C&J
CHARTERED CERTIFIED ACCOUNTANTS
REGISTERED AUDITORS

Call: (01736) 366433 or (01637) 876767
Email: info@craneandj.co.uk
Website: www.craneandj.co.uk

Tax E-News

Welcome to this special newswire. In this edition we focus on the Chancellor's Mini Budget. Please contact us if you wish to discuss any matters in this newsletter in more detail.

October 2022

Content accurate as at 23 September 2022

TEAM TRUSS CUT TAXES TO STIMULATE THE ECONOMY

On 23 September 2022, Kwasi Kwarteng, the new Chancellor (the fifth in as many years) delivered a Tax Cutting "Fiscal Event" or Mini-Budget to help boost economic growth. This was in line with promises made by the new Prime Minister Liz Truss when she was campaigning to be elected as new leader of the Conservative Party.

However, many commentators are concerned that the cost of the growth measures will add significantly to Government borrowing, which will have to be paid for by tax increases in the future.

The headline announcements were:

- The abolition of the 1.25% Health and Social Care Levy.
- A reversal of the planned increase in corporation tax.
- A reduction in the basic rate of income tax.
- The abolition of the additional rates of incomes tax.

The Government's bold strategy seeks to stimulate economic recovery and save jobs. Many European countries have introduced windfall taxes on energy companies to help fund support for energy costs. Liz Truss has however categorically rejected such a measure in the UK.

WHY WAS THAT NOT A REAL BUDGET?

The normal budget process is for the Office of Budget Responsibility (OBR) to report on the state of the UK economy at the time of the Budget and also assess the impact of the Budget proposals. As there was insufficient time for a full OBR report, the Chancellor's statement was referred to as a "fiscal event".

We still anticipate a 'real' Budget later on this Autumn.

HEALTH AND SOCIAL CARE LEVY SCRAPPED

It was on 7 September 2021 that we first heard about a new 1.25% Health and Social Care Levy, imposed on employers, employees and the self-employed, coming in from 2023/24. Further, this was to be effectively accelerated into 2022/23 by a 1.25 percentage point rise in National Insurance contributions (NICs). As expected, and despite changes to thresholds earlier this year, the increased NIC rates have resulted in a reduction in take home pay for many individuals.

The Health and Social Care Levy has now been abolished and will not come in next April. Further, the Government is removing the associated 1.25 percentage point increase in NICs from 6 November 2022.

Employers will need to make sure that they update their payroll software in time for this third change in NIC rates and bandings in 2022/23!

In the case of NIC rates which apply annually, transitional rates will apply to deal with the mid tax-year change. In particular,

- Class 1 employee NIC rates that apply annually (including for company directors) will be set at a main rate of 12.73% and an additional rate of 2.73% for 2022/23.
- Class 1A NICs on taxable and expenses (if not paid monthly through the payroll) will be set at 14.53% for 2022/23. The same applies to Class 1B NICs for PAYE Settlement Agreements.
- Class 4 NICs paid by self-employed individuals will be set at a main rate of 9.73% and an additional rate of 2.73% for 2022/23.

DIVIDEND RATES REDUCED FROM 2023/24

Many director/shareholders of family companies pay themselves a small salary and take the rest of their "pay" in dividends. With dividends being free of NIC, this would have allowed them to avoid the extra 1.25% NIC charge when it was originally introduced. Consequently, the Government added 1.25% to the dividend income tax rates for 2022/23.

Although the NIC increase is being abolished from 6 November 2022, the additional 1.25% will continue to be applied to dividends paid throughout 2022/23.

From 2023/24 the dividend income tax rate will however revert to 7.5% where dividends fall within an individual's basic rate band and 32.5% for higher rate taxpayers. Note that the first £2,000 of dividends continue to be taxed at 0%.

INCOME TAX RATES CUT FOR 2023/24

The previous Chancellor, Rishi Sunak, had dangled a possible cut in the basic rate of income tax from 20% to 19% from 2024/25. This will now be brought forward by one year to 2023/24 and will apply to non-dividend income.

The 45% and 39.35% ‘additional rates’ of income tax that apply to income over £150,000 will be abolished from 6 April 2023.

This will mean that, in 2023/24, there will be just two rates of tax on general income - 19% and 40%, with two dividend income tax rates of 7.5% and 32.5%.

Further, those who would have otherwise been additional rate taxpayers will, from 6 April 2023, benefit from a Personal Savings Allowance of £500, in line with higher rate taxpayers. This was not previously available to them. Savings income within the Allowance is taxed at 0%.

It must be noted that Scottish income tax rates for general income are set independently, and we await the results of the Scottish Budget Review for more information on the rates applicable in Scotland next year.

CORPORATION TAX RATE INCREASE SCRAPPED

In the March 2021 Budget, Rishi Sunak announced that the rate of corporation tax would increase to 25% from 1 April 2023 where a company’s profits exceeded £250,000 a year, with the current 19% rate continuing to apply where profits were no more than £50,000 a year. There was also scheduled to be an effective 26.5% rate on profits between £50,000 and £250,000 a year.

The UK would still have had a very competitive rate compared to other major trading countries as many of those are also increasing corporate tax rates.

Nevertheless, the planned increase will not now go ahead in line with the promises made by Liz Truss in her campaign to be Conservative Party leader and Prime Minister.

All companies currently paying corporation tax at 19% will continue to do so.

