Forbes Dawson
THE TAX SPECIALISTS

Autumn Statement 2022

Forbes Dawson's Top 10

AUTUMN STATEMENT 2022 – THE BIG FREEZE AND SQUEEZE

When Jeremy Hunt stepped in to replace Kwasi Kwarteng one of his first decisions was to scrap the fiscal statement that had been scheduled to happen on 31 October – it would have been a headline-writer's gift to have unveiled a Budget on Halloween. Sadly, that didn't stop the horror show. Today's Autumn Statement makes it clear that the UK is about to enter one of its most painful economic periods.

With inflation running at 11%, and interest rates on the rise, this was never going to be a 'sunshine' Budget. The Government needs to plug a huge hole in the public finances, and this can only mean either tax increases or spending cuts. Mr Hunt has opted for a combination of both.

As you will see from our Autumn Statement summary, there are a raft of revenue raising measures which have been announced today. Each policy on its own amounts to modest tax changes – where amounts can be quantified – but they soon add up. However, it is the unquantifiable amounts which may be of bigger concern. Under today's announcements, various tax thresholds, including the personal allowance, higher rate tax band and Inheritance Tax nil rate band will be frozen for six (yes six) years. This is undoubtedly going to lead to stealth tax rises, as 'fiscal drag' leads to more individuals being brought into higher rate tax.

Was there any good news? One welcome fact is that, despite slashing the annual exemption, CGT rates were left untouched. For business owners this still leaves lots of opportunities for planning in order to obtain the benefit of capital treatment. If anything, this is now even more beneficial given the increases to dividend taxes.

As ever, we welcome the opportunity to discuss how today's announcements affect you or your clients/customers.

THE FORBES DAWSON TEAM
17 NOVEMBER 2022

ADDITIONAL RATE TAX THRESHOLD LOWERED

Jeremy Hunt has announced that the threshold at which the additional rate (top rate) of income tax is payable will be lowered from 6 April 2023. The threshold reduces from £150,000 to £125,140, which is the point at which the personal allowance will have been fully withdrawn.

This means that an individual earning £150,000 or more will see the following increases in rates on £24,860 of their income:

Type of income	Current rate (higher)	New rate (additional)	Maximum impact*
Salary/Interest	40%	45%	£1,243
Dividend	33.75%	39.35%	£1,392

* Assuming all the individual's income within the affected bracket is from each source.

OUR VIEW

This is a huge climb down from the Mini-Budget where the plans were for the 45p tax rate to be abolished.

In most cases, we find that individuals will want to limit their income to £100,000, if they can. This avoids the nasty 60% marginal rate of tax trap that exists between £100,000 and £125,140 from the loss of the personal allowances.

For employed earners in this bracket, a pension contribution is now more worthwhile, as this obtains tax relief at the marginal rate. This works particularly well if done under salary sacrifice, as there will also be National Insurance savings.

TAX ALLOWANCES/THRESHOLDS FROZEN UNTIL 2028

Back in 2021, Rishi Sunak announced that various tax rates and allowances would be frozen until April 2026 to help pay for furlough. Jeremy Hunt has today confirmed that the freeze will be extended until at least April 2028. This includes:

Threshold/allowance	**£**
Personal Allowance	£12,570
Higher rate threshold for income tax	£50,270
High Income Child Benefit Charge	£50,000
Withdrawal of personal allowance	£100,000
Starting rate for savings	£5,000
Personal savings allowance	£1,000/£500
ISA contributions limits (main)	£20,000
Inheritance tax nil-rate band	£325,000
Inheritance tax residence nil-rate band	£175,000
Employment allowance (per company)	£5,000

OUR VIEW

We warned back in 2021 that freezing rate bands and allowances would lead to 'fiscal drag' i.e. where individuals are pulled into higher tax brackets as a result of thresholds not keeping up with inflation.

The difference is that back in 2021 inflation was running at about 2%. Latest figures show it to be north of 11%. Today's announcement is therefore likely to be more painful, and for longer.

It is worth noting that the £100,000 threshold for tapering of the personal allowance has been at this level for over a decade, allowing the Government to increase its tax take via stealth. Everyone should be aware of the 60% marginal tax rate which applies between £100,000 and £125,140. As noted above, pension contributions are an easy way to avoid this trap.

