MINI BUDGET SEPTEMBER 2022

MAIN TAX ANNOUNCEMENTS

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1. Introduction

The new Chancellor Kwasi Kwarteng has unveiled his ‘Growth Plan’ with the largest package of tax cuts for nearly 50 years. In addition to tackling energy costs with the aim of bringing down inflation, his plan includes measures to back business and help households with an ambitious target of 2.5% trend of growth. The package has been estimated to cost a total of around £160bn over the five years to 2026/27.

The UK has long underinvested compared to peer nations. UK investment was 10% in 2019, compared to the OECD average of 14%, and business investment remains nearly 6% lower than pre-pandemic levels. Weak investment is estimated to be responsible for around half of the productivity gap when compared to France and Germany.

The Chancellor announced major tax reforms which he hopes will encourage investment, boost productivity and create jobs. These include cancelling the planned rise in corporation tax, and keep it the lowest in the G20 at 19%, reversing the 1.25% rise in NICs, cancelling the Health and Social Care Levy due to start in April 2023. These changes could save 900,000 businesses up to £10,000 on average next year.

The Chancellor also announced more relief for businesses by making the Annual Investment Allowance of £1m permanent, rather than letting it return to £200,000 in March 2023.

Personal tax changes include a 1p cut to the basic rate of income tax one year earlier than planned. From April 2023, the basic rate of income tax will be cut to 19%, which could result in up to 30m people being better off by an average of £170 per year.

The Chancellor will abolish the additional rate of income tax with effect from April 2023. In its place will be a single higher rate of income tax of 40%. The policy removes the UK’s current top rate tax, which was higher than countries including Norway, USA and Italy.

Kwasi Kwarteng also revealed a package of major cuts to stamp duty land tax, with the aim of encouraging residential investment, boosting spending on household goods and supporting jobs in the property industry. The nil rate band for SDLT will be doubled from £125,000 to £250,000.

Plans were also announced to set up Investment Zones in specific sites within 38 local and mayoral combined authority areas in England including Tees Valley, South Yorkshire and the West of England. Each Investment Zone will offer generous, targeted and time limited tax cuts for businesses and 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.

Further details on the main policy decisions announced are set out below.

2. **Income Tax and National Insurance Contributions**

2.1 Rates of Income Tax

The government will bring forward the 1% cut to the basic rate of income tax to April 2023, 12 months earlier than planned.

This will apply to the basic rate of non-savings and non-dividend income for taxpayers in England, Wales and Northern Ireland; the savings basic rate which applies to savings income for taxpayers across the UK; and the default basic rate which applies to non-savings and non-dividend income of any taxpayer that is not subject to either the main rates or the Scottish rates of income tax.

A four-year transition period for Gift Aid relief will apply, to maintain the income tax basic rate relief at 20% until April 2027. There will also be one-year transitional period for Relief at Source (RAS) pension schemes to permit them to continue to claim tax relief at 20%.

The additional rate of income tax will also be removed from April 2023. This will apply to the additional rate of non-savings, non-dividend income for taxpayers in England, Wales and Northern Ireland. The additional rate for savings, dividends and the default rates will also be removed from April 2023, and this change will apply UK-wide.

Current additional rate taxpayers will also benefit from the Personal Savings Allowance of £500 for higher rate taxpayers.

Where rates are devolved in Scotland the Scottish Government will receive funding through the agreed fiscal framework to allocate as they see fit.

There will be a reversal of the 1.25% increase in dividend tax rates applying UK-wide from 6 April 2023. Alongside the reversal of the Health and Social Care Levy, the ordinary and upper rates of dividend tax will be reduced to 2021-22 levels of 7.5% and 32.5% respectively.

Due to the abolition of the additional rate of income tax, income that was previously charged at the additional rate, will now be charged at the upper rate of 32.5%.

The reduction of all rates by 1.25% will benefit 2.6m taxpayers with an average benefit of £345 in 2023-24; and additional rate payers will further benefit from the abolition of the additional rate of dividend tax.

2.2 NICs and HSCL

Class 1 and Class 4 NICs are to be reduced by 1.25% from 6 November and the introduction of the Health and Social Care Levy as a separate tax from April 2023 will be cancelled.

This will benefit all employees earning more than the annual equivalent of £12,570 and self-employed people earning more than £11,909 in 2022-23 and £12,570 in 2023-24, with average savings of around £330 next year and £135 this year.

Approximately 920,000 businesses will see an average tax cut of £9,600 in 2023-24.

3. **Private Sector Investment Measures**

3.1 Seed Enterprise Investment Scheme

From April 2023, companies will be able to raise up to £250,000 of 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 2 to 3 years. To support these increases, the annual investor limit will be doubled to £200,000.

3.2 Company Share Option Plans

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, and align the scheme rules with the rules in the Enterprise Management Incentive scheme and widening access to CSOP for growth companies.

3.3 Annual Investment Allowance

The temporary £1m level of the Annual Investment Allowance will be made permanent, instead of letting it fall to £200,000 after 31 March 2023. This should encourage business investment, provide more stability, and make tax simpler for any business investing between £200,000 and £1m in plant and machinery.

