

Autumn Statement (Lecture B1407 – 17.05 minutes)

Personal tax

Class 1 NIC reduction

In a surprise move, with effect from January 2024, the Government has decided to reduce the main rate of employee NIC payable, from 12% to 10%. The rate applies to employee earnings between the Primary Threshold £242 per week (£1,048 per month) and the Upper Earnings Limit £967 per week (£4,189 per month). So for example, an employee earning £2,950 per month would see a reduction in NIC payable of £38.04 per month (£456 per year), from January 2024. It is anticipated the new employee rate will be applied for the remainder of the current tax year 2023/24, and for the whole of 2024/25.

The introduction of calculation rate changes partway through the tax year will present some challenges to payroll software, which will be expected to integrate the alterations quickly. The mid-year change may also present issues for individuals subject to an annual NIC calculation (eg company directors), especially those who are not paid at regular intervals.

Venture capital trusts and enterprise investment schemes

Investment in venture capital trusts (VCT) and enterprise investment schemes (EIS) was due to end on 5 April 2025 under the sunset provisions in ITA 2007, s 157(1)(aa) (for EIS) and ITA 2007, s 261(3)(za) (for VCT). However, this is expected to be extended to 5 April 2035 by Treasury Order (subject to domestic and international subsidy obligations being met). The fact that this has been announced almost 18 months before the schemes were due to end gives qualifying companies the necessary certainty when planning ahead.

ISAs

From 6 April 2024, the Government will make changes to the individual savings account (ISA) system to:

1. allow multiple subscriptions in each year to ISAs of the same type;
2. remove the requirement to make a fresh ISA application where an existing ISA account has received no subscription in the previous tax year;
3. allow partial transfers of current year ISA subscriptions between providers;
4. harmonise the account opening age for any adult ISAs to 18;
5. allow long-term asset funds to be permitted investments in the Innovative Finance ISA;
6. allow open-ended property funds with extended notice periods to be permitted investments in the Innovative Finance ISA.

These changes will be introduced by statutory instrument.

It is unclear from the information published at the Autumn Statement whether these changes will mean those with cash ISAs can open more than one cash ISA in the tax year. This can catch out those with existing cash ISAs that have to be renewed each year in order to get the best interest rates.

The Government also announced its intention to digitise the ISA reporting system to enable the development of digital tools to support investors and it has tasked HMRC with establishing stakeholder forums and communication channels for ISA managers and relevant trade bodies to ensure the pace and sequencing of the move to a digital system reflects the needs of ISA providers and investors.

The Government will also engage with the finance industry on allowing certain fractional shares contracts to become permitted ISA investments. This follows on from HMRC's announcement in the October 2023 Tax-free savings newsletter 9 that a fractional share is not a share and therefore cannot be held in an ISA.

The ISA, Lifetime ISA, Junior ISA and Child Trust Fund annual subscription limits remain frozen at £20,000, £4,000, £9,000 and £9,000 respectively.

Pensions reform

The Government is maintaining the pension triple lock. The basic state pension, new state pension and pension credit standard minimum guarantee will be uprated in April 2024 in line with average earnings growth of 8.5%, with the state pension rising to £221.20 per week.

In the Autumn Statement 2023, the Government announced a whole suite of policies around pensions reform. This includes publishing nine documents including consultation outcomes, calls for evidence and research and analysis papers.

These cover a wide range of issues on pensions around how to make it easier for individuals to manage and access their pensions, how pensions invest and options to put changes in place, including legislation.

The key point in these announcements for employers providing pensions is the launch of a call for evidence for defined contribution pension schemes on a 'lifetime provider' model called Looking to the future: greater member security and rebalancing risk.

The lifetime provider model intends that individuals will have a single pension for their lifetime. This might mean that they take their pension with them when they change employers, with the intention of having fewer pension providers and creating a framework for employers to enable this with set defaults for those individuals who do not actively engage in pension decisions. This differs from the current model where it is common for individuals to have many jobs over a lifetime, building up many pension pots from different providers, with the potential for confusion and complexity in managing their pension savings and decision making at the point of accessing their pension. The Government's stated aim is that 'the future is one where we can reduce as far as possible the need to make complex financial decisions on the part of the individual, while retaining choice for those who want to exercise it'.

Business taxes

Class 2 NIC abolition

From 6 April 2024, self-employed people with profits above £12,570, the lower profit threshold, will not be required to pay Class 2 NIC but will still have access to contributory state benefits including the state pension. Prior to 6 April 2024, self-employed people with profits between the small profits threshold of £6,725 and the lower profit threshold of £12,570 did not pay Class 2 NIC but had access to contributory benefits and therefore this will remain the same from 2024 onwards. The option to voluntarily pay Class 2 NIC where profit levels are below £6,725 is still available in order to allow self-employed people to obtain NIC credits and will remain at the weekly rate of £3.45 for 2024/25.

