:

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| 1. | 21-22 year olds | £10.18 an hour |
| 2. | 18-20 year olds | £7.49 an hour |
| 3. | 16-17 year olds | £5.28 an hour |
| 4. | apprentices | £5.28 an hour |

<https://www.gov.uk/government/publications/autumn-statement-2022-documents>

Adapted from the summary produced Tolley