MINI BUDGET

SEPTEMBER 2022

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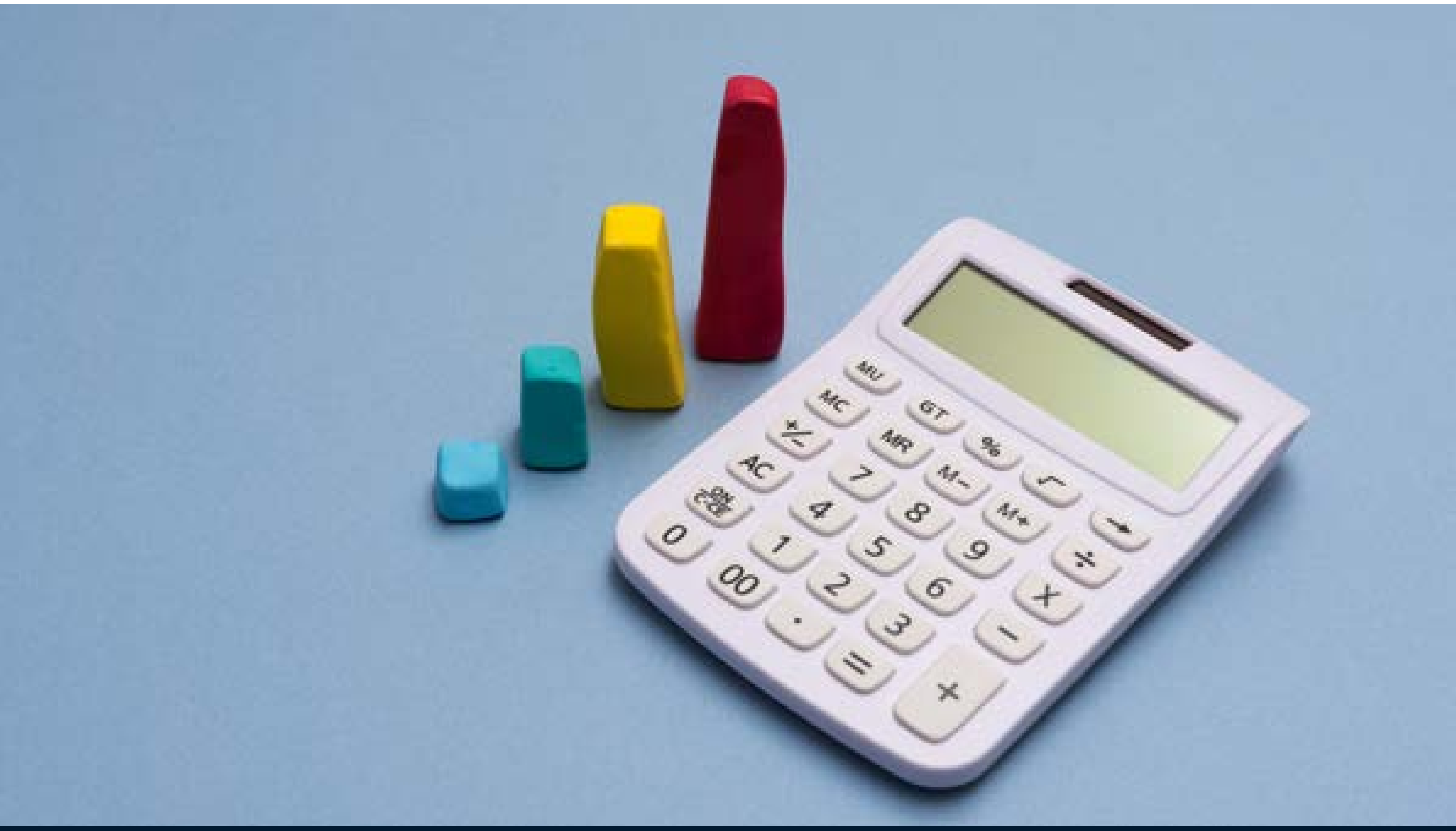
INTRODUCTION

The week leading up to Chancellor Kwasi Kwarteng's 'Mini Budget' may have been a short one due to the Queen's funeral but the new government managed to fill it with a stream of policy announcements.