Class 4 NIC main rate reduction

From 6 April 2024, the main rate of Class 4 NIC will reduce from 9% to 8%.

Expansion of the cash basis

Legislation will be introduced to expand the cash basis for self-employed taxpayers including those in partnerships from the tax year 2024/25. The changes will not apply for property businesses, companies or those entities already excluded from the current cash basis regime.

Currently, the default method for calculating profits of trading businesses is the accruals basis and in order to use the simpler cash basis, businesses have to opt in. The changes will make the cash basis the default method of calculating profits and businesses will have to opt to use the accrual basis instead.

Businesses can only currently use the cash basis if their turnover is less than £150,000 and business must leave the cash basis where their turnover exceeds £300,000 in certain circumstances. These restrictions will be removed completely so the cash basis will be available for all sizes of businesses.

There is also a limit of £500 on the amount of interest which the business can deduct for tax against the profits for the year, this limit will be abolished allowing tax relief for full interest costs as long as they are wholly and exclusively for the purpose of the trade.

Lastly, the current restrictions on the utilisation of losses under the cash basis will be removed so that losses can be set sideways against general income of the same period or carried back to earlier years as with losses under the accruals basis and subject to the same conditions.

Full expensing for companies

'Full expensing' of expenditure by companies on plant and machinery is to be made permanent. 'Full expensing' refers to first-year capital allowances available to companies only at 100% for main rate expenditure and 50% for special rate expenditure. The allowances were introduced by F(No 2)A 2023 and were originally available for expenditure incurred in the period 1 April 2023 to 31 March 2026. The sunset date of 31 March 2026 will now be removed by legislation to be included in the Autumn Finance Bill 2023.

Full expensing is not currently available for expenditure on plant or machinery for leasing. A technical consultation will be published to consider draft legislation extending full expensing to such expenditure. The Government has indicated that no final decision on extending full expensing in this way has yet been made.

The Government has also announced a technical consultation on possible simplification of the legislation for capital allowances on plant and machinery. Working group meetings will be held with stakeholders from January 2024 with the aim of publishing draft legislation in Summer 2024.

R&D tax reliefs

The Chancellor confirmed at the Autumn Statement 2023 that the proposed reform of the R&D tax reliefs will be going ahead, with the merged RDEC and SME scheme applying for accounting periods beginning on or after 1 April 2024. The enhanced support for R&D intensive SMEs will also go ahead with effect for expenditure incurred from 1 April 2023, and the intensity threshold will reduce to 30% (from 40%) from 1 April 2024. This is expected to bring 5,000 more companies within the scope of the relief. Finally, it was confirmed that R&D claimants will not be able to nominate third-party payees from 1 April 2024, and no new assignments of R&D tax credits will be possible from 22 November 2023.

New policy papers for these changes have been published today, with draft legislation previously published in July 2023. Updated draft legislation will be included as part of Autumn Finance Bill 2023.

The Government has now closed its R&D tax reliefs review, noting HMRC will be publishing a compliance action plan in due course to reduce the unacceptably high levels of non-compliance in this area.

Pillar 2 — multinational top-up tax and domestic top-up tax

Multinational top-up tax and domestic top-up tax were introduced by Finance (No 2) Act 2023 and have effect for accounting periods beginning on or after 31 December 2023. After the introduction of these provisions, draft legislation was published in July 2023 to introduce the undertaxed profits rule (UTPR) and to make amendments to the existing multinational top-up tax and domestic top-up tax regimes. Further amendments to this draft legislation were made on 27 September 2023.

The Government announced in Autumn Statement 2023 that an additional raft of technical amendments will be made to the multinational top-up tax and domestic top-up tax legislation to ensure the legislation continues to adhere to the OECD's Global Anti-Base Erosion (GloBE) rules, including a number of changes to clarify technical definitions.

It was announced today that they will be included in Autumn Finance Bill 2023.

The Government also confirmed that the UTPR will still take effect for accounting periods beginning on or after 31 December 2024 as originally announced, but clarified that it will be introduced in a future Finance Bill.

In a related announcement, the Government confirmed it will abolish the 'offshore receipts in respect of intangible property' (ORIP) rules for income arising from 31 December 2024. The repeal of the ORIP rules will be legislated for in an upcoming Finance Bill alongside the introduction of the UTPR, which is expected to comprehensively discourage the multinational tax planning arrangements that ORIP sought to counter.

Making Tax Digital small business review outcome

No major changes were announced to Making Tax Digital for Income Tax (MTD ITSA) for trading and property income. The previously announced dates of April 2026, for gross income / turnover over £50,000 and April 2027, for gross income / turnover over £30,000 remain. Future extension to businesses with gross income / turnover will be kept under review.

