PKF

Autumn Statement 2022

What it means for you

pkf-l.com

Key measures announced today at a glance:

R&D
Slashed rates of relief for the SME scheme

Income Tax
Dividend exemption to reduce to £500

R&D
RDEC scheme rate increased from 13% to 20%

Tax allowances
Most frozen until April 2028

Corporation Tax
Minimum 15% rate for large groups

CGT
Annual Exemption to reduce to £3,000

Income Tax
45% rate from £125k, reduced from £150k

Indirect Tax
Online Sales Tax scrapped

It is 55 days since I signed off the foreword of our publication, summarising the 2022 Mini Budget with the following paragraph:

All told, today's unique event appears to have been a 'Good News only' announcement in respect of taxation. It remains to be seen whether more negative news will be delivered in future, more traditional announcements.

There can be no doubt that in today's more traditional announcement, we did indeed receive some not so good news. Having revoked the vast majority of announcements made on 23 September, we had been forewarned of many of today's measures. Some, such as the increase in scope of the top rate of Income Tax by reducing the threshold to £125,140 seemed certain and we were not surprised. However, business owners seeking an exit in the near term will be happy that, again, the main rules and rates regarding Capital Gains Tax remain unchanged.

The biggest impact for many smaller businesses is likely to be the significant reductions in relief attributable to R&D activities under the SME scheme, a clear measure to counter the negative press coverage in recent weeks. For larger businesses conducting R&D, the improvements to the RDEC scheme will be beneficial, but it remains to be seen how this will interact with the proposed UK Domestic minimum tax rate of 15%, which will be in force from January 2024.

It is clear from today's changes that personal taxes are the focus of how the Government plans to raise funds in the short term to close the gap in the UK finances, as far as possible keeping the cost from indirect taxes down so as not to give rise to further inflation, and from businesses so as to not prolong any recession. If both the recession and inflationary pressures are short lived and end in early 2024, as predicted by the Office for Budget Responsibility, then this may be where the future focus lies.

Head of Tax
Chris Riley
+44 (0)20 7516 2427
criley@pkf-l.com

Your income

As expected, the Chancellor has confirmed the government will extend the freeze on the personal allowance, currently £12,571, and the higher rate of £50,271 until 2027/28. This will pull millions more into the higher rate bands. The freeze potentially poses a real squeeze for families and middle earners due to the current high inflation rates.

In addition to freezing the personal allowance and higher rate bands, the Chancellor has announced that the additional rate band, the level at which people pay the 45p rate of income tax, will be reduced from £150,000 to £125,140. This will drag an additional 250,000 people into the higher rate of rate. The represents a tax increase of slightly over £1,200 for people earning £150,000 or more.

Employee National Insurance thresholds are already fixed at their current levels until April 2026 and will now be maintained until 2028. For 2023/24 the rates of Class 2 and Class 3 NIC will be £3.45 and £17.45 per week respectively.

The dividend allowance, currently £2,000 will be halved to £1,000 from 6 April 2023 and to £500 from 6 April 2024. As with the Capital Gains exemption changes, this will potentially bring many more people into the requirement to file a Self Assessment Tax return to report this income.

One allowance that has not been frozen is the Married Couples Allowance which will increase by 10.1% for the tax year commencing 6 April 2023. However, this relief only applies when one or both partners is over the age of 88 at that date.

The National Minimum wage will be increased for those over 23 to £10.42 per hour from 1 April 2023. There will be further increases for 16-22 year olds.

Changes to company car benefit in kind rates will increase the charge applicable to electric and other ultra low emission cars from 2025 when it is predicted that half of all new cars will be electric. In addition, for the first time, such cars will be subject to Vehicle Excise Duty (Road Tax).

Your capital

The Capital Gains Tax annual exemption, currently £12,300 will be reduced to £6,000 from April 2023 and to £3,000 from April 2024. The annual exemption has provided a useful allowance to avoid people being pulling into a tax regime they are unfamiliar with. The dramatic lowering of the allowance potentially drags more taxpayers into the Capital Gains Tax net and the Self-Assessment regime.