Before Mr Kwarteng stood up to make his statement on 'The Growth Plan' much of what he had to say about energy support for businesses and households, bankers' bonuses, investment zones and reversals to NICs had already been announced. The government also said that the Chancellor's statement would not be subject to a forecast from the Office for Budget Responsibility. However, this did not stop the media from dubbing this event a Mini Budget.

The Growth Plan set out a new approach to the economy built around three central priorities:

- Reforming the supply-side of the economy
- Maintaining a responsible approach to public finances
- Cutting taxes to boost growth.



NATIONAL INSURANCE CONTRIBUTIONS

In September 2021 the government published its proposals for new investment in health and social care in England. The proposals were intended to lead to a permanent increase in spending not only in England but also by the devolved governments. To fund the investment the government introduced a UK-wide 1.25% Health and Social Care Levy based on the National Insurance contributions (NICs) system but ringfenced for health and social care.

The Health and Social Care Levy Act provided for a temporary 1.25% increase to both the main and additional rates of Class 1, Class 1A, Class 1B and Class 4 NICs for 2022/23. From April 2023 onwards, the NIC rates were intended to revert back to 2021/22 levels and be replaced by a new 1.25% Health and Social Care Levy.

However, the new Chancellor has decided to:

- Reverse the temporary increase in NICs from November and
- Cancel the Health and Social Care Levy completely.

The Health and Social Care Levy was expected to raise around £13 billion a year to fund health and social care and the Chancellor has confirmed that funding will be maintained at the same level as if the Levy was in place, funded from general taxation.

According to the government, not proceeding with the Levy will reduce tax for 920,000 businesses by nearly £10,000 on average next year.

For SMEs, the government predicts that the savings will be around £4,200 on average for small businesses and £21,700 for medium sized firms from 2023/24.

In addition, it will help almost 28 million people across the UK save £330 on average in 2023/24, with an additional saving of around £135 on average this year.

MORE DETAIL FOR EMPLOYEES AND EMPLOYERS

The changes take effect for payments of earnings made on or after 6 November 2022, so:

- Primary Class 1 NICs (employees) will generally reduce from 13.25% to 12% and 3.25% to 2% and
- Secondary Class 1 NICs (employers) will reduce from 15.05% to 13.8%.

The effect on Class 1A (payable by employers on taxable benefits in kind) and Class 1B (payable by employers on PAYE Settlement Agreements) NICs will effectively be averaged over the 2022/23 tax year, so that the rate will generally be 14.53%.

The government hopes that most employees will receive the NICs reduction directly via the payroll in their November pay but acknowledges that some will have to wait until December or January, depending on the complexity of their employer's payroll software.

MORE DETAIL FOR THE SELF-EMPLOYED

Following the principle detailed above, the changes to Class 4 NICs will again be averaged across 2022/23, so that the rates will be 9.73% and 2.73%.

INCOME TAX

INCOME TAX RATES

The government had previously announced that there would be a cut in the basic rate of income tax, from 20% to 19%, from April 2024. This is now being accelerated so that it takes effect from April 2023.

The government states that this reduction is worth over £5 billion for workers, savers and pensioners. Also, that 31 million taxpayers will benefit in 2023/24, with an average gain of £170.

In addition, to 'incentivise enterprise and hard-work and simplify the tax system', the government will abolish the 45% additional rate of income tax from April 2023. Consequently, there will be a single higher rate of income tax of 40%.

These changes will generally apply to taxpayers in England, Wales and Northern Ireland. It remains to be seen what the Scottish government will do in relation to the setting of rates on non-savings income.

There are a number of tax consequences which stem from these changes. One of them is the amount of tax relief given at source on pension contributions and Gift Aid donations. This is currently given at the basic rate of 20%. The government has stated that there will be a four-year transition period for Gift Aid relief to maintain the income tax basic rate relief at 20% until April 2027. This will support almost 70,000 charities and is worth over £300 million. However, there was little comment on pension contributions other than that there will also be a one-year transitional period for Relief at Source pension schemes to permit them to continue to claim tax relief at 20%.

DIVIDENDS

From April 2023:

- The dividend ordinary rate of 8.75% will reduce to 7.5%
- The dividend upper rate of 33.75% will reduce to 32.5% and
- The dividend additional rate will be abolished.

