The Conservative government's latest policy reversals

Employment Tax Indirect Tax Large Corporate OMB Personal tax

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After the September fiscal event came the October announcements.

The new Chancellor, Jeremy Hunt, was appointed on 14 October and the first announcement came on the same day. The government will not be cutting the previously enacted rates of corporation tax. The rate of corporation tax will thus rise to 25% from 1 April 2023, with a 19% rate for companies (other than close investment companies) with profits below £50,000 and a taper for profits up to £250,000. The rate of diverted profits tax rises to 31% and the bank surcharge will be cut to 3%. Changing this decision raises about £18 billion annually.

After the Chancellor spent the weekend considering the next steps, he announced on Monday 17 October that the government would not be proceeding with the majority of the measures in the September Growth Plan.

The Chancellor began his statement:

‘The central responsibility of any government is to do what is necessary for economic stability. Behind the decisions we take and the issues on which we vote are jobs families depend on, mortgages that have to be paid, savings for pensioners, and businesses investing for the future.

‘We are a country that funds our promises and pays our debts. And when that is questioned, as it has been, this government will take the difficult decisions necessary to ensure there is trust and confidence in our national finances.’

Policy reversals

The result is that the government will not be proceeding with:

- The cut to dividend tax rates, saving around £1 billion a year. Dividend rates continue at 8.75% for basic rate taxpayers; 33.75% for higher rate taxpayers; and 39.35% for additional rate taxpayers.
- The reversal of the off-payroll working reforms introduced in 2017 and 2021, saving around £2 billion a year. This means that engagers will continue to be responsible for determining the status of freelancers, such that PAYE will be deducted from quasi-employees. Sir Edward Troup, former executive chair of HMRC, wrote in the *Financial Times*: ‘In tax, if boundaries are not maintained, they will be abused, tax revenues will fall, and the wider legitimacy of the tax system eroded.’ He argued that the off-payroll rules are needed to remain in place to support compliance (see on.ft.com/3CNjj7Y).
- The new VAT-free shopping scheme for non-UK visitors from 2024, saving a further £2 billion a year.
- The freeze to alcohol duty rates from 1 February 2023, saving around £600 million a year. The Chancellor will provide details on the future uprating shortly.
- The cut to the basic rate of income tax to 19% in April of 2023, saving nearly £6 billion annually. The Chancellor confirmed that the 20% basic rate will remain unaltered indefinitely, although he expressed the aspiration to cut the rate when economic circumstances permit.

The yield from this package is expected to be £20 billion next year, rising to £32 billion in 2026/27. The Office for Budget Responsibility will update the numbers with its economic forecast on 31 October.

In addition

Some elements of the Growth Plan remain in place. The increase in the nil rate of stamp duty land tax to £250,000 (and £425,000 for first time buyers) took effect on 23 September.

National Insurance rates will be cut from 6 November, when national insurance rates for employers and employees will be cut to 13.8% and 12%/2% respectively. Annual rates, mainly for directors, will be set at 12.73% and 2.73%. 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.

The Annual Investment Allowance will remain permanently at £1 million annually. Finally, increases in limits to the Seed Enterprise Investment Scheme and the Company Share Option Plan remain in place.

The Chancellor took the opportunity to announce the formation of a new Economic Advisory Council to provide the government with additional economic advice. Four members were initially announced, with more to be added. The Council will not have access to government data, and members will not be paid for their roles (see bit.ly/3CKTDcr).

In answering questions in the House of Commons, the Chancellor said that the government would be proceeding with investment zones but that he was aware of the potential for abuse and would take steps to avoid creating such opportunities. Further details of how such zones will operate have yet to be announced.

Finally, the Chancellor said that he would need to consider tax rises and spending cuts in the Medium Term Fiscal Plan, giving the assurance that ‘every single one of those decisions … whether reductions in spending or increases in tax, will prioritise the needs of the most vulnerable’.