Autumn Statement 2023: how well does the fiscal arithmetic add up?

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24 November 2023

We take a look at what was announced in the Autumn Statement, and ask how well it all adds up.

The rumours before Jeremy Hunt's 2023 Autumn Statement were quite varied. Initial comments suggested that it would be quite boring due to the challenging state of the public finances, but then up popped the notion that 41,000 dead people might win the lottery with the abolition of inheritance tax. Finally, the Prime Minister told us there would be tax cuts, to celebrate the halving of inflation over the year.

So what was announced?

Tax cuts were indeed on the agenda, with the overall stance of the Autumn Statement reducing the tax burden in the current and next five years. The current year reduction is £1.94 billion and the cumulative reduction for the next five years amounts to £77.6 billion. In addition, extra spending of £14 billion was announced, of which the main components are a one-off contribution to the NHS for pay awards and winter planning, with a noticeable increase in housing allowance from April 2024 (an average increase per household of £800 a year).

Economic commentators have pointed out that these reductions do not change the overall stance of the fiscal arithmetic, which is that the tax burden continues to rise as we pay for the massive levels of support during the pandemic and the energy crisis. Inflation has meant that the threshold freezes are raising more than originally planned – and we are now getting some of that back. Of course, taxpayers do not see an increase in cash tax when thresholds are frozen – but they will see the actual reduction in National Insurance.

Business tax reductions

The tax reductions all go to business and to individuals in work. Full expensing – or 100% capital allowances, as they were known before Nigel Lawson's 1980's abolition – is made permanent. HMRC and the OBR think that this will cost about £10 billion a year, disbelieving the much smaller estimates from the Institute for Fiscal Studies of about £1-3 billion annually.

This means that regular plant and machinery will qualify for 100% relief, with the 50% rate continuing for long life assets and integral features. The rules only benefit companies and apply only to new plant and equipment. There is a continuing technical discussion on whether to extend the benefit to leased assets; at present, the rules do not go that far. There will also be some technical discussions on aspects of capital allowances with a view to simplification, but these conversations will not cover rates or the ambit of what qualifies – so quite where the potential benefit could be remains unclear.

Work from the Office of Tax Simplification in 2018 identified that boundaries between categories remain a source of complexity. The Treasury has proudly put up a graph showing that the UK now has the most generous system of capital allowances in the G7, as the US is currently phasing out its temporary full expensing measure.

National Insurance cuts

National Insurance cuts go to employees and to the self-employed, with a rather neat way of giving more to employees, who will see a 2% cut in their main rate to 10%, applying from 6 January 2024. This is worth a maximum of £754 annually to someone earning £50,270 or more – and £450 to the average worker with salary of £35,400. Self-employed individuals see their main rate cut from 9% to 8% from April 2024, but they also benefit from the removal of Class 2 National Insurance contributions, currently £3.45 per week. Class 2 will be retained as a voluntary contribution for those earning less than £6,725 pa who wish to maintain qualification for the state pension and other benefits. Those earning between £6,725 and £12,570 will continue to get credit towards benefits, as currently.

This finally deals with the abolition of Class 2, originally put forward by the Office of Tax Simplification in 2016. It seems that Class 3 remains as a voluntary contribution for those without earnings. The Chancellor also announced that the National Insurance relief for employers of veterans would be extended for a further year to 2024-25.

Pensions

There was some surprise in the summer when the Treasury released draft law covering the abolition of the pension lifetime allowance – and without any mention, introduced an income tax charge on people who inherited a pension from someone who died under 75, where the beneficiary took the money as pension income.

The Autumn Statement confirmed that this new charge will not go ahead, meaning that both lump sum and income inherited from someone who died under 75 remains tax-free. Over 30% of men and 18% of women die under 75. There seems no logical reason why beneficiaries of pension funds from those who die before 75 should get a tax windfall, though, and leaving this hole in the tax system is likely to increase calls for it to be closed.

