Research Bulletin

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Mini Budget Autumn 2022

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1. Introduction

Chancellor Kwasi Kwarteng delivered his ‘Mini’ budget on 23rd September 2022. It has been presented as the start of the Government’s objective to make growth the core element of their economic strategy alongside dealing with immediate concerns caused by current high inflation and high energy bills.

This bulletin summarises the key budget announcements.

2. Taxation & Pay

Income Tax

The Government has made the following announcements relating to personal income tax:

- The planned 1% cut to the basic rate of tax to 19% due in April 2024 is being brought forward to commence in April 2023. This change will apply to non-savings and non-dividend income in England, Wales, and Northern Ireland. It will also apply to the savings basic rate across the UK.
- There will be a 1-year transitional period for Relief at Source pension schemes so that they can continue to claim tax relief at 20%.
- There will be a 4-year transition period for Gift Aid to maintain the income tax relief at 20% until April 2027.
- The additional rate of tax, currently 45%, will be abolished from April 2023. This change will apply to non-savings and non-dividend income in England, Wales, and Northern Ireland.
- The additional rate for savings will also be removed in April 2023 but this will apply across the UK (inc Scotland).

The changes to the basic rate and additional rate of tax for non-savings and non-dividend income would not apply to Scottish taxpayers as the power to set these rates is devolved to the Scottish Government.

Tenet says –Basic rate taxpayers will be better off on average by £130pa and higher rate taxpayers by £360pa in 2023-24.

Following this change additional rate taxpayers will be able to benefit from the higher rate taxpayer Personal Savings Allowance of £500.

It may be beneficial for current additional rate taxpayers to maximise pension contributions in this tax year to benefit from the 45% tax relief. This would be subject to a client’s personal circumstances and financial position.

The flip side is that basic rate tax relief will be reduced to reflect the 1% drop in the basic income tax rate. Whilst this may be seen by clients as a barrier to making pension contributions it is still important to ensure they understand the wider tax efficiencies offered by pensions and in relation to workplace pension schemes the benefit of the employer contributions.

It might be beneficial to consider delaying investment bond encashments for clients where they might have suffered a chargeable gain within the additional rate band so it may benefit from a lower rate of tax.

IR35

The Government are repealing the 2017 and 2021 reforms to the off-payroll working rules from April 2023. This affects UK workers who provide services via an intermediary who will again be responsible for determining their own employment status and ensure they pay the appropriate amount for tax and NICs.

Dividend Tax

The Government is reducing Dividend Tax rates by 1.25% from April 2023. Alongside the abolition of the 45% Income Tax Rate, dividends previously taxed at the additional rate will now be charged at the upper rate of 32.5%

Tenet says – It is estimated that these changes will benefit 2.6 million taxpayers by an average £345 in 2023/24. This does not include savings made by additional rate taxpayers.

3. National Insurance

The Government is reducing Class 1 and Class 4 National Insurance contributions by 1.25% from 6 November 2023. This reverses the rise which commenced in July 2022. The planned introduction of the Health & Social Care Levy which was to start in April 2023 has also been cancelled. Both measures will apply across the UK.

Tenet says – It is estimated that the cancellation of the Heath & Social Care levy will save taxpayers on average £330pa. This is in addition to the estimated £135 saving from the cut in the NI rate in this tax year.

This will reduce costs for businesses estimated at £9,600 on average for over 900,000 businesses in 2923/24.

4. Indirect Taxation

VAT

The chancellor announced a new digital, VAT-free shopping scheme, with the aim of providing a boost to the high street and creating jobs in the retail and tourism sectors. 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.

Alcohol Duty Reform

The chancellor announced a freeze on the duty rates for all categories from 1 February 2023 to support businesses and help consumers with the cost of living. The government has published a response to a consultation on the new alcohol duty system and draft legislation that will underpin the changes and launching a consultation on some further technical issues. The reforms will be implemented from 1 August 2023.

5. Business Tax

It was announced that the planned increase in corporation tax from 19% to 25% that was due to take effect from April 2023 will now not go ahead. Companies will continue to pay 19% corporation tax on their profits. It is stated that this measure will help the UK to maintain a competitive business tax regime and support economic growth.

