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23rd September 2022

New Chancellor Kwasi Kwarteng presented the 2022 September Statement or so-called "Mini-Budget" (called mini despite some very significant tax changes) on 23rd September 2022, breaking with convention by being both in the morning and on a Friday, rather than the traditional Wednesday lunchtime slot. Against the backdrop of high inflation and rising interest rates, this statement was lauded in advance by the Government as being a raft of tax cutting policies with the stated aim of stimulating economic growth.

It is worth noting that in recent years, it has become the normal policy for the full Budget to be delivered in October with most announcements taking effect from the following April, with the Spring Statement being fundamentally an economic update. This Statement did not include the economic reports required to be delivered to the Houses of Parliament twice per year, so presumably we will still expect some kind of economic report later this year. The fact this was not a formal Budget was underlined by the absence of the traditional red briefcase as the Chancellor left 11 Downing Street, replaced by a blue folder. Also, as this was not a formal Budget, Mr Kwarteng was not able to take his favourite alcoholic tipple into the Chamber which is a privilege granted to the Chancellor on delivering a Budget, though we imagine he may have stuck to water at 9.30 a.m. anyway!

The headline grabbers will be the pre-announced reversal of the 1.25% National Insurance rise and the reduction in basic rate of income, tax along with the surprise scrapping of the additional rate of income tax. To see the main taxation announcements, and a reminder of other changes previously announced over recent months, and practical guidance on these points and how they may affect you and your business, please read below:

Employers

No change in Employment Allowance
Reversal of increase in NIC rates for employers and employees – Health and Social Care Levy

Business

Reversal of increase in tax on dividends and self-employed income – Health and Social Care Levy
Corporation tax rate change reversal
"Super deduction" for investment (announced in Spring Budget 2021) and extension of Annual Investment Allowance
IR35 Changes
Investment Zones

Personal tax and other announcements

Reduction in basic and additional income tax rates
Changes to Seed Enterprise Investment Scheme and Company Share Option Scheme
Changes to Stamp Duty Land Tax

Employers

No change to Employment Allowance
A surprise announcement in the Spring Budget 2022 was that the Employment Allowance, which effectively exempts the first £4,000 of Employer's National Insurance Contributions in each tax year, increased from April 2022 by £1,000 to £5,000. This was designed to ameliorate the impact of the extra 1.25% NIC being charged for smaller employers, so many expected this increase to be reversed along with the NIC rise being cancelled.

Planning point: *There remain some qualifying businesses which do not claim the Employment Allowance. There are some qualifying conditions to consider, particularly if you have more than one business, but backdated claims are generally possible, so if you have not claimed this previously, please review your position as soon as possible.*

Planning point: *A common exclusion is that you are not eligible to claim if the only individual in respect of who Employer NIC is due is also a sole director. You may be able to avoid this restriction by appointing a spouse, civil partner or family member to be a director, paid above the secondary earnings threshold even by £1.*

Reversal of increase in National Insurance (NIC) for employees and self-employed, and increase in dividend taxation (announced September 2021) – The Health and Social Care Levy

From April 2022, the Health and Social Care Levy was given temporary effect by adding 1.25% to the rates of Class 1 NIC (both employee and employer), Class 1A NIC on most Benefits in Kind, and Class 4 NIC paid by the self-employed and partnerships.

This was announced to be scrapped, to be effective from 6th November, meaning most people paid under PAYE will see the impact of this in their November pay packet. Also, employers will benefit from the reduction from the same date.

Class 1A NIC will be charged at 14.53% for 2022/23, reverting to 13.8% from April 2023 onwards.

The detail on how this applies to people paid on an annual earnings period as company directors is unclear, as are the computational impacts for self-employed people paying Class 2 and Class 4 NIC. The understanding is that this will be averaged out, so there will be an additional charge of 1.25% x 7/12 = 0.73%, meaning that company directors pay National Insurance at 12.73% on their annual earnings in excess of the Primary threshold, up to the Upper Earnings limit, at which point the rate drops to 2.73%, and class 4 NIC is paid at the annualised rate of 9.73% for earnings between £11,909 and £50,270 (and 2.73% in excess of £50,270).

Recipients of dividends in excess of the £2,000 dividend allowance will still see a 1.25% increase in their tax rate from April 2022 across all tax bands, for one year only, as this will be repealed from April 2023. Unlike for employed and self employed earnings, this extra tax remains in place for the whole tax year and is then cancelled from April 2023.

Planning point: *The dividend taxation increases, being effective for just one tax year, may be able to be mitigated if you can take care over timing of dividend income. The proportionate reduction in tax for a basic rate taxpayer from April 2023 (8.75% to 7.5%) is a 15% reduction in the tax payable (for a higher rate taxpayer this is 33.75% to 32.5% or a 3.7% reduction, whilst for additional rate taxpayers (see later), this will be a reduction from 39.35% to 32.5% from April, approximately a 17% reduction in absolute tax payable). It remains good tax planning to fully consider legitimate ways in which you can ensure that dividends are spread through the family to utilise dividend allowances and basic rate bands/personal allowances for as many members of the family as possible. However, it is critical that any planning is correctly executed, so please do seek professional advice.*

Planning point: *If dividend income makes up the majority of your income, then it may be worth reviewing your payments on account to be made in 2024 if the removal of the 1.25% levy from April 2023 will make a significant difference to your eventual tax liability for the 2023/24 tax year.*

Business

Reversal of Corporation Tax changes – previously announced in Spring Budget 2021

The headline part of the tax raising part of the 2021 Spring Budget was the announcement of an increase in Corporation Tax from April 2023. This was to be a significant rise from the current historically low rate of 19% to 25%.

