Mini Budget 2022

The Growth Plan

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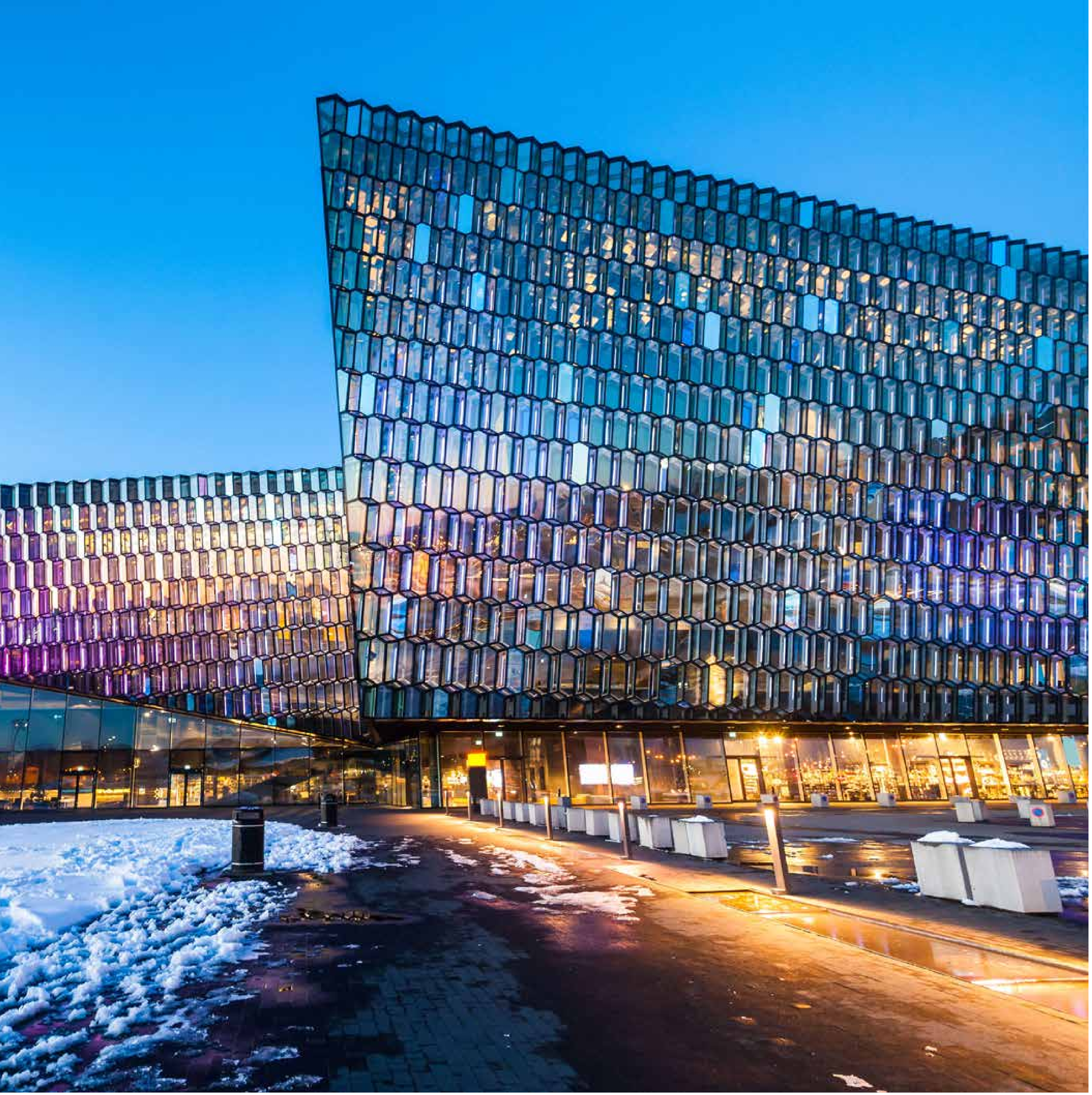

Having been promised either what was interchangeably referred to as a Fiscal Event, Mini Budget or Emergency Budget, today the Chancellor delivered the uniquely titled "Growth Plan 2022".

Mr Kwarteng further deviated from tradition by issuing the formal announcement in a Blue Book, rather than the traditional Red or Green.

After a six-week leadership contest, where the incoming Prime Minister focussed on tax and growth issues throughout, many of the measures announced will not have come as a surprise. Indeed, the reductions in both National Insurance and Corporation Tax were so well trailed that the only real question was when NICs would be reduced – the answer coming the day before the main event that the reduction will take effect from 6 November, although this may take time to filter through to pay packets as payroll systems are updated.

