Forbes Dawson
THE TAX SPECIALISTS

Autumn Statement 2023

Forbes Dawson's Top 10

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TO CUT, OR NOT TO CUT, THAT IS THE QUESTION

After the drama of last year's Truss/Kwarteng rate-slashing mini-budget, the 2023 Autumn Statement proved to be less of a box office event, but still included a few sweeteners to start laying groundwork ahead of a probable 2024 election.

From a starting point of UK taxes sitting at their highest level since modern records began, Jeremy Hunt took advantage of higher than forecast fiscal headroom to make some cuts, focusing, as was widely anticipated, on a cut in National Insurance for both the employed and self-employed.

A recurring theme of previous budgets has been the significant impact of fiscal drag, with freezes or below inflation increases to tax rate bands effectively increasing taxes by stealth. The same was true again today with no change to the income tax upper rate band despite the UK seeing wage inflation of around 8% over the last 12 months.

Similarly, there was no cut to Inheritance tax and, just as importantly, no increase to the nil rate band. Perhaps not a huge surprise given the potential for an IHT cut to win or lose votes depending on where you sit on the political/wealth spectrum.

The Chancellor also resisted the urge to cut corporation tax, perhaps still very mindful of the need to control inflation and debt and with the fallout from the 2022 mini-budget still painfully fresh in the memory. This was partially offset by opportunities to reduce corporation tax liabilities by reinvesting profits in business assets and focusing spend on innovation.

We hope you find our 'Top 10' summary useful. If you wish to discuss how we can assist with any tax planning matters, please speak to your usual Forbes Dawson contact.

THE FORBES DAWSON TEAM – 22 NOVEMBER 2023

CUT TO EMPLOYEE NATIONAL INSURANCE ('NI')

Although a relatively last-minute addition to the speculation ahead of the Autumn Statement, the Chancellor has indeed announced a tax cut to Employee NI in today's statement.

The headline rate of Employee Class 1 NI has been reduced from 12% to 10%. This is the main rate of NI that employees pay on their annual earnings between £12,570 and £50,270.

The 2% main rate reduction will result in savings for those in employment paying tax at the basic rate. The Chancellor gave the example of a family with two employed earners each on the average earnings of £35,404 per annum, who will save over £900 in NI annually.

The NI rate above the upper limit of £50,270 will remain unchanged at 2%, meaning this is a tax cut for the masses rather than the wealthy.

The change will take effect from 6 January 2024, unlike other previously announced changes, which are to come into force on 6 April 2024 in line with the start of the new tax year.

OUR VIEW

Today's announcement is a further Employee NI tax reduction after the 1.25% social levy increase was reversed last year. Mr Hunt observed that this cut will save tax for 27 million employees.

However, whilst this is favourable to employees, small business owners who extract profits through dividends rather than a salary may be left feeling ignored as there has still been no reversal of the 1.25% NI equivalent 'levy' previously added to dividend tax rates.

Business owners will be looking to Mr Hunt for a similar treatment to employees in the new tax year.

NATIONAL INSURANCE CONTRIBUTIONS (NICs) CUT FOR THE SELF-EMPLOYED

The Chancellor has announced that from 6 April 2024, the headline rate of National Insurance for self-employed individuals (Class 4), will be cut from 9% to 8%. This applies to profits between £12,570 and £50,270.

In addition, he also announced the removal of the requirement for those who are self-employed to pay Class 2 NICs (currently £3.45 per week, or £179.40 per year).

Together, these measures represent a saving of up to £556.40 per year, for self-employed individuals or partners in a partnership with profits in excess of £50,270.

Those with profits between £6,725 and £12,570 will retain access to contributory benefits including the State Pension through a National Insurance credit without paying NICs, as they do currently.

In addition, those with profits of less than £6,725 per annum will continue to be able to pay Class 2 NICs on a voluntary basis to retain their entitlement to contributory benefits such as the State Pension.

OUR VIEW

These cuts will no doubt be welcomed by many self-employed taxpayers and those who operate through a partnership (who are also subject to Class 2 and 4 NICs).

The cuts to NICs further increase the attractiveness of individuals conducting their business as a sole trader or in partnership, compared to operating through a limited company.

FISCAL DRAG CONTINUES TO INCREASE TAX

As the chancellor focused in his speech on cuts to National Insurance, what he didn't say about income taxes and the level of earnings at which higher rates apply was perhaps just as telling.

The freeze to the higher rate income tax band in a high inflation economy means that the real tax increase is even higher.

As cuts to NI were announced today, again there was no mention of reducing the extra 1.25% added to the dividend tax rate as part of the previously proposed and now reversed social levy which now seems to have now stuck permanently. Coupled with the higher rate of corporation tax on profits over £50,000 the effective rate of tax on extracting dividends from companies up to the higher tax rate band is now 33% (25.1% prior to the changes above).

Even for employees and the self-employed, who have benefited from the NI cuts, the freeze to the higher rate band means that average wage growth of 8% will have pushed more earnings into the higher rate 40% tax bracket, suffering an additional 20%.