A number of easements and simplification will be introduced. Quarterly reporting will change. Although updates will still be every three months, these will now be on year-to-date figures. This avoids the need to put through amendments to previous quarters as envisaged in the original proposals. There will no longer be a need to submit end of period statements, the final declaration will now suffice.

An easement will apply for landlords with jointly held property. Expenses for jointly held property may be submitted annually, rather than quarterly, with less detailed information required.

Exemption from MTD will be extended to cover foster carers with qualifying care income and individuals who do not have a national insurance number. Where gross income / turnover is below the VAT registration threshold, three-line accounts will still be available.

The Government is committed to developing a solution allowing multiple agents to act on behalf of the same taxpayer.

HMRC will publish a technical consultation on draft regulations to move the process forward.

Other direct tax measures

Post office compensation schemes:

The Autumn Finance Bill 2023 will include provisions to exempt corporate entities from tax on payments made under the Suspension Remuneration Review (SRR) Scheme and the Post Office Process Review Scheme in addition to the Horizon Shortfall Scheme and the Group Litigation Order as was previously announced, with a policy paper setting out further details.

In addition to the exemptions for payments under the Horizon Shortfall Scheme and the Group Litigation Order which were legislated for in July 2023, statutory instruments will exempt payments to be made (including top-up payments) under the SRR scheme and the Post Office Process Review Scheme from income tax, NIC and capital gains tax.

NIC relief for hiring veterans

The Government is extending the employer NIC relief for employers hiring qualifying veterans for a further year until April 2025.

Digitisation of pension contributions relief at source

It has been announced that the changes expected to apply from 6 April 2025 are to be pushed back to at least 6 April 2027 due to feedback from the pensions industry.

Creative industries

The changes to the creative industries tax reliefs will come into effect in 2024 as previously announced, with some amendments to the draft legislation for the administrative changes to correct anomalies and prevent abuse.

Electricity Generator Levy

A new exemption from the Electricity Generator Levy will be introduced (in a future Finance Bill) for receipts from new electricity generating stations where the substantive decision to invest is taken on or after 22 November 2023.

Energy Profits Levy

Following a consultation in June 2023, the thresholds for the Energy Profits Levy (EPL) Energy Security Investment Mechanism (ESIM) have been set at \$71.40 per barrel of oil and £0.54 per therm of gas, with further details set out in the technical note.

VAT and other indirect taxes

Women's sanitary products

Plans were announced to introduce legislation to extend the scope of the VAT zero rate to include reusable period underwear.

Currently, reusable period underwear is specifically excluded from the zero rate for women's sanitary products by way of VATA 1994, Sch 8, Pt II, Group 19, Item 2 which states that the zero rate does not include 'protective briefs or any other form of clothing'.

The change will take effect from 1 January 2024. This measure aims to reduce the cost of products for consumers, however, this will rely on retailers 'passing on' the VAT saving.

Reforms to the VAT energy-saving materials relief

The Government will introduce legislation to expand the VAT relief available on the installation of energy-saving materials by extending the relief to additional technologies, such as water-source heat pumps, and bringing buildings used solely for a relevant charitable purpose within scope of the relief.

This measure follows on from broader changes introduced in April 2022 which amended the liability of the installation of certain energy-saving materials from the reduced rate to the zero rate.

The expansion of reforms will be implemented from February 2024. Full details on these reforms are expected to be published shortly.

Other indirect tax measures

A range of other measures were also announced, which include the following:

- confirmation that previously published draft legislation on the interpretation of VAT and excise law will be included in Autumn Finance Bill 2023;
- a consultation will be launched on the VAT treatment of private hire vehicle operators following the High Court's ruling in *Uber Britannia Ltd vs Sefton MBC* ([2023] EWHC 1975 (KB));
- an increase in tobacco duty rates from 22 November 2023;
- an increase in the rate of aggregates levy in line with the RPI from 1 April 2024 and again from 1 April 2025;
- an increase in the standard and lower rates of landfill tax in line with the RPI from 1 April 2024;
- an increase in the rate of plastic packaging tax in line with the CPI from 1 April 2024;
- an increase in the rate of air passenger duty for 2024/25 in line with the RPI;
- an increase to VED rates for cars, vans and motorcycles in line with the RPI from 1 April 2024 and a freeze on the rates for HGVs;
- a freeze on the rates of alcohol duty until 1 August 2024;
- a freeze of the main and reduced rates of climate change levy from 1 April 2025;
- a consultation to bring remote gambling (ie gambling via the internet, phone, TV and radio) into a single tax;
- the small business rates multiplier will be frozen for another year at 49.9p, while the 75% relief for retail hospitality and leisure (RHL) businesses will be extended for 2024/25. The standard multiplier will be uprated in line with September's CPI to 54.6p.