In accordance with the policy announced by new Prime Minister Liz Truss in her leadership campaign, this planned increase has been scrapped. It was confirmed that the rate of Corporation Tax will remain at 19% ongoing.

Planning point: *The super-deduction, giving a deduction against tax of 130% of the cost of qualifying plant and machinery appears to remain in place until 31st March 2023 (for limited companies only). This gives effective tax relief at 24.7%. When announced, this was seen as giving tax relief at an equivalent rate to when the Corporation Tax rate increased. However, now that this is not going ahead, it means that investment before March 2023 will give relief at a higher rate than investment after. Please see below.*

Planning point: *Some businesses may have been planning to defer discretionary spend until April 2023 when the tax relief was to increase. Now that is not happening, plans should be reviewed if you had previously taken such a decision with the tax rate being a factor in the decision-making process.*

"Super deduction" for capital investment (announced in Spring Budget 2021) and Annual Investment Allowance permanent extension

For two years from April 2021 to March 2023, a First Year Allowance of 130% is available for expenditure qualifying for capital allowances in the main pool, or 50% for expenditure in the special rate pool.

In other words, for every £100 you spend on new qualifying plant and machinery, you get to reduce your taxable profits by £130.

This only applies for corporation tax, not for income tax payable by sole traders and partners. Only expenditure on new equipment qualifies, not second-hand equipment. Cars will not qualify for relief (though vans do) and no claim is possible in your final period of trading if relevant. This allowance does not seem to have been displaced by the scrapping of the planned Corporation Tax increase (see above).

Since this is a First Year Allowance, there is no cap on this, unlike the Annual Investment Allowance.

A welcome though unexpected announcement was the extension of the £1M Annual Investment Allowance indefinitely (previously due to revert to £200k from 1st April 2023)

Planning point: *With a 19% Corporation tax rate, this gives effective tax saving of 24.7% on investment. This was (presumably) designed to give you very nearly the same effective tax relief for capital expenditure incurred now as if you claim Annual Investment Allowance from April 2023 with a 25% corporation tax rate. Now that the Corporation Tax increase is not going ahead, there is an absolute tax saving for expenditure before 31st March 2023 compared to the same expenditure from April 2023.*

Planning point: *The Annual Investment Allowance is now to continue at a level of £1M, so you can still claim this instead of the super deduction. This would still be a rational choice where you have special rate pool assets, since these will attract super deduction at 50% or AIA at 100%. Also, second hand purchases (other than cars) may qualify for AIA, but not super-deduction.*

Planning point: *The rate of the super-deduction will require apportioning if an accounting period straddles 1 April 2023. The rate should be apportioned based on days falling prior to 1 April 2023 over the total days in the accounting period. Effectively, you time apportion the super-deduction 30% enhancement, so Dec 2023 year end is (90/365 x 30%) 7.4% enhancement. Therefore, if you have a year end prior to March 2023 (e.g. December 2022), then expenditure in that period can qualify for the full super deduction, and therefore work out cheaper (due to the increased tax relief) than expenditure in your next accounting period.*

Furthermore, for assets that have been claimed under the super-deduction, the disposal value for capital allowance purposes should take the disposal receipt and apply a factor of 1.3 for disposals prior to 1st April 2023, except where disposals occur in accounting periods straddling 1 April 2023, resulting in a factor lower than 1.3. This rule does not apply to the 50% first-year allowance for special rate expenditures. ***Details of any changes to these rules resulting from the cancellation of the corporation tax increase have yet to be announced. Logically, they may be extended indefinitely for assets on which super-deduction was claimed.***

IR35 Changes

In a welcome move for the contracting industry, the so called IR35 rules will be rolled back to their pre 2017 state, when the responsibility for assessing whether an engagement was caught by the rules shifted to the engager (i.e. the customer) in most instances. From 6th April 2023, the responsibility will revert to the "personal services company" or other intermediary providing the services to the end user.

This will be well received by small businesses supplying contracting services to public sector organisations and other larger end users.

Planning point: *If you are providing your services via your own company, it is important to make sure that you have adequate protection in place from being assessed to unexpected tax bills under "IR35" rules. We can arrange for contract reviews to be undertaken to make sure you have minimised your risk of having the rules applied to you, and can offer a Tax Investigation Protection service to ensure you have a full defence to challenge HMRC assessments without further cost. Please get in touch with your usual contact at CRM for details of how we can help you.*

Investment Zones

The Chancellor announced that new "Investment Zones" would be created, with businesses locating there benefitting from a raft of tax benefits, including:

- Lower tax rates (details TBC)
- Simplified/streamlined planning
- 100% Business Rates relief for newly occupied and expanded premises
- Enhanced Capital Allowances – 100% First Year Allowance for qualifying expenditure (presumably without limit unlike Annual Investment Allowance)
- Enhanced Structure and Buildings Allowance – 20% straight line instead of 3%.
- Employer NIC relief – no employer NIC on new employees working at the site on earnings up to £50,270 p.a.