OUR VIEW

The IFS recently observed that UK government is currently raising more in tax revenue, as a percentage of national income, than at any time since the 1940s.

Freezing bands when inflation is high and the cost of living is increasing has become a very efficient means to collect more tax without actually 'raising' taxes.

What the chancellor effectively said today was that the fiscal drag had created the headroom to enable him to make the cut to National Insurance.

It demonstrated once again that the ability to reduce taxes is very limited and if we are to see any real tax cuts then they are most likely being saved up for a pre-election giveaway budget.

INHERITANCE TAX ('IHT') LIVES TO TELL THE TALE...FOR NOW

The most hated tax survives again! No changes were made to the rates of IHT, nor were there increases to the threshold at which IHT applies. The nil rate band remains at £325,000; unchanged since 2009, with IHT on death fixed at 40% in most cases.

What appears to be a U-turn to the expected rate cut may have been due to the anticipated bad press of being seen to benefit the wealthy during a cost-of-living crisis.

The current position is maintained whereby a married couple with a house and children can currently benefit from £1m of IHT allowances, provided their estate is worth £2m or under. However, increasing house prices are pushing more hard-working families into the IHT regime.

There are ways to reduce the IHT rate to 36%, such as by making a large contribution to charity in a will. Whether this is the only way to reduce the IHT rate remains to be seen until the pre-election budget.

OUR VIEW

Whilst only 4% of estates currently pay IHT on death, it is widely seen as one of the most unfair taxes. Many resent paying taxes on what is essentially taxed income or gains, seeing this as a form of double taxation.

With the nil rate band threshold maintained at the same level for almost 15 years, compared to growth of 50%/60% over the same period (according to CPI or the House Price Index respectively) more people will fall into the IHT net each year. It is expected that 7% of all estates will suffer IHT in 2024.

Whether any cuts are made in Spring depends upon whether the government see reducing IHT as a net vote winner. It certainly won't be without a cost, as IHT has raised £7bn in taxes in 2023 so far.

RESEARCH AND DEVELOPMENT ('R&D') TAX RELIEF REGIMES MERGE

As anticipated, the chancellor confirmed that the existing large company R&D expenditure credit ('RDEC') and the Small and Medium Enterprise ('SME') tax relief regimes will merge, for accounting periods beginning on or after 1 April 2024.

The government's long-term objective is to crack down on perceived abuse of the R&D reliefs, particularly amongst SME claimants. Today's announcements form part of their solution and follow extensive consultation in early 2023 and draft legislation published in July 2023.

The new R&D scheme will be structured as an above the line credit, similar to the existing RDEC, at a rate of 20%. There was also confirmation of restrictions to overseas R&D expenditure and changes to R&D relief for subcontractor costs, as expected.

The notional tax rate for loss-making companies claiming an R&D cash refund will be set at 19%, rather than the current 25% rate under the RDEC. In addition, 'R&D intensive SMEs', (broadly those whose R&D expenditure is at least 30% of total expenditure), will claim under the existing SME R&D regime, with a payable credit of 14.5%.

OUR VIEW

Despite pressure from within the industry, including the Chartered Institute of Taxation, to push back any changes until 2025, the government announced that the two existing R&D schemes will merge in 2024, in line with earlier announcements.

The merger is described as a 'simplification of the R&D system'. However, the changes should be considered alongside the additional R&D reporting requirements which were enacted earlier this year, meaning that it is now mandatory for companies to provide detailed information alongside their R&D claims.

Far from simplification, HMRC's own policy document estimates that 87,000 companies will incur additional costs because of the changes, as they navigate the increased compliance burden.

INCENTIVES FOR BUSINESSES

Previously introduced in the Spring 2023 budget, investment zones encourage the development of knowledge-intensive industries through access to government support, a package of tax reliefs and access to grant funding.

In this Autumn Statement, the government expanded the existing benefits of the investment zones from five years to ten years.

The government also announced they would further expand the support through establishing three advanced manufacturing investment zones in Greater Manchester, East Midlands and West Midlands.

From April 2023 many businesses were facing increased business rates, following the revaluation of their properties to reflect current market prices. The government have taken steps to help ratepayers by:

1. Freezing the business rate multiplier used to calculate the rates payable;
2. Expanding and increasing the existing Retail, Hospitality and Leisure relief to 75% for existing qualifying ratepayers and now also for high street properties.

OUR VIEW

Through expanding and extending the existing investment zones, the additional investment support offered should help to boost UK productivity.

The establishment of advanced manufacturing investment zones in the North and Midlands is welcomed, if narrowly targeted.

Business rate freezes will help to mitigate potentially significant increases to less than 1%. This will be a very welcome measure for small businesses.

FULL EXPENSING RELIEF MADE PERMANENT

At the 2023 Spring Budget the government announced the introduction of 'full expensing' applying to qualifying expenditure between 1 April 2023 and 31 March 2026. Today, it was confirmed that 'full expensing' is to be made permanent.