The Chancellor has picked up an idea from Australia and there will be a consultation on allowing individuals to keep an individual pension pot and require that a new employer contribute to that pot, rather than to the employer's existing scheme. The current challenge is that employees who move jobs end up with lots of small pension pots and no real understanding of their total pension savings. The obvious issue with requiring that employers contribute to multiple pension arrangements for their employees is how overall costs will be managed.

Simplifying Making Tax Digital and the cash basis

Simplification featured in the announcements, although not much in the Chancellor's speech. The government set out the four objectives it is aiming to achieve when simplifying the tax system so that:

- tax rules have a clear consistent rationale and are easy to understand;
- the burden of compliance and administration is proportionate for taxpayers and HMRC and it is easy for taxpayers to get their tax right;
- taxpayers understand their obligations and options particularly at key lifecycle points, such as when they do something for the first time or infrequently; and
- tax policy does not unnecessarily distort the decisions of taxpayers and result in poorly informed choices.

There were two specific announcements on simplification, covering Making Tax Digital and the cash basis. Following consultation, several positive changes will be made to the cash basis, so that the limit of £150,000 will be abolished, together with the restrictions on interest deductions and the use of losses. The cash basis will also be set as the default method for self-employed individuals, although anyone can opt to use the accruals method.

Ditching the previous restrictions on interest and losses should help some who might prefer the apparent simplicity of cash basis reporting, although abolishing the limit may not have much impact, as the larger a business activity is, the more likely that the accruals basis of accounting will help the business owner understand how well the business is going.

The Making Tax Digital for Income Tax announcements continued a range of useful relaxations:

- People without a National Insurance number will not need to take part, and foster carers are also excluded.
- Those with jointly owned property will be able to opt for simply reporting gross income in the quarterly updates, with obviously full reporting with the tax return.
- The end of period statement is also going, not because there won’t still need to be adjustments from the quarterly data upload to the final return of net profit/loss, but that having a specific statement is an unneeded complexity.
- Quarterly updates will be done on a cumulative basis, removing any need to correct a previous submission.
- Finally, HMRC will be able to accommodate multiple agents, meaning that business and property owners will be able to engage a bookkeeper to keep records and make quarterly updates, with a tax agent to prepare and submit the tax return.

The £30,000 limit for joining Making Tax Digital will remain, although the note said that the government will keep this under review. The latest estimate is that Making Tax Digital for Income Tax will now apply to 1.75 million landlords and self-employed individuals. The aim is that beta testing will open up from April 2024 for those with a 31 March year-end.

Other business areas

Business rates remains an area for challenge from some businesses, who argue that reductions are needed. The Chancellor noted that one third of properties are already below the scope of business rates, but that the government could not continue with the Covid temporary support indefinitely. He announced that the small business multiplier would be frozen for one more year – together with the 75% reduction for smaller retail, hospitality and leisure business.

The government has been determined to change its support for research and development through the tax system – and the new combined R&D relief will go ahead from April 2024, together with a separate more generous scheme for small businesses with high R&D intensity – now defined as 30%. Industry commentators have questioned whether this is too fast to work out the necessary details of the new schemes.

There will be technical discussions on how to increase the UK's support for film and high-end TV production. The UK has an industry leading position, but this is a sector under constant challenge from overseas support schemes.

New investment zones in the West Midlands, East Midlands and West Yorkshire were announced, together with the extension to ten years of the reliefs.

There will be an exemption from the Electricity Generator Levy for new renewable generation projects which create a new electricity generating station or expand an existing generating station where the substantive decision to proceed is made on or after 22 November 2023.

There is an updated costing for the yield from adopting the Pillar 2 changes from the Inclusive Framework – which impose a minimum 15% corporation tax charge. The new estimate is that the measure will bring in about £450 million every year, which takes account of other countries increasing their own taxes on activities in their territory.

There will be much for tax professionals to work on, as the announcements turn into practical adoption. Inheritance tax advisers can breathe a sigh of relief that their tax is still in place.