What will come as a surprise (and will particularly delight high earners) are the cuts in Income Tax rates to take effect from 6 April 2023. The reduction in the Basic Rate to 19% was trailed by Rishi Sunak in the Spring but this was anticipated to be a 2024 event. Of more potential significance is the scrapping of the 'Additional Rate' of Income Tax of 45% for earnings over £150,000 from the same date. Whilst always a likely ambition of a Conservative government, the timing was unexpected.

Businesses too will be pleased by many of the measures announced today. Fixing the Annual Investment Allowance for qualifying capital expenditure at £1m on a permanent basis will give greater certainty. Increases in threshold values for the Seed Enterprise Investment Scheme will help start-ups raise capital, and similar threshold increases for the Company Share Option Plan will help many businesses incentivise their staff.

All told, today's unique event appears to have been a 'Good News only' announcement in respect of taxation. It remains to be seen whether more negative news will be delivered in future, more traditional announcements.

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Announcements for business

As announced in a statement the previous day, the 1.25% increase in National Insurance for employers, employees and the self employed will be reversed from 6 November 2022, although those on payroll may see a backdated delay in the benefit as payroll systems take time to update. Similarly the Health and Social Care Levy, planned to replace the National Insurance increase from April 2023 has been cancelled.

The rate of Corporation Tax has only ever reduced in the UK since 2010 when it stood at 28%, ultimately settling at 19% from April 2017. The increase announced in the Spring Budget would have reversed that trend. In order to drive investment in the UK, the proposed increase to 25% from April 2023 has been abandoned and it will remain at 19%.

Newly establised “Investment Zones” will be given preferential rates of relief in respect of Capital Investment, Stamp Duty exemptions and relief from National Insurance for companies operating in these defined areas. Signficiant detail of these zones was not forthcoming, however the reliefs appear to be modelled on the existing Free Zones model.

For businesses outside Investment Zones, the Annual Investment Allowance will be permanently fixed at £1m of qualifying expenditure per annum, which is likely to give much welcomed certainty for businesses planning future capital investment.

The Seed Enterprise Investment Scheme has been substantially enhanced. Start-up businesses can now raise up to £250,000 under the scheme, an increase of £100,000 from previously, and the gross asset and company age limits are also to be increased.

The pool of potential investors will also be expanded by increasing the personal limits on SEIS investments to £200,000 per year. All changes will take effect from April 2023.

Also from 2023, the Company Share Option Plan rules are to be made more generous by doubling the value of shares options that can be granted to £60,000, and removing some restrictions. For companies that qualify however, the EMI scheme is likely to remain the preferred route for share incentivisation.

The IR35 rules have had much reform in the past few years and it’s all change again; the 2017 and 2021 changes will be repealed from April 2023. Workers who provide their services via an intermediary company will once again be responsible for determining their employment status, and not the company that contracts for their services, removing the burden of compliance and risk from the ultimate ‘employer’.

The Government has committed to continue the review of Research and Development (R&D) tax reliefs. To date, the scope of the relief has been broadened to include cloud computing and data costs. Any further reforms will be announced in the Budget.

The VAT Retail Export Scheme (RES) and ‘tax-free’ airside shopping which were both removed on 31 December 2020, will return from 23 September. The VAT RES allows overseas visitors to reclaim any 20% UK VAT paid on their retail purchases whilst visiting the UK. There will also be modernisation of RES through digitisation. The revival of the RES should be welcome news both to overseas travellers and UK retailers.

Personal tax measures

The basic rate of income tax will be cut to 19% from April 2023.

However, the Basic Rate of income tax has wider effects than the rate of tax that individuals pay. Therefore, there will be a four year transitional period until April 2027 to support charities, allowing them to continue to claim 20% in respect of Gift Aid. There will also be a one year transitional period that will allow for pension schemes with relief at source to reclaim 20%; this is an additional benefit for people contributing to their pension.

The additional rate of income tax will also be removed from April 2023. The higher rate of income tax will be 40%, cutting the tax rate for people earning over £150,000 by 5%. People earning over £150,000 will also be able to benefit from the Personal Savings Allowance of £500.

Alongside the reduction in National Insurance, the government will also be reversing the 1.25% increase in dividend tax rates from 6 April 2023. The ordinary and upper rates for dividends will be reduced to 7.5% and 32.5%. As the additional rate income tax is being abolished, the highest rate payable on dividends will be 32.5%.

From today, two changes in the thresholds of Stamp Duty Land Tax (SDLT) for residential property purchases will apply. Firstly an increase from £125,000 to £250,000, on the band on which SDLT is paid. Secondly, more help is being provided to first time buyers with the threshold that they pay SDLT increasing from £300,000 to £425,000 against a maximum property value of £625,000.

Our expert team can help you understand the impact of the Mini Budget on you and your business

To find out more please contact our Tax Partners.

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