£1 MILLION ANNUAL INVESTMENT ALLOWANCE NOW PERMANANT

Businesses investing in plant and machinery will welcome the decision to make the £1 million Annual Investment Allowance (AIA) permanent. This has been extended several times and was scheduled to revert to just £200,000 from April 2023. Unlike the super-deduction, the AIA is available to unincorporated businesses as well as limited companies and the equipment does not have to be new.

IR35 U-TURN

The much criticised “off-payroll” working rules were introduced for the public sector from 6 April 2017 and then extended to large and medium-sized private-sector organisations from 6 April 2021.

The rules replaced the ‘IR35’ rules where workers supplied their services to these organisations via a personal service company (PSC) or other intermediary. The effect was to transfer the, not insignificant, tax compliance burden from the PSC to the service-acquiring organisation.

The off-payrolling rules will now be removed from 6 April 2023 and the IR35 compliance burden will revert to resting with the PSC itself. This means the PSC must calculate and pay PAYE and NICs if the worker (often the Director) would be classed as an employee if they were working directly for the service-acquiring organisation. This aligns with the requirements in cases where a PSC supplies services to a small private-sector organisation.

NEW INVESTMENT ZONES

The Government is in discussion with 38 local authority areas in England to set up ‘Investment Zones’ in specific sites within their area.

Each Investment Zone (IZ) will offer generous, targeted and time limited tax cuts for businesses along with liberalised planning rules to release more land for housing and commercial development. These will be hubs for growth, encouraging investment in new shopping centres, restaurants, apartments and offices, and creating thriving new communities. The tax incentives under consideration are:

1. **100% Business Rates Relief** - on newly occupied or expanded business premises in IZs.
2. **100% first year allowance** - for companies with qualifying expenditure on assets for use in IZs.
3. **Enhanced Structures and Buildings Allowance** - to allow businesses to reduce their taxable profits by 20% of the cost of qualifying non-residential investment per year, relieving 100% of their cost of investment over 5 years.
4. **Zero-rate employer NIC -** on salaries of any new employee working in the IZ for at least 60% of their time, on earnings up to £50,270 per year, with Employer NICs being charged at the usual rate above this level.
5. **Full Stamp Duty Land Tax (SDLT) relief** - for land and buildings bought for use or development for commercial purposes, and for purchases of land or buildings for residential developers.

A list of the 38 local authorities taking part in discussions can be viewed in this factsheet - www.gov.uk/government/publications/the-growth-plan-2022-factsheet-on-investment-zones.

ENCOURAGING INVESTMENT IN UNLISTED COMPANIES

The new Chancellor has given his support to the tax-advantaged Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) and said he sees the value of extending them in the future.

The vision is for the UK to be an entrepreneurial, share-owning democracy.

In relation to the Seed Enterprise Investment Scheme (SEIS), the Treasury have confirmed that they are widening the criteria and will be allowing companies to raise £250,000 under the scheme, 66% more funding than previously.

The SEIS currently provides unconnected investors with an income tax deduction of 50% of the amount invested, up to £100,000 a year. There is also generous capital gains tax relief for the investor.

EMPLOYEE SHARE OWNERSHIP

The Government has announced two changes to the tax advantaged Company Share Option Plan (CSOP) scheme.

There is currently a maximum employee share option limit based on market value at grant of £30,000. This will be increased to £60,000 for any new options granted from 6 April 2023. Existing options are unaffected by this change.

There will also be increased flexibility for share options granted from 6 April 2023 due to a removal of conditions around the class of shares used.

The CSOP scheme is available to most UK trading companies as, unlike the Enterprise Management Incentives (EMI) share scheme, there is no size limit, and no restrictions over the nature of the business undertaken.

SDLT THRESHOLD INCREASED TO £250,000

Chancellors always like to pull rabbits out of the hat and make surprise announcements at the end of their Budget speech.

Although rumoured in the run up to this mini-budget, the SDLT announcement was still a surprise as house prices have been steadily rising. Increases in mortgage rates are likely to slow the market so the SDLT announcements are designed to stave off a housing slump. Moving house has a multiplier effect on the economy as people tend to spend money decorating and furnishing their new home, with estimates suggesting that doing so drives additional spending worth about 5% of the house value.

It is thus crucial to ensure medium-term confidence in the property market and maintain the growing momentum as the UK economy recovers. The Government has therefore cut SDLT for home buyers across England and Northern Ireland.

For residential property transactions completed on or after 23 September 2022;

- The Nil Rate Band (NRB) has been increased from £125,000 to £250,000.
- The NRB for first-time buyers has been increased from £300,000 to £425,000. This applies where first-time buyers purchase a property costing less than £625,000 (previously £500,000).

Different taxation rules apply to property transactions in Scotland and Wales and no changes have been announced in this regard.

DIARY OF MAIN TAX EVENTS
OCTOBER / NOVEMBER 2022

Date	What's Due
1/10	Corporation tax for year to 31/12/21, unless quarterly instalments apply
5/10	Deadline for notifying HMRC of chargeability for 2021/22 if not within Self-Assessment and receive income or gains on which tax is due
19/10	PAYE & NIC deductions, and CIS return and tax, for month to 5/10/22 (due 22/10 if you pay electronically)
1/11	Corporation tax for year to 31/01/2022, unless quarterly instalments apply
6/11	Ensure PAYE software is updated for the changes in NIC rates, as a result of scrapping the Health and Social Care Levy
19/11	PAYE & NIC deductions, and CIS return and tax, for month to 5/11/22 (due 22/11 if you pay electronically)