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Chancellor's Growth Plan

(Mini Budget)

September 2022

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With a new King at the Palace and a new Prime Minister at Number 10, it was no surprise that the new Chancellor at Number 11 used his first statement to the House of Commons to signal a "new era" for fiscal policy.

It turned out to be a striking change of direction, as the Chancellor opened his speech, saying: "We will be bold and unashamed in pursuing growth, even where that means taking difficult decisions".

These "bold and unashamed" decisions have since put the government on a collision course with the Bank of England's Monetary Policy Committee and the currency markets, with the pound's value falling sharply against the dollar. The Bank of England will also be reviewing interest rates. All of this adds to uncertainties for Businesses and Individuals.

Gone was the Sunak era's post-Covid emphasis on fiscal responsibility. Instead, in what the government dubbed its 'Plan for Growth', Kwasi Kwarteng set out an approach prioritising tax cuts for individuals and businesses over immediate repairs to the public finances.

The Chancellor's assumption is that cutting tax rates will boost economic growth and so increase the overall tax take to repair public finances and provide opportunity for all.

This was Mr Kwarteng's first real test as Chancellor, 18 days into the job, with inflation sitting at 9.9% and energy prices spiking, interest rates rising, a weakened pound, plus the economic recovery from Covid by no means complete. The challenges he and the country face are numerous in the coming months. The next key Date is 23 November when the Autumn Budget is announced and the Office for Budget Responsibility will publish their outlook on the economy and public finances.

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

Anne-Maree Dunn,
Client Partner and Head of Tax

Contents

National Insurance contributions (NICs)

National Insurance Changes	2021/22	2022/23 (Pre 6/11/22)	2022/23 (Post 6/11/22)	2023/24
Employees				
Main rate	12%	13.25%	12%	12%
Additional rate	2%	3.25%	2%	2%
Employers				
Class 1	13.80%	15.05%	13.80%	13.80%
Class 1A	13.80%	14.53%	14.53%	13.80%
Class 1B	13.80%	14.53%	14.53%	13.80%
Self-employed Class 4				
Main rate	9%	9.73%	9.73%	9%
Additional rate	2%	2.73%	2.73%	2%

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 ring-fenced 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.

Comment:
This is a significant reversal of previously-announced government policy which will benefit both businesses and employees alike. The average business is estimated to be saving almost £10,000 per annum as a result of the change with employee savings averaging £330 per year from next April. There has been no change to the thresholds beyond which NICs are payable, meaning that the increase in the starting threshold for employees previously announced by Rishi Sunak, and which aligns NICs with Income Tax, remains in place.

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% (main rate) and 3.25% to 2% (additional rate) and
- secondary Class 1 NICs (employers) will reduce from 15.05% to 13.8%.

In the case of Class 1 rates which apply annually, particularly Directors paid just once a year, the main and additional rates will be 12.73% and 2.73% respectively.

Comment:
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.

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%.

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

IMPORTANT:
Due to further changes announced on 3 October 2022, this information is no longer up-to-date and we will amend it accordingly once all details are confirmed.

	2021/22	2022/23	2023/24
Personal allowance	£12,570	£12,570	£12,570
Tax bands and rates			
Basic rate band (£0 - £37,700)	20%	20%	19%
Higher rate band (£37,700 - £150,000)	40%	40%	40%
Additional rate band (over £150,000)	45%	45%	40%

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.

Comment:
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 saving 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%.

Comment:
This is a very significant change with the additional rate having been in place since 2010 and will result in a substantial tax reduction for those on incomes in excess of £150,000 per annum.

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.

Dividends

IMPORTANT:
Due to further changes announced on 3 October 2022, this information is no longer up-to-date and we will amend it accordingly once all details are confirmed.

The 1.25% Health and Social Care Levy which was temporarily added to National Insurance Contributions, also applied to dividend income and so, in line with the changes to NIC, 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.