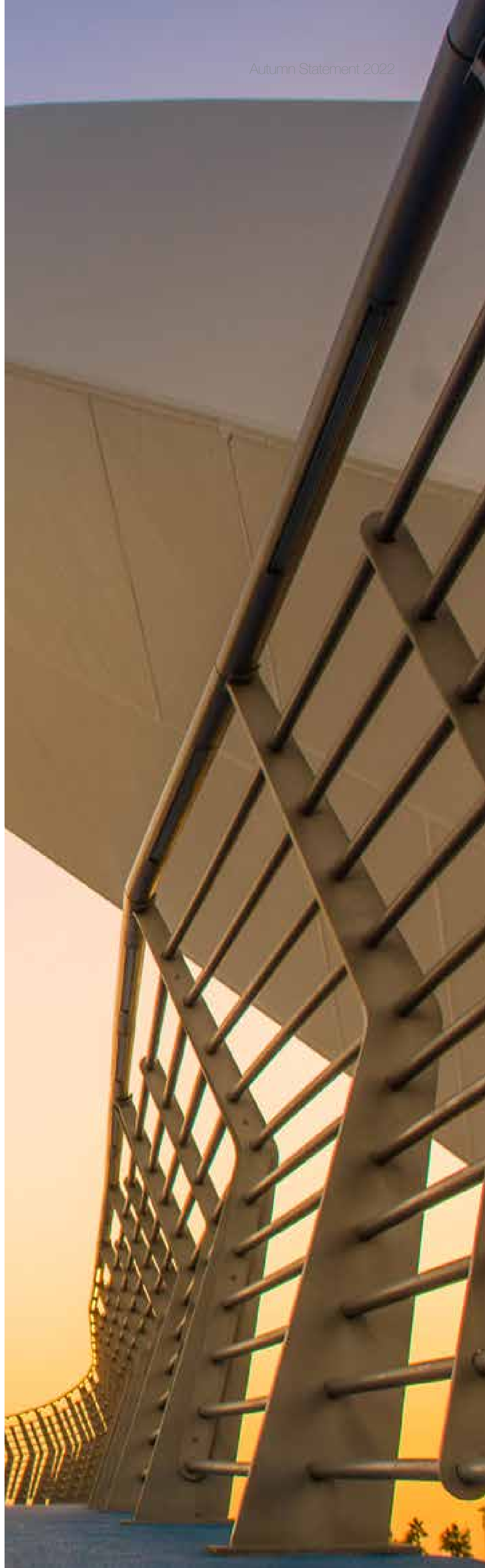
To address tax avoidance, the Government will legislate in the Spring Finance Bill 2023 so that shares and securities in a non-UK company acquired in exchange for securities in a UK close company will be deemed to be located in the UK. This will affect individuals who have a material interest in both the UK and the non-UK company and where the share exchange is carried out on or after 17 November 2022.

The rates of ATED (applying to companies holding UK residential property where exemptions do not apply) will increase in line with inflation (10.1%) for the 2023/24 year.

Along with the freeze on income tax allowances the Chancellor has announced that the Inheritance Tax threshold will be frozen until 2027/28. Inheritance Tax is paid at 40% on estates worth more than £325,000 (potentially increasing by £175,000 if a home is given to lineal descendants). This will mean the lifetime allowance has been the same for 19 years, since April 2009. Despite the transferable band and extension for property, the rate of inflation and increase in property prices mean that a lot more people will fall within the scope of UK IHT.

The increases to the SDLT thresholds announced on 23 September 2022 will remain in place until 31 March 2025. The nil rate threshold increased from £125,000 to £250,000 for all purchases of residential property. For first time buyers, their nil rate threshold increased from £300,000 to £425,000. The maximum purchase price for which first time buyers relief can be claimed is also now at £625,000.

HMRC is going to tackle more serious cases of fraud and tax compliance risk amongst wealthy taxpayers and is forecasting to bring in £725 million of additional tax revenues over the next 5 years.



Your business

At present companies pay 13.8% National Insurance on an employee's salary. The Chancellor has announced that this will be frozen until April 2028.

Following the widely reported abuse of the SME R&D Scheme, the enhanced deduction on profits will be reduced from 130% to 86% and the payable tax credit reduced from 14.5% to 10% from 1 April 2023. However, the RDEC for large businesses or those who cannot access the SME Scheme will be increased from 13% to 20%. There will also be a consultation on reforming audio-visual creative reliefs.

The rate of Diverted Profits Tax will increase from 25% to 31% from next April. This is to ensure that it tracks above the increase in corporation tax.

The UK will enact legislation in respect of the Global Minimum Tax (GMT) rate, which sets a "floor" of 15% Corporation Tax in each jurisdiction in which worldwide groups with global revenue in excess of €750m operate. This will take effect for accounting periods commencing after 31 December 2023.
In addition, the UK will enact a Domestic Minimum Tax for the same entities, meaning that all UK profits will be taxed at a minimum rate of 15%. This will extend the scope of these rules to pure-UK groups, and UK subsidiaries of worldwide groups where the GMT would otherwise be payable in the ultimate parent jurisdiction.

The 100% first year allowance for electric vehicle charge points will be extended to 31 March 2025 for Corporation Tax and 5 April 2025 for Income Tax.

There will be enhanced transfer pricing requirements for large multinational businesses operating in the UK from April 2023. This will require transfer pricing files to be in a format as set out by the OECD.

The VAT registration threshold of £85,000, and deregistration thresholds will remain in place for a further 2 years from April 2024. The proposed additional Online Sales Tax will not be implemented.

A temporary suspension of tariffs on over 100 imported goods will be applied, to reduce costs for UK producers for the next two years.

