

Going for growth: examining the 'fiscal event'

Employment Tax

Large Corporate

OMB

Personal tax



27 September 2022

The new Chancellor announced some of the most significant tax changes seen for many years.

The new Chancellor, Kwasi Kwarteng, delivered a 'fiscal event' on 23 September, announcing some of the most significant tax changes seen for many years. The government's focus is on growing the UK economy and it hopes that the major tax cuts announced will support that goal. The cost of tax cuts is estimated by the Treasury at £3.8 billion in the current year; then £26.7 billion in 2023-24; rising to £44.8 billion in 2026-27 - a total of £146 billion over five years. These figures net off the windfall tax on energy producers which is estimated to bring in £7.7 billion this year and a total of some £27 billion. The figures do not include the cost of supporting households, businesses and charities with energy prices. The full documents are at *The Growth Plan 2022: documents* - [GOV.UK \(www.gov.uk\)](https://www.gov.uk)

Several of the policies announced came from the Prime Minister's leadership campaign – but the announcements went much further.

Business measures

The legislated increase in corporation tax in April 2023 from 19% to 25% will not go ahead (and nor will the planned increase in diverted profits tax, which remains at 25%). The bank surcharge will remain at 8%, instead of the planned reduction. This costs £63 billion over five years. For deferred tax accounting purposes, the new rate will be used once substantively enacted. Since the Finance Bill may not become law until next year, The Provisional Collection of Taxes Act is likely to give effect to the 19% rate. Companies publishing results before this will no doubt record in their financial statements material differences between the rate currently in law and the new lower rate.

The annual investment allowance will be set permanently at £1 million, thereby saving the need to write another article about the complexity caused when the allowance drops. Professional bodies have called for a consistent allowance to help small businesses plan over the medium term. However, there is no replacement for the two year 130% super-deduction, which expires on 31 March 2023 (although there will be some technical amendments to manage the retention of the 19% rate).

Business also may benefit from increases in the limits to Seed Enterprise Investment Scheme and to Company Share Option Plan limits (CSOP). A CSOP is a tax-advantaged share option plan, which allows employees to pay only capital gains tax on any gains, rather than income tax and national insurance, provided various conditions are met. From April 2023, qualifying companies will be able to issue up to £60,000 of CSOP options to employees, double 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. From April 2023, companies will be able to raise up to £250,000 of SEIS investment. The gross asset limit will be increased to £350,000 and the age limit from 2 to 3 years. The annual investor limit will be doubled to £200,000. These changes will help over 2,000 companies a year that use the scheme to grow. The Chancellor also confirmed that the EIS scheme (used by over 4,000 companies annually, with 37,000 investors, raising about £2 billion) and Venture Capital Trusts will continue beyond 2025.

Off-payroll working changes

From April 2023, the off-payroll working rules will be abolished. These rules obliged an engager to determine whether a contractor was a quasi-employee, such that PAYE and national insurance at employer/employee rates be applied. The rules were introduced in 2017 for public sector engagements and 2021 for the private sector. Abolishing the rules means that responsibility for determining the status of the contractor moves back to the individual. This means that contractors will have to re-assume the obligation to assess whether or not they are quasi-employees - not that anyone providing services via a company will automatically escape the rigours of PAYE. The Treasury estimates that non-compliance and potentially the use of more contractors instead of employees will cost £1.1 billion in 2023-24, doubling to over £2 billion three years' later.

National insurance cut

Finally, business benefits from the reduction in national insurance rates and the abolition of the Health and Social Care levy, due to commence in April 2023. From 6 November, national insurance rates for employers and employees drop to 13.8% and 12%/2% respectively. Annual rates, mainly for directors, will be set at 12.73% and 2.73%, taking effect from Royal Assent to the new abolition Bill. Class 1A (not paid monthly through RTI) and 1B will be set at 14.53% for the 2022-23 tax year.

The main and additional rates of Class 4 will be set at 9.73% and 2.73% respectively for the 2022-23 tax year. These strange rates are of course because for self-employed individuals, national insurance rates are levied on an annual basis.

Investment zones

The Chancellor announced the creation of low-tax, low-regulation investment zones in every part of England and will encourage Wales, Northern Ireland and Scotland to follow suit. Discussions have started with 38 local authorities. The zones will, for 10 years, offer:

- 100% first year enhanced capital allowance relief for plant and machinery used;
- Accelerated Enhanced Structures and Buildings Allowance relief of 20% per year;

- 100% relief from business rates on newly occupied business premises and some existing businesses expanding into an Investment Zone tax site;
- Full stamp duty land tax relief for land and buildings for commercial purposes, and for land or buildings for new residential development; and
- A zero rate for Employer National Insurance contributions for new employees working in the tax site for at least 60% of their time, on earnings up to £50,270 per year.

The government hopes that the zones will lead to enhanced activity in the UK rather than displacement of existing activities.

Income tax

Many had speculated that the government would accelerate the introduction of a new 19% basic rate of tax – and so it proved to be. This awkward to calculate rate take effect from 6 April 2023. Gift Aid to charities will remain at 20% for four years, to allow them to prepare for the impact of the reduction in their income. No one had speculated that the 45% additional rate of tax would be abolished – but it is disappearing from April 2023. This rate is currently paid by about 630,000 individuals – some 2% of income taxpayers. The Government anticipates that many taxpayers will defer bonuses and other variable income until after April. Making tax-deductible pension contributions and gift aid donations before the rate drops will also save tax. This is estimated to cost about £2.3 billion in the current year, part of which will be recaptured next year, before the annual cost settles at about £2 billion.

These rate changes do not apply in Scotland, which sets its own rates and thresholds for income tax. Rates are announced in the autumn budget and need to be enacted by February if they are to take effect in time for the new tax year. Wales also sets its own rates but in a much more limited fashion and it cannot set thresholds or introduce new rate bands. Following the reduction in national insurance, the rates of tax on dividends will return to their original levels across the UK from 6 April 2023. The rates will be 7.5% for basic rate taxpayers and 32.5% for higher rate taxpayers. This will cost about £1 billion annually, after some transitional impacts.

No changes were announced to income tax or capital gains tax thresholds, which remain frozen for four years.

Stamp duty land tax

The Chancellor announced immediate permanent reductions in stamp duty land tax in England and Northern Ireland. The nil rate band is being doubled from £125,000 to £250,000. First time buyers see an increase in the nil rate band from £300,000 to £425,000. Other rates and bands remain unchanged and the additional 3% rate remains. Scotland and Wales set their own rates and thresholds (and base) as tax in this area has been fully devolved.

Other matters

VAT-free shopping for visitors will be re-introduced, having been abolished after Brexit. The exact timing for the new scheme, which will be operated digitally, has not been announced although the mini-budget costings show it starting in 2024. It is expected to cost about £2 billion annually after the first year and is intended to restore the competitiveness of the UK compared to other European destinations.

Finally, the Chancellor decided to close the Office of Tax Simplification, which came into being in 2010 and was placed on a statutory footing in 2016. The Chancellor said that the government will embed tax simplification into the institutions of government and set a mandate to the Treasury and HMRC to focus on simplifying the tax code. The OTS has said it will publish its review of Taxation of Property Income and continue to gather evidence on Hybrid and Distance Working. It will not commence new projects.