Full expensing is an uncapped, 100% first-year capital allowance for qualifying main pool expenditure and 50% first-year allowance for special rate pool expenditure. This allows businesses to write off the full costs of qualifying plant and machinery investment and is in addition to the commitment to permanently keep the Annual Investment Allowance ('AIA') at its current level of £1m.

Disposals of plant and machinery, for which full expensing or the 50% first-year allowance has been claimed, will be subject to immediate balancing charges, equal to 100% of the disposal value in the case of full expensing and 50% of the disposal value in the case of the 50% first year allowance.

OUR VIEW

The objective of full expensing is primarily targeted at large, capital intensive companies which would otherwise exceed their AIA on an annual basis.

The new permanent nature of full expensing will provide these companies with long-term planning certainty and a reduced cost of capital.

This should result in a stable level of investment in qualifying plant and machinery.

The full expensing relief will enable tax paying companies to obtain upfront deductions at the current 25% corporation tax rate, meaning relief would not be impacted by future rate cuts.

THE TRIPLE LOCK AND PENSION REFORM

Mr Hunt announced that the State Pension Triple Lock will be further maintained. This means that it will be uprated in April 2024, matching average earnings growth of 8.5% (up to £900 a year more for pensioners).

The government also set out their plans to deliver wider pension reforms. The first intention is to continue the general trend to a more consolidated market. The government plans to explore the idea of a lifetime provider model for pension pots, largely to reduce the issue of "small-pot pensions". The government aim is to ensure the vast majority of schemes which savers belong to are £30million in size or larger by 2030. The aim is to drive down costs for savers and ensure more schemes can diversify into growth equity.

Alongside this, the government intends to increase transparency of investments and options at retirement, including implementing a pensions dashboard showing entitlement across multiple schemes.

The stated aim of the government is to enable pension schemes to invest in more diverse portfolios. Mr Hunt referenced the need to set up new, quality investment vehicles, to be invested in by pension funds, in order to ensure assets in funds are working harder and invested in a broad range of assets.

OUR VIEW

The maintenance of the pension triple lock will be welcome news to those that will be receiving the uplift of 8.5% next year.

However, it has been well noted that the UK remains well behind many other countries in Europe when it comes to pension provision.

With most savers not having an active choice in their investment decisions when investing in pension schemes, there is a need for all schemes to provide the best investments possible for savers.

Ensuring there are fewer, larger well run-schemes, should facilitate investment in a diverse range of assets.

CREATIVE INDUSTRY TAX RELIEFS

Audio-visual creative tax reliefs are being reformed to expenditure credits from 1 January 2024. The previous Film Tax Relief, High-End TV Tax Relief, Animation Tax Relief and Children's TV Tax Relief have will be replaced with the Audio-Visual Expenditure Credit. The Video Games Expenditure Credit will replace the Video Games Tax Relief.

Film, high-end TV and video games will be eligible for a credit rate of 34%. Animated film and TV and children's TV will be eligible for an uplifted rate of 39%.

These rates are still only applicable to the lower of UK expenditure or 80% of total expenditure.

Both credits are taxable, whereas the previous tax reliefs were not. So, after applying corporation tax rates of 25%, the payable amount under the new system is 25.5% (75% of 34%). For animation and children's TV, the payable amount is 29.25% (75% of 39%).

If a company makes less than £50,000 profit and is therefore eligible for the small companies' rate of 19%, then the actual payable amount of the credit will be at 27.54% and 31.59% instead (being 81% of 34% and 39% respectively).

OUR VIEW

Despite featuring prominently in the Chancellor's speech, the detail largely confirmed what had previously been proposed.

The previous tax reliefs were at 25% so for film, high-end TV and video games there has only been a small uplift

However, the uplift is more generous for animation and children's TV, at 4.25%.

The Chancellor did also call for comments from the UK visual effects sector, so there may be more changes on the way.

TOUGHER CONSEQUENCES FOR PROMOTERS OF TAX AVOIDANCE

Several consultations have taken place this year aimed at closing the 'tax gap', with subjects including Employee Ownership Trusts and use of Umbrella companies.

However, whilst there was speculation that the Government would announce new specific targeted measures, today's announcements were limited to dealing with the promoters of tax avoidance, rather than tightening legislative loop-holes.

The policies announced are targeted at the most persistent and determined promoters and will:

- Introduce a new criminal offence to apply to promoters of tax avoidance who fail to comply with a Stop Notice under the Promoters of Tax Avoidance Schemes (POTAS) regime issued in respect of tax avoidance arrangements; and

- Provide HMRC with the power to apply to the courts for a disqualification order against directors of companies involved in promoting tax avoidance, including other individuals who control or exercise influence over a company.

OUR VIEW

With these new measures, HMRC strengthens their existing deterrents and makes it a riskier business for promoters to continue marketing tax-avoidance schemes.

Given that the UK is currently suffering the highest tax burden in a generation it is little wonder that taxpayers continue to be attracted by what the tax avoidance alchemists have to offer.

However, it also acts as a reminder to taxpayers that when a scheme offering to eliminate taxes seems too good to be true, then it probably is, and a second opinion is strongly advised before getting involved.

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