Dividend income tax band	Rates 21/22	Rates 22/23	Rates 23/24
First £2,000 of dividend income	0%	0%	0%
Basic rate band	7.5%	8.75%	7.5%
Higher rate band	32.5%	33.75%	32.5%
Additional rate band	38.1%	39.35%	32.5%

Impact on gift aid, pensions and saving rate
There are a number of tax consequences which stem from these changes but of particular relevance is the tax relief given at source on pension contributions and on Gift Aid donations, which 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%.

In addition, those individuals who would have otherwise been additional rate taxpayers will, from April 2023, benefit from the Personal Savings Allowance of £500, which was not previously available to them. This is in line with higher rate taxpayers and means that the first £500 of interest is free from income tax.

Corporate tax

IMPORTANT:
Due to further changes announced on 14 October 2022, this information is no longer up-to-date and we will amend it accordingly once all details are confirmed.

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.

Comment:
The 19% UK corporation tax rate is significantly lower than the rest of the G7 and the lowest in the G20. The cancellation of the rate increase is anticipated to save companies £18.7 billion per year by 2026/27, which in turn will boost investment and growth.

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.

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

VAT

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.

Company share schemes

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.

Investments

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.

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.

IR35 and off-payroll work

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.

Comment:
The off-payroll rules were introduced in 2017 for the public sector and 2021 for the private sector and meant that end-users were, in most cases, responsible for determining the employment status of their subcontract labour. The effect of the rules in practice was that many businesses adopted a risk-averse strategy of deeming all workers as "employed" leading to higher costs and, in some sectors, a shortage of contractors willing to be taxed as employees but without the protections and benefits of employment. The change will also reduce the risk that genuinely self-employed workers are impacted by the off-payrolling rules.

The off-payroll rules were also designed to assist HMRC who, due to resource limitations, were finding it increasingly difficult to enforce the IR35 rules. It will be interesting to see if the removal of the off-payroll rules leads to an increase in HMRC compliance activity or in the number of businesses ignoring the provisions of IR35.

According to the government, this will free up time and money for businesses that engage contractors, that could be put towards other priorities.

Energy support

Government announces plans to help cut energy bills for businesses
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.

Energy Price Guarantee plan caps household bills
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.

Stamp Duty Land Tax (SDLT)

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.

Comment:
These measures will reduce bills for all movers by up to £2,500, with potential savings of £11,250 for first-time buyers.

It is hoped that these measures will boost the property market, but that remains to be seen with interest rates on mortgages rising significantly.

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

Residential Band £	Rate %	Non-residential Band £	Rate %
0 - 250,000	0	0 - 150,000	0
250,001 - 925,000	5	150,001 - 250,000	2
925,001 - 1,500,000	10	Over 250,000	5
Over 1,500,000	12		

Residential rates may be increased by 3% on the acquisition of second properties.

Other matters

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.

Comment:
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.

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.

What to do next?

If you would like to discuss how this statement affects your particular situation please contact your usual WMT partner, a member of the WMT tax team or call 0800 158 5829.

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Anne-Maree Dunn is the lead tax partner at WMT Chartered Accountants and has been part of the team here since 1988. She is a Chartered Accountant and Chartered Tax Adviser and works with a wide variety of owner managed businesses and private individuals on a range of tax and business advisory services.

Anne-Maree's particular areas of specialism are in family business issues, exit strategies for owner managers, property matters, capital gains tax, group re-organisations as well as tax efficient share and reward schemes.

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Since joining the accountancy profession in 2004 Peter has advised businesses on employment tax issues including benefits in kind, PAYE and National Insurance, and more specialised areas such as employment status and termination payments.

He also advises hospitality businesses (where he is a recognised national expert) and the construction industry on specific tax issues affecting these sectors.

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Managing the tax compliance for a portfolio of various client types, Jo spends her days identifying tax planning opportunities that arise out of tax compliance work and advising clients on mitigation opportunities and tax efficient remuneration planning.

A real 'people' person, Jo enjoys the variety of her work and building strong relationships with clients so she can best understand and meet their needs. She spends time liaising with teams internally to ensure a holistic service to clients, not only for their personal taxes but also business taxes and ensuring tax efficiencies are identified, implemented and regularly reviewed.

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All our advisors give practical and straightforward advice and make technical tax issues accessible and understandable.

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