3.4 Bankers' Bonus Cap

The Prudential Regulation Authority will remove the current cap to bankers' bonuses. This cap limits remuneration of certain bank staff to 100% of their fixed pay, or 200% with shareholder approval.

3.5 Investment Zones

The government will work with the devolved administrations and local partners to introduce Investment Zones across the UK. Investment Zones aim to drive growth and unlock housing, with the benefit of tax incentives, planning liberalisation, and wider support for the local economy.

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4. **Stamp Duty**

4.1 Stamp Duty Land Tax

From 23 September 2022, the government will increase the threshold above which SDLT must be paid on the purchase of residential properties in England and Northern Ireland from £125,000 to £250,000.

The government will also increase the relief that first-time buyers can receive from 23 September 2022 with the threshold at which first-time buyers begin to pay residential SDLT increased from £300,000 to £425,000. The maximum value of a property on which first-time buyers relief can be claimed will also increase from £500,000 to £625,000.

5. **Corporation Tax**

5.1 Tax Rate

The previously announced planned increase in the UK corporation tax rate from 19% to 25% that was due to take effect in April 2023 will not go ahead. Companies will continue to pay 19% on their taxable profits. This is to maintain a competitive business tax regime and support investment, innovation and economic growth.

5.2 Bank Tax Surcharge

In line with the cancellation of the increase in the corporation tax rate, the scheduled change to the rate of the Bank Tax Surcharge will also be cancelled. From April 2023, banks and building societies will continue to pay an additional 8% rate of tax on their profits, rather than the reduced 3% rate that would have been the legislative default, leading to a combined rate of 27%.

The increase in the surcharge allowance to £100m will go ahead to ensure that the tax system is supportive of growth within the UK banking market, promoting competition to the benefit of consumers.

5.3 Super Deduction Rules

The government will amend some of the technical provisions for the super-deduction as a consequence of the corporation tax rate being retained at 19% from 1 April 2023. This is to ensure that the relief continues to operate as intended.

5.4 Diverted Profits Tax

This was legislated to increase from 25% to 31% from April 2023, but will now be retained at 25% to keep the current 6% differential with the main corporation tax rate.

6. **Energy Price Measures**

6.1 Energy Price Guarantee

The EPG will cap the unit price that consumers pay for electricity and gas in Great Britain and Northern Ireland. This will bring the average household bill down to £2,500 per year for a period of two years from October 2022.

A typical household is expected to save at least £1,000 a year on energy bills. An additional payment of £100 will be provided to compensate those who are not able to receive support for heating costs through the EPG.

6.2 Green Levies

As part of the EPG, the government will temporarily cover environmental and social costs, including green levies, currently included in domestic energy bills for two years. This will contribute an average £150 saving to the savings provided by the EPG.

6.3 Energy Markets Financing Scheme

The £40 billion EMFS, delivered with the Bank of England, will help to address extraordinary liquidity requirements faced by energy firms from high and volatile energy prices.

The scheme will provide a backstop source of additional liquidity to energy firms in otherwise sound financial health to meet extraordinary variation margin calls. The scheme will provide the liquidity to firms through a 100% guarantee, delivered via commercial banks and will open to applications from 17 October.

6.4 Energy Bill Relief Scheme

The EBRS is a temporary six-month scheme in Great Britain, designed to protect businesses and other non-domestic energy users, including charities and public sector organisations, from rising energy bills this winter. It will provide a discount on wholesale gas and electricity prices.

The government will publish a review into the operation of the scheme after three months to inform decisions on future support after March 2023, focusing in particular on identifying the most vulnerable non-domestic customers and how to continue assisting them with energy costs.

A parallel scheme, based on the same criteria and offering comparable support, but recognising different market fundamentals, will be established in Northern Ireland.

7. Other Announcements

7.1 Office of Tax Simplification

The government has announced plans to close the Office of Tax Simplification, and absorb tax simplification into the institutions of government and set a mandate to the Treasury and HMRC to focus on simplifying the tax code.

7.2 Off Payroll Working

Reforms to the Off-Payroll Working (IR35) rules introduced in the public sector in 2017 and extended to medium and large-sized organisations in the private and voluntary sectors in 2021 are to be repealed from 6 April 2023.

From April 2023, 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.

7.3 Alcohol Duty

The government is freezing alcohol duty rates from 1 February 2023.The government is to publish its response to the Alcohol Duty Review consultation launched at Autumn Budget 2021, alongside the draft legislation for consideration. The reforms will be implemented from August 2023.and are expected to improve the current system by making it simpler, more economically rational and less administratively burdensome on businesses.

ROBINSON RUSHEN
23 September 2022

Note

This summary has been prepared from the Chancellor's speech and documents made available by HMT and HMRC. The proposals are subject to amendment before the Finance Act is passed.
You are recommended to seek professional advice before taking or refraining from any action on the basis of the contents of this publication.
If you would like further details on the tax provisions within the Spring Statement, please contact Keith Rushen on 0044 (0)207 486 2378.