Forbes Dawson
THE TAX SPECIALISTS

Budget 2023

Forbes Dawson's Top 10

BUDGET 2023 – THE 'BACK TO WORK' BUDGET

At today's Budget the Chancellor, Jeremy Hunt, heralded a UK economy which is "proving the doubters wrong". Bearing in mind the economic turmoil caused by the 'Mini Budget' it is hard to see how things could have got worse. However, recent signs of inflation coming down, better than expected tax revenues in January and an upgrade to the Office for Budget Responsibility's growth forecasts, have all given the Chancellor reasons to be cheerful.

Despite this, the UK economy continues to have longstanding productivity and labour shortage issues. As one example, the British Medical Association stated that large numbers of doctors have either retired early or reduced their hours because of a "punitive pension taxation system". In an attempt to lure the over 55s back to work to ease pressures, the Chancellor announced significant changes to pensions tax, including an abolition to the Lifetime Allowance. Thanks to the medics, pensions have become an even more attractive investment and asset protection vehicle going forward.

Corporation tax has been in the news prior to the Budget, with many businesses and entrepreneurs calling for Mr Hunt to cancel the increase in the main rate from 19% to 25% on 1 April 2023. In the end, the Chancellor decided not to cave in to pressure. However, he did announce a raft of other company tax reliefs and incentives clearly designed to soften the blow. This includes the introduction of unlimited "full expensing" for certain qualifying capital expenditure.

Today's good news must be weighed up against the raft of measures that were imposed last Autumn, such as the cuts to the capital gains tax exemption and dividend tax-free allowance, the freezing of the personal allowance and the lowering of the additional rate tax threshold. The majority of these changes will come into effect in just three weeks time.

We hope you find our 'Top 10' summary useful. As ever, we welcome the opportunity to discuss how we can help you or the people you look after plan your tax affairs.

THE FORBES DAWSON TEAM - 15 MARCH 2023

Forbes Dawson
THE TAX SPECIALISTS

Budget 2023

Forbes Dawson's Top 10

PENSIONS LIFETIME ALLOWANCE ABOLISHED

Following the Autumn Statement we all thought that the pension lifetime allowance ('LTA') would be frozen at £1,073,100 until 2025/2026 and even after that only modest hikes were anticipated.

Jeremy Hunt today announced that this limit will be scrapped from 6 April 2023.

This means that from 6 April 2023 there will be no punitive measures for pension schemes that exceed the LTA (because there now is no LTA). Previously a punitive 55% tax charge would (usually) be triggered whenever benefits were taken from a scheme which exceeded the LTA.

Mr Hunt did not want to be too generous here and has restricted the tax-free lump sum that can be taken to £268,275 which is 25% of the 2022/2023 LTA of £1,073,100.

OUR VIEW

This was apparently done to stop doctors on final salary pensions getting whacked with high tax charges when they started to draw their pensions. It will help them but it will help everyone else too.

Previously many individuals whose pensions had exceeded the lifetime allowances, or who anticipated that they would do, had stopped making contributions. This was because of the prospect of punitive 55% charges on retirement.

We can anticipate record pension contributions next year now that the dam has broken. This may be particularly useful for shareholders who can make contributions which will benefit from corporation tax relief at 25%.

PENSIONS ANNUAL ALLOWANCE INCREASED

Pension annual allowances ('AAs') have increased from £40,000 to £60,000. This means that in 2023/2024 there will be some who can make £180,000 of tax-efficient contributions into a pension scheme.

This is made up of up to £40,000 of unused allowances in the three years ended 5 April 2023 in addition to the (new) 2023/2024 annual allowance of £60,000.

There is also a mechanism whereby AAs can be restricted when certain income thresholds are breached. Adjusted income is basically all your income in the year, in addition to any employer pension contributions that have been made.

To the extent that this is exceeded then AAs (above) are tapered by £1 for every £2 of adjusted income over the limit. The adjusted income threshold has today also been increased from £240,000 to £260,000.