Tenet says – Advisers may need to review with business clients any previous plans to limit the impact of the proposed corporation tax increase through financial planning measures, such as additional pension contributions. The impact on some smaller companies from this announcement is likely to be minimal, as a small profits rate of corporation tax was due to come into effect from April 2023, designed to maintain the rate of corporation tax at 19% for profits under £50,000.

6. Investments & Innovation

Venture Capital Sunset Closure Scrapped

VCTs, EIS and SEIS schemes were due to be subject to a sunset closure in 2025. The chancellor, in recognition of the importance of these schemes, announced that that planned closure would be scrapped.

Seed Enterprise Scheme (SEIS)

From April 2023, companies will be able to raise up to £250,000 of SEIS investment, a two-thirds increase. 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. To support these increases, the annual investor limit will be doubled to £200,000.

Tenet says – The scrapping of the proposed 2025 closure of new VCT and EIS schemes will be a welcome announcement for those investors who factor the tax reliefs available on these schemes into their annual planning. The proposed changes to SEIS rules present potential opportunities for more experienced investors to benefit from 50% income tax relief though investment exposure to slightly larger and more mature companies than would be permitted under the current SEIS rules.

However, it should be borne in mind that these will not be suitable for all clients as they are high risk investments where a client could lose their entire investment.

Long-term Investment for Technology & Science (LIFTS)

A competition was announced providing up to £500 million to support new funds designed by institutional investors and fund managers, aiming to crowd billions of pounds of private investment into UK science and technology businesses. Following a short period of industry engagement led by the British Business Bank, the government will launch a call for proposals by the end of the year to identify promising fund structures and vehicles, with the intention that funds go live as soon as possible next year.

Tenet says – It is too early to tell what retail investment opportunities, if any, will arise from this announcement. We will monitor developments in this space.

Company Share Option Plan (CSOP)

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.

Investment Zones

The chancellor announced the introduction of new investment zones across the UK. These zones will be designed to drive growth and unlock housing. The zones will benefit from tax incentives and accelerated development through streamlined planning. Proposed time-limited tax incentives include 100% relief from business rates on new premises, enhanced capital allowances, enhanced building allowances and full Stamp Duty Land Tax relief on land and buildings purchased for commercial use or development or residential development.

Annual Investment Allowance

The £1m Annual Investment Allowance will now be made permanent instead of reducing to £200,000 from April 2023. This will support any business investing between £200,000 and £1m in plant and machinery.

7. Pensions

The Government has announced plans to reform the Pensions Regulatory Charge Cap. This is to provide defined contribution pension schemes flexibility to invest in UK science and technology firms. This cap is set by Government and applied to auto enrolment pension schemes.

8. Housing

The Government has announced increases to the threshold before stamp duty is paid for residential property purchases. The changes come into force from today (23rd September). The stamp duty rates remain unchanged.

For standard property purchases, the threshold for stamp duty to be payable has increased from £125,000 to £250,000, with the new thresholds and rates payable as follows:

- No Stamp Duty up to £250,000
- 5% on the portion from £250,001 to £925,000
- 10% on the portion from £925,001 to £1.5 million
- 12% on the remaining amount above £1.5 million

The first-time buyer relief threshold has increased from £300,000 to £425,000. The maximum property value to claim first-time buyer relief has also increased from £500k to £625k. Based on these changes, first-time buyers will pay:

- No Stamp Duty up to £425,000
- 5% on the portion from £425,001 to £625,000

If the purchase price is over £625,000, the relief cannot be claimed, and stamp duty will be due as per the rules for a standard purchase (i.e. non first-time buyers).

For additional property purchases:

- 3% up to £250,000
- 8% on the portion from £250,001 to £925,000
- 13% on the portion from £925,001 to £1.5 million
- 15% on the remaining amount above £1.5 million

Tenet says – It is expected that 200,000 people will be taken out of paying stamp duty altogether because of these changes.

These changes are not expected to produce a huge spike in purchases as was seen with the pandemic stamp duty holiday but as this is a permanent cut, rather than the temporary pandemic one, a steady increase should be seen in home ownership, especially with first time buyers. This does raise the question as to whether these changes will push house prices up due to the increase in demand the stamp duty cuts will cause.