As corporation tax due on directors' overdrawn loan accounts is paid at the dividend upper rate, it will also reduce to a 32.5% charge for loans made on or after 6 April 2023.

These changes will apply in Scotland as the rules on dividends apply to the whole of the UK.

BUSINESS

CORPORATION TAX RATES

It had been previously announced that the rate of corporation tax would increase for many companies from April 2023 to 25%. This change will now not go ahead, leaving the rate of corporation tax at 19% for the majority of companies.

The 19% UK corporation tax rate is significantly lower than the rest of the G7 and the lowest in the G20.

In line with this change, the Bank Corporation Tax Surcharge will remain the same, as will the Diverted Profits Tax.

CAPITAL ALLOWANCES

The Annual Investment Allowance (AIA) gives a 100% write-off on certain types of plant and machinery, including cars with zero emissions, up to certain financial limits per 12-month period. The limit has been £1 million for some time but was scheduled to reduce to £200,000 from April 2023. The government has announced that the temporary £1 million level of the AIA will become permanent and the proposed reduction will not occur.

Up to 31 March 2023, companies investing in qualifying new plant and machinery are able to benefit from capital allowances, generally referred to as 'super-deductions'. These reliefs are not available for unincorporated businesses. Interestingly, these allowances were not mentioned, other than minor amendments to the current rules, so it appears the scheduled withdrawal of them will occur in 2023.

Businesses incurring expenditure on plant and machinery should carefully consider the timing of their acquisitions to optimise their cashflow.

SEED ENTERPRISE INVESTMENT SCHEME

From April 2023, companies will be able to raise up to £250,000 of Seed Enterprise Investment Scheme (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 two to three years. To support these increases, the annual investor limit will be doubled to £200,000.

BUSINESS

COMPANY SHARE OPTION PLAN

From April 2023, qualifying companies will be able to issue up to £60,000 of Company Share Option Plan (CSOP) options to employees, twice the current £30,000 limit. The 'worth having' restriction on share classes within CSOP will be eased, better aligning the scheme rules with the rules in the Enterprise Management Incentive scheme and widening access to CSOP for growth companies.

INVESTMENT ZONES AIM TO ENCOURAGE RAPID DEVELOPMENT

As part of the government's plan to drive economic growth and encourage development the Chancellor confirmed that Investment Zones will be established across the UK.

These zones will benefit from lower taxes and liberalised planning frameworks to encourage business investment.

The government is already in discussions with 38 local authorities to establish investment zones in England. In addition, it says it will work closely with the devolved administrations to offer the same opportunities in Scotland, Wales and Northern Ireland.

Businesses in designated areas in investment zones will benefit from 100% business rates relief on newly occupied and expanded premises.

In addition, businesses will receive full Stamp Duty Land Tax relief on land bought for commercial or residential development and a zero rate for employer NICs on new employee earnings up to £50,270 per year.

There will also be a 100% first year enhanced capital allowance relief for plant and machinery used within designated sites and accelerated Enhanced Structures and Buildings Allowance relief of 20% per year.

As well as time-limited tax benefits there will be designated development sites that will release more land for housing and commercial development in the zones. The need for planning applications will be minimised and streamlined.

STAMP DUTY LAND TAX

A number of changes are made to the Stamp Duty Land Tax (SDLT) regime. Generally, the changes increase the amount that a purchaser can pay for residential property before they become liable for SDLT.

The residential nil rate tax threshold is increased from £125,000 to £250,000.

The nil rate threshold for First Time Buyers' Relief is increased from £300,000 to £425,000 and the maximum amount that an individual can pay while remaining eligible for First Time Buyers' Relief is increased to £625,000.

The changes apply to transactions with effective dates on and after 23 September 2022 in England and Northern Ireland. These changes do not apply to Scotland or Wales which operate their own land transactions taxes.

There are no changes in relation to purchases of non-residential property.

RESIDENTIAL

Consideration (£)	Rate (%)
0 - 250,000	0
250,001 - 925,000	5
925,001 - 1,500,000	10
Over 1,500,000	12

NON-RESIDENTIAL

Consideration (£)	Rate (%)
0 - 150,000	0
150,001 - 250,000	2
Over 250,000	5

Residential rates may be increased by 3% where further residential properties are acquired.