OUR VIEW

This measure, coupled with the abolition of the lifetime allowance (above), forms part of the general 'unlocking' of pension schemes.

While those in final salary pension schemes can still fall into nasty tax traps when they are promoted (because there are deemed contributions which can trigger hefty charges) most should be able to keep pension contributions within the limits.

Again, many shareholders will be tempted to maximise contributions within these allowances. This is because they effectively face the choice of their company paying 100p in the pound into their pension scheme or alternatively receiving less than 50p in the pound from a dividend (corporation tax reduces £1 of profit to 75p and then 39.35% tax on the dividend reduces that 75p to 45p).

CORPORATION TAX INCREASE

There had been speculation ahead of the Budget that Mr Hunt might row back on pledges made in his 2022 Autumn Statement to raise the corporation tax rate to 25%, in order to boost the attractiveness of the UK as an investment destination.

However, today he confirmed that he was still pushing ahead with the previously announced rise to the main rate.

He did try to sugar this pill by noting that the UK headline rate remained the lowest of the G7 (something of a hollow brag) and claiming that the rate rise would only apply to 10% of all companies (small companies earning < £50k will continue to pay tax at 19%).

He then sought to further offset the impact by announcing a series of reliefs for capital expenditure and R&D, which for the most part replaced more attractive reliefs which were previously in place.

OUR VIEW

With his hands somewhat tied following the disastrous reaction to Liz Truss's tax cutting mini budget, the Chancellor maintained the planned corporation tax rate rises whilst providing opportunities for companies to lower their effective tax rate by investing in innovation and technology.

Whether this provides sufficient stimulus for the UK economy will remain to be seen.

CAPITAL ALLOWANCES 'FULL EXPENSING' TO REPLACE THE SUPER DEDUCTION

At the 2021 Spring Budget, the government announced the introduction of the 'super deduction' for companies, which provided an uncapped 130% deduction against taxable profits for qualifying expenditure incurred on main pool plant and machinery, and a 50% first year allowance for special rate pool expenditure, incurred between 1 April 2021 and 31 March 2023.

Ahead of the increase in the headline rate of corporation tax to 25%, the chancellor has announced that the outgoing 'super deduction' will be replaced with a new, uncapped, 100% first-year allowance for qualifying main pool expenditure (known as 'full expensing') and 50% first-year allowance for special rate pool expenditure. This measure will apply to qualifying expenditure incurred between 1 April 2023 and 31 March 2026, 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 'super deduction' was effectively introduced as a transitional measure, so that companies did not delay their plans for incurring capital expenditure until after 31 March 2023, where a deduction for expenditure would attract relief at 25% rather than 19% (a 130% deduction at 19% equates to relief at 24.7%, which is broadly the same as the new headline rate for corporation tax).

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

These companies will undoubtedly welcome the uncapped nature of these measures, which should provide significant cash flow benefits and a strong incentive to invest in qualifying plant and machinery over the next 3 years.

RESEARCH AND DEVELOPMENT ('R&D') RELIEFS

Changes have been announced to the R&D rules targeted at maintaining tax incentives for UK companies undertaking qualifying R&D activities, while also aiming to tackle abuse of the reliefs through increased compliance checks.

In summary, the following changes will apply to accounting periods beginning on or after 1 April 2023:

- The Research and Development Expenditure Credit ('RDEC') rate for large companies will increase from 13% to 20%.
- The Small and Medium Enterprise ('SME') additional deduction rate will reduce from 130% to 86%, with the SME payable credit also decreasing from 14.5% to 10%.
- However, loss-making SMEs who spend at least 40% of total expenditure on R&D activities ('R&D intensive companies') will retain the 14.5% rate for payable credits.

To incentivise modern approaches to R&D activities, qualifying expenditure will also be extended to include the cost of datasets and cloud computing.

OUR VIEW

Today's measures are a confirmation of changes previously announced, with the exception of the new rules for R&D intensive companies.