DIVIDEND ALLOWANCE SLASHED

The Chancellor then moved on to tax allowances. The first announcement was that the dividend allowance – the amount that each individual can earn in dividend income tax-free each year – would be halved from 6 April 2023 to £1,000.

It will then be halved again to £500 from 6 April 2024.

Depending on the individual's marginal rate of tax, the effect (per annum) of these changes compared to the current £2,000 allowance is as follows:

Dividend tax rate	Reduction to £1,000	Reduction to £500
Basic rate (8.75%)	£87.50	£131.25
Higher rate (33.75%)	£337.50	£506.25
Additional rate (39.35%)	£393.50	£590.25

OUR VIEW

Yet another attack on dividends! The dividend allowance had previously been cut from £5,000, and so in 18 months time will be worth 10% of what it was.

Not only that, this comes on the back of two previous increases to dividend tax rates – the 7.5% which was applied in 2016 and then the further 1.25% that was applied this April. The latter increase was planned to be reversed by Kwasi Kwarteng, but ended up being reinstated when Jeremy Hunt became Chancellor in the fallout from the Mini Budget.

As we have said previously, there is a psychological impact of these changes, whereby business owners are facing effective profit extraction rates of more than 50% in some cases.

CAPITAL GAINS TAX ANNUAL EXEMPTION SLASHED

Mr Hunt then moved on to Capital Gains Tax, announcing similar cuts to the Annual Exemption – the amount of tax-free gains which an individual can realise each year.

From 6 April 2023 the exemption will be reduced from £12,300 to £6,000. It will then be halved to £3,000 from 6 April 2024.

The effect of these changes, assuming an individual has a gain of £12,300 per annum will be as follows:

CGT rate	Reduction to £6,000	Reduction to £3,000
Gains other than residential property:		
Basic rate (10%)	£630	£930
Main rate (20%)	£1,260	£1,860
Residential property gains:		
Basic rate (18%)	£1,134	£1,674
Main rate (28%)	£1,764	£2,604

OUR VIEW

This is a controversial, if not unexpected move.

Given that we are living in inflationary times, taxpayers have already been taxed on inflationary gains for many years since the indexation allowance was abolished.

This will be seen as an extra kick in the teeth for investors who will feel that they are being taxed on gains that are simply keeping pace with inflation.

It is also worth noting that a high annual exemption results in reduced administration for HMRC, as individuals with small gains are taken out of the self-assessment system. This is at a time when HMRC are already struggling with their workloads.

NO CHANGE TO CAPITAL GAINS TAX RATES

One bit of good news to come out of today's Autumn Statement (and we were struggling) is that there were no changes to capital gains tax ('CGT') rates.

In the lead up to today's statement, there had been widespread speculation that the Chancellor might increase CGT rates.

This means that the rates of capital gains rate remain at 20% (or 28% for residential property disposals) for higher rate taxpayers. These rates are reduced to 10% and 18% to the extent that the individual has an unutilised basic rate allowance.

There were also no changes to Business Asset Disposal Relief ('BADR') which remains at 10% on up to £1 million of qualifying business asset disposals during a person's lifetime.

OUR VIEW

Investors can breathe a sigh of relief. It seems that the rumoured increase in headline capital gains tax rates has not happened. Everything seems to be about freezing and even reducing tax thresholds.

With a rising income tax burden, there is now a greater incentive for business owners to structure their returns as capital rather than income. For example they are more incentivised to sell their businesses at low capital gains tax rates while they are still available.

The main capital gains tax rate is 20% compared to a top income tax rate of 45% (or 39.35% for dividends).

RESEARCH AND DEVELOPMENT ('R&D') TAX RELIEF CHANGES

The Chancellor announced reforms to the R&D tax regime to begin to equalise the tax benefit receivable under the two existing schemes from 1 April 2023. The changes are as follows:

Small and medium size enterprise R&D deduction

The additional deduction which SMEs receive for their qualifying expenditure will be reduced from 130% to 86%. In addition, for lossmaking companies who wish to surrender their losses for a repayable tax credit the rate is being reduced from 14.5% to 10%

Research and development tax credits ('RDEC')

For large companies, the government has increased the "above the line" RDEC from 13% to 20%. This means that for every £1 spent the tax relief is as follows:

	RDEC	SME (taxpaying)	SME (lossmaking)
Current rules	34.75p	57.5p	33.3p
From 1 April 2023	40p	46.5p	18.6p

OUR VIEW

While the increase in the RDEC rate will be welcomed by large businesses, SMEs will be extremely disappointed by the reduction in small company reliefs.