ENERGY BILLS

PLANS FOR BUSINESS

On 21 September 2022 the government announced a new scheme, the Energy Bill Relief Scheme, which is designed to cut energy prices for non-domestic energy customers, such as businesses, charities and public sector organisations. The new scheme is in addition to the recently announced Energy Price Guarantee for households.

The scheme will apply to fixed contracts agreed on or after 1 April 2022 in addition to deemed, variable and flexible tariffs and contracts. Running for an initial six-month period, the scheme will apply to energy usage from 1 October 2022 to 31 March 2023. According to the government, savings will first be seen in businesses' October bills.

Businesses are not required to take action or apply for the scheme, support will be automatically applied to bills.

The government intends to conduct a review of the scheme in three months to assess:

- how effective it has been in giving support to vulnerable, non-domestic customers
- which groups of non-domestic customers remain vulnerable to energy price rises
- the extent to which the scheme could either be extended or further targeted.

Support after 31 March 2023 will be determined following the review.

PLANS FOR HOUSEHOLDS

Prime Minister Liz Truss announced the Energy Price Guarantee (EPG) for households on 8 September 2022 which will apply from the start of October 2022. The EPG means that an average household will pay no more than £2,500 per year for each of the next two years. It comes in addition to the £400 Energy Bill Support Scheme and will save the average household at least £1,000.

The EPG limits the price suppliers can charge customers for energy supplies. This takes account of temporarily removing green levies, worth around £150, from household bills. The guarantee will supersede the existing energy price cap.

Under the plan, those households who do not pay directly for mains gas and electricity, such as those living in park homes or on heat networks, will be no worse off and will receive support through a new fund.

The government estimates that the EPG will deliver substantial benefits to the economy, boosting growth and curbing inflation by four to five percentage points, which will in turn reduce the cost of servicing the national debt.

The government will provide energy suppliers with the difference between this new lower price and what energy retailers would charge their customers if this were not in place. Schemes previously funded by green levies will also continue to be funded by the government during this two-year period to ensure the UK's investment in homegrown, secure renewable technologies continues.

OTHER MATTERS

There were a number of other interesting comments made by the Chancellor which suggest future policies and changes, although lacking detail at the moment.

IR35 AND OFF-PAYROLLING

Over the last 20 years, there have been numerous changes to the tax system to try and address 'disguised employment' and to generate additional tax and NICs accordingly. In a surprise announcement, the government has stated that it will repeal the off-payroll working rules from 6 April 2023. From this date, workers providing their services via an intermediary will once again be responsible for determining their employment status and paying the appropriate amount of tax and NICs.

According to the government, this will free up time and money for businesses that engage contractors, that could be put towards other priorities. The change will also reduce the risk that genuinely self-employed workers are impacted by the off-payrolling rules.

INFRASTRUCTURE

The Chancellor announced plans to accelerate new roads, rail and energy infrastructure with new legislation which will cut barriers and restrictions. This will make it quicker to plan and build new roads, speeding up the deployment of energy infrastructure such as offshore wind farms and streamlining environmental assessments and regulations.

According to the government, in 2021 it took 65% longer to get consent for major infrastructure projects than in 2012.

STATE BENEFITS

Universal Credit claimants who earn less than the equivalent of 15 hours a week at the National Living Wage will be required to meet regularly with their work coach and take active steps to increase their earnings or face having their benefits reduced, broadly from January 2023. Jobseekers over the age of 50 will also be given extra time with Jobcentre work coaches, to help them return to the job market.

VAT-FREE SHOPPING AREAS

The government will introduce a modern, 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 delivery will include modernising the scheme that currently operates in Northern Ireland and introducing a new digital scheme in Great Britain. 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 DUTIES

Reforms to modernise alcohol duties will also be taken forward and the government has published a consultation response on these plans. The reforms will be implemented from 1 August 2023. The government is also freezing the alcohol duty rates from 1 February 2023 to provide additional support to the sector.

FURTHER ANNOUNCEMENTS

Over the next few weeks, the government will set out further details of plans to speed up digital infrastructure, reform business regulation, increase housing supply, improve our immigration system, make childcare cheaper, improve farming productivity and back the financial services sector.

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