It is pleasing that companies will continue to get tax relief on their R&D activities. Large companies in particular will see increased tax benefits. However, it is disappointing that for SMEs the relief is being lowered. This is presumably due to HMRC concerns around abuse of the rules.

Companies seeking to claim should be aware of the new requirements to submit an additional information form from 1 August 2023, providing HMRC with further details of their claims, and to notify HMRC in advance if they wish to claim R&D tax relief. The notification will need to be made within 6 months of the period end, through a new digital service.

INVESTMENT ZONES

As part of the Government's 'levelling up' agenda, Jeremy Hunt announced 12 new investment zones throughout the UK, including ones in Greater Manchester and Liverpool. These investment zones will focus on developing knowledge-intensive industries such as:

- Green industries
- Digital technologies
- Life sciences
- Creative industries
- Advanced manufacturing

Each investment zone will have access to £80m of government support over a 5-year period, a package of tax reliefs and access to grant funding. Local areas will be empowered to tailor their own investment zone to their individual circumstances and are being asked to set out proposals. This includes showing how their zone will be supported by private sector funding, and what they will do to help the UK reach its 'carbon net zero' target by 2050.

The package of tax support on offer is said to include: enhanced capital allowances and structures and buildings allowances as well as relief from SDLT, business rates and employer's National Insurance contributions.

OUR VIEW

The package of tax reliefs and incentives on offer to these zones is similar to those provided to the freeports announced last year and you would be forgiven for wondering what the difference is.

However, based on the principle of "every little helps", the announcement of new investment zones sounds like good news, particularly here in the North of England. By incentivising the key industries listed this should, in theory, help boost business activity across the region.

On the other hand, we question whether these policies are what the UK economy truly needs to kickstart growth. Many industry leaders want simplification of the existing system of business taxation rather than new incentives which only complicate the landscape.

PERSONAL TAX CHANGES

There were no significant announcements relating to personal taxation, but it is worth noting that there were a number of changes unveiled at the Autumn Statement which will come into effect on 6 April 2023:

- The additional rate (45%) tax threshold will reduce from £150,000 to £125,140.
- The dividend tax-free allowance will reduce from £2,000 to £1,000 (it will then be halved again to £500 from 6 April 2024).
- The capital gains tax annual exemption will be cut from £12,300 to £6,000 (it will then be cut again to £3,000 from 6 April 2024).

In addition, various tax rate bands and allowances have been frozen including:

- The personal allowance, which remains at £12,570.
- The higher rate (40%) tax threshold, which remains at £50,270.
- The High Income Child Benefit Charge threshold, which stays at £50,000.

OUR VIEW

We did not expect the Chancellor to reverse any of these changes, despite the better-than-expected tax receipts in January.

Consequently, individuals whose income may have increased as a result of pay rises designed to help combat cost of living pressures may find themselves dragged into higher tax brackets.

As we have previously said, individuals at or around the pinch points of £50,000 (where child benefit starts to be lost) and £100,000 (where the personal allowance begins to be withdrawn) will want to check their tax position carefully, as marginal tax rates of 60% or more may apply in these brackets.

Those affected should consider things like pension contributions and salary sacrifice schemes where affordable to do so.

ENERGY SUBSIDY EXTENDED

Originally introduced in the Autumn Statement to ease the cost-of-living crisis on households, the Government has extended the energy price guarantee for an additional 3 months until June 2023.

The energy price guarantee caps the cost of energy per hour at a rate below that set by Ofgem to reduce the total amount payable by households. The government then subsidises the shortfall between the cap and the consumer's actual energy costs above the cap.

The cap will remain at £2,500 (based on the average household's energy usage) from April to June this year, instead of increasing to £3,000 as previously planned. Overall, this will still be worth around £160 for a typical household.

Following the extension, the price cap will revert to £3,000 in July 2023, rather than in April 2023 as previously announced.

The winter fuel payment of £400, which saw households getting an around £66 reduction in their energy bills, has not been renewed and will come to an end in March.