One reason the Chancellor gave for this was perceived abuse of the R&D system. Unfortunately, we have seen examples of unscrupulous practices 'guaranteeing' refunds to businesses that should never have submitted an R&D claim in the first place. However, it seems unfair that a few 'rotten apples' should ruin things for everyone else.

STAMP DUTY LAND TAX ('SDLT')

The Government has confirmed that the current residential SDLT rates will remain until 31 March 2025, at which point they will revert back to their pre-23 September 2022 levels.

Readers may remember that the slight reduction to residential SDLT rates was one of the few policies to remain following the 'mini-budget' U-turns in October 2022. There were also additional benefits for first-time buyers announced at that time. However, the Chancellor is now providing purchasers with plenty of notice that rates will increase again in future.

As a recap, currently the first £250,000 of consideration on a residential property purchase is subject to SDLT at a rate of 0%, although surcharges for additional properties, company purchasers and non-UK residents can apply.

Today's announcement confirms that the 'nil-rate-band' will return to £125,000 in 2025, resulting in an additional £2,500 of SDLT on a residential property costing £250,000 or more when rates reverse.

OUR VIEW

The proposed changes are a number of years away, so there no panic yet. There will obviously be a small advantage to accelerating transactions in Spring 2025 when rates revert back. Existing SDLT reliefs should also not be forgotten about.

One welcome point is that there seem to have been no other changes to SDLT today. HMRC opened a consultation in November 2021 about potentially reforming the way that SDLT is calculated for purchases of mixed-property (i.e. both residential and non-residential) and where Multiple Dwellings Relief ('MDR') is claimed. These changes, if introduced, would likely increase the rate of SDLT payable on mixed transactions. This change has not been implemented, although it could quite easily be put back on the agenda at any time.

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ELECTRIC CAR TAX CHANGES

Today's Autumn Statement announces two key measures affecting those who own electric vehicles:

1. From April 2025, owners of electric cars, vans and motorcycles will be required to pay vehicle excise duty (road tax).
2. For company cars, the rates of benefit in kind tax will be increased at 1% per annum from April 2025 onwards.

It was also announced today – although outside of the Autumn Statement – that the advisory fuel rate (the amount that employees can claim as a mileage allowance) for electric company cars has increased from 5p to 8p from 1 December 2022 to take account of recent electricity cost increases.

OUR VIEW

Sceptics might say that this is another 'tax grab' by Mr Hunt, and one that undermines some of his green credentials. Increasing electric car ownership is a key part of the transition to carbon net zero, and these changes could be seen as a disincentive.

That said, the rates of company car tax are still significantly below the equivalents for traditional petrol and diesel vehicles.

BUSINESS RATES

From 1 April 2023, business rates in England will be updated to reflect changes in property values since the last revaluation in 2017.

For those businesses affected by a higher rates bill due to the revaluation, transitional relief will be available. This will cap the increase at 5%/15%/30% (depending on the rateable value) in 2023/24.

A further cap linked to inflation will also apply in 2024/25 and 2025/26.

Additional relief for the retail, hospitality and leisure industries

From 1 April 2023 the current scheme which reduces business rate bills for eligible retail, hospitality and leisure with rateable values of £110,000 per business will be extended from 50% of the business rates bill to 75% of the business rates bill.

The business rates multiplier will be frozen at 49.9p/51.2p for 2023/24 rather than the proposed rise to 52.9p/54.2p.

OUR VIEW

There may be winners and losers as a result of the decision to rebase property values.

The targeted support for retail, hospitality and leisure businesses is welcome although we believe other energy intensive companies may also need targeted assistance in the current cost-of-living crisis.

There is an ever pressing case for a total reform of the system to level the playing field between high street and online retailers.

Following a consultation the government has decided not to introduce an Online Sales Tax as part of a reform to business rates.

VAT ON SCHOOL FEES

The prospect of VAT on school fees has been a hot topic for a while.

The Chancellor has seemingly put this issue to bed by pointing out that such a move would drive private school pupils into the state system, and so any savings from the VAT charge would be eroded.

This is probably the closest any party has come to saying that private schools are doing the State a favour by taking some of the heat off the Department of Education.

OUR VIEW

We know this issue has been of concern to many clients with children who attend public schools, and so this hopefully comes as welcome news.

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