Planning point: *Full details are yet to be released. A list of Local Authorities which are likely to host Investment Zones may be found here https://www.gov.uk/government/publications/the-growth-plan-2022-factsheet-on-investment-zones/the-growth-plan-2022-investment-zones-factsheet*

Personal tax and other announcements

Cut in basic rate and additional rate of income tax –April 2023

An anticipated announcement, was that the basic rate of income tax will reduce from 20% to 19% in April 2023, brought forward by a year from the previously announced date of April 2024. It is confirmed that the dividend tax rate will not reduce at this point, though of course the 1.25% surcharge for Health and Social Care is being withdrawn from April 2023, so dividends taxed at the basic rate will fall from 8.75% to 7.5% tax when the £2,000 dividend allowance is exceeded.

It was announced that charities would still be able to reclaim Gift Aid at 20/80ths (25%) of donated amounts until April 2027 as a transitional measure, at which point this will reduce to 19/81ths (23.456%). A similar announcement has been made in relation to tax reclaimed by pension funds on personal pension contributions under "relief at source schemes" (this is the most common type of scheme, where you pay the net amount and the pension scheme reclaims basic rate tax on your behalf) although only for one year until April 2024.

A more surprising announcement was that the additional rate, payable on income exceeding £150,000, is to be scrapped altogether from April 2023, so income currently in this band will now be taxed at 40%, or 32.5% for dividend income. As a consequence of the additional rate band ceasing to exist, these individuals will benefit from the £500 savings allowance (exempting from tax the first £500 of savings income) available to higher rate taxpayers (£1,000 for basic rate taxpayers), which was previously denied to them.

Planning point: *The tax rate reductions from April may make it attractive to consider deferring income until April 2023 where possible, especially income which would currently fall into the additional rate band. For additional rate taxpayers with dividend income, this would be a reduction from 39.35% to 32.5% from April, approximately a 17% reduction in absolute tax payable. It remains good tax planning to fully consider legitimate ways in which you can ensure that dividends are spread through the family to utilise dividend allowances and basic rate bands/personal allowances for as many members of the family as possible. However, it is critical that any planning is correctly executed, so please do seek professional advice.*

Planning point: *If you cannot easily influence the timing of your income, you may be able to exercise discretion in the timing of pension contributions or gift aid payments in order to maximise the effect on your tax liability by bringing them forward to the 2022/23 tax year.*

Planning point: *If you currently pay additional rate tax through self-assessment, you may be able to reduce your payments on account towards your 2023/24 liability as a consequence of the scrapping of the 45% tax rate.*

Planning point: *When the tax reclaim on pension funds reduces, you may wish to consider a small increase in your contributions to prevent an effective reduction in contributions. All else being equal, this would equate to around a 1.5% increase in your net contribution to get the same tax inclusive money into your scheme. Please note this is an illustrative example, and you should take financial advice before making decisions relating to your pension.*

Seed Enterprise Investment Scheme (SEIS) and Company Share Option Plan (CSOP) changes

From April 2023, companies will be able to raise up to £250,000 of SEIS investment (up from £150,000). To enable more companies to use SEIS, the gross asset limit will be increased to £350,000 and the age limit from 2 to 3 years. Furthermore, the annual investor limit will be doubled to £200,000.

Planning point: *SEIS is a great way to raise initial capital for a new venture, offering significant tax relief to investors. It is highly recommended to obtain HMRC approval for investors before investment is made. Please speak to our Technical Director, Alan Sowden, if you wish to investigate raising funds through this route.*

From April 2023, qualifying companies will be able to issue up to £60,000 of CSOP options to employees, double the current £30,000 limit. The 'worth having' restriction on share classes within CSOP will be eased, better aligning the scheme rules with the rules in the Enterprise Management Incentive scheme and widening access to CSOP for growth companies.

Planning point: *There are various share option schemes which may be suitable for growing businesses to help recruit and retain staff. Please speak to our Technical Director, Alan Sowden, if you wish to discuss schemes suitable to your business.*

Stamp Duty Land Tax (SDLT) reductions

With effect from 23rd September 2022, the SDLT nil rate band for residential property will increase from £125,000 to £250,000. This will save SDLT of £2,500 for properties costing over £250,000.

Furthermore, the SDLT threshold for first time buyers will increase from £300,000 to £425,000, and qualifying properties will be those costing up to £625,000 (up from £500,000).

Please note that this is designed as a generic guide rather than specific advice. As always, it is impossible to include every nuance in a publication such as this, so if you have a question about how a given measure may affect you or your business, or if you have a general tax query, please get in touch with us on 01865 379272.