OUR VIEW

On 27 February, Ofgem confirmed that their energy price cap will be £3,280 for April to June 2023, £780 higher than the Energy Price Guarantee of £2,500 extended in today's budget. However, it is expected that Ofgem's energy price cap will reduce to £2,500 by July 2023.

Therefore, today's announcement bridges the gap and likely comes as a welcome policy to households currently struggling with the recent increases in energy prices as well as rising interest rates.

Although, the removal of the winter fuel payment will mean the majority of households will see an increase in their energy bills in April.

FREE CHILDCARE EXTENDED

Eligible working parents will receive 30 hours of free childcare for 38 weeks a year. The qualifying conditions will be the same as the current policy for three to four year olds (including the £100,000 earnings cap). This will be delivered in three waves:

- **From April 2024**, working parents of two year-olds will be able to access 15 hours of free childcare per week
- **From September 2024** this will be extended to working parents of 9 month to 2 year-olds.
- **From September 2025**, all eligible working parents of children aged 9 months up to 3 years will be able to access 30 free hours per week.

In addition:

- The government will offer start-up grants for new childminders, including those registering with a childminder agency.
- The childcare element in Universal Credit will be paid upfront rather than in arrears.

As a reminder, if you and your partner both earn under £100,000, and wish to pay for additional childcare you can claim a 20% credit towards the costs known as "tax-free childcare".

OUR VIEW

Assisting parents back into the workplace will help grow the tax base and the economy.

The £100,000 limit on both the 30 free hours and existing tax free childcare schemes will cause a sharp cliff edge for those with income just below this level.

This is in addition to the personal allowance being withdrawn between £100,000 and £125,140.

Parents of young children with incomes just over £100,000 should consider reducing their income by pension contributions or salary sacrificing for an electric car to bring their income below the limit.

EXTENSION TO THE SEED ENTERPRISE INVESTMENT SCHEME ('SEIS')

The SEIS scheme aims to encourage investment into small companies at the beginning of their growth cycle.

Today's Budget announced some extensions to SEIS:

- Each investor can now claim income tax and capital gains tax ('CGT') reinvestment relief of £200,000 each year. This has increased from £100,000.
- The limit on the amount SEIS companies can receive from investors over a period of three years has been increased from £150,000 to £250,000.
- The number of companies that will qualify has been widened by increasing the maximum gross assets a company can have before the share issue from £200,000 to £350,000. The activity receiving the investment must be a new qualifying trade, with 'new' now being defined as not more than three years old, up from two years.

OUR VIEW

SEIS companies are popular amongst adventurous investors. In return, they receive an income tax reducer of 50% of the amount subscribed, plus can claim reinvestment relief to permanently shelter other gains of up to the same amount. Shares in SEIS companies also become exempt from CGT after three years.

The increase in the subscription limit is the most eye-catching of the measures, meaning that investors can now shelter up to £100,000 of other gains, saving them £20,000 of CGT (or £28,000 if the gain was on residential property, as well as reduce their income tax bill by £100,000.

With all the current news surrounding difficulties in Silicon Valley, will we see the UK become a new destination for tech start-ups?

Forbes Dawson
THE TAX SPECIALISTS

Tel: 0161 927 9277
www.forbesdawson.co.uk

Forbes Dawson is the trading name of Forbes Dawson Ltd, which is a limited company registered in England and Wales with registered number 08451784. Its registered office is at Fairbank House, 31 Ashley Road, Altrincham, Cheshire, WA14 2DP. We are registered with the Chartered Institute of Taxation (CIOT) as a firm of Tax Advisers. This publication is written in general terms and should be seen as broad guidance only. The publication is not designed to cover specific situations and you should not rely, upon the information contained therein without obtaining specific professional advice. Please contact Forbes Dawson to discuss these matters in the context of your particular circumstances. Forbes Dawson, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any reliance on the information in this publication or for any decision based on it. Copyright © March 2023 Forbes Dawson Ltd. All rights reserved.