The Windfall tax applying to oil and gas producers will be extended to 2028, and a separate 45% levy will be applied to large low carbon electricity generators in respect of extraordinary returns over £10m from 1 January.

Our expert team can help you understand the impact of the Autumn Statement on you and your business

To find out more please contact our Tax Partners.

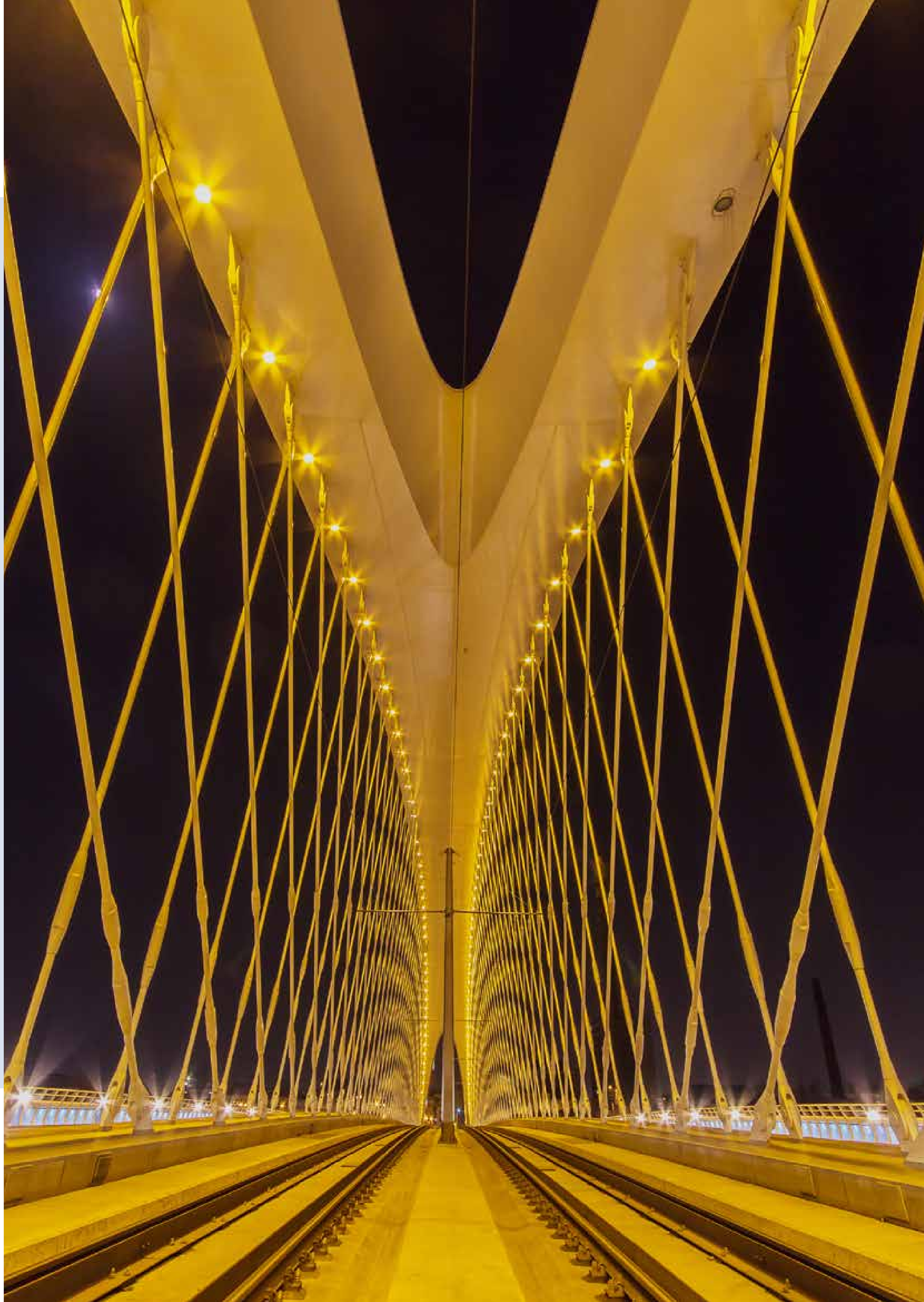
Corporate Tax
Chris Riley
+44 (0)20 7516 2427
criley@pkf-l.com

Personal Tax
Stephen Kenny
+44 (0)20 7516 2200
skenny@pkf-l.com

Corporate Tax
Catherine Heyes
+44 (0)20 7516 2237
cheyes@pkf-l.com

Indirect Taxes
Mark Ellis
+44 (0)20 7072 1102
mellis@pkf-l.com

Corporate Tax
Howard Jones
+44 (0)20 7516 2295
hjones@pkf-l.com



PKF Littlejohn LLP,
15 Westferry Circus,
Canary Wharf,
London E14 4HD

Tel: +44 (0)20 7516 2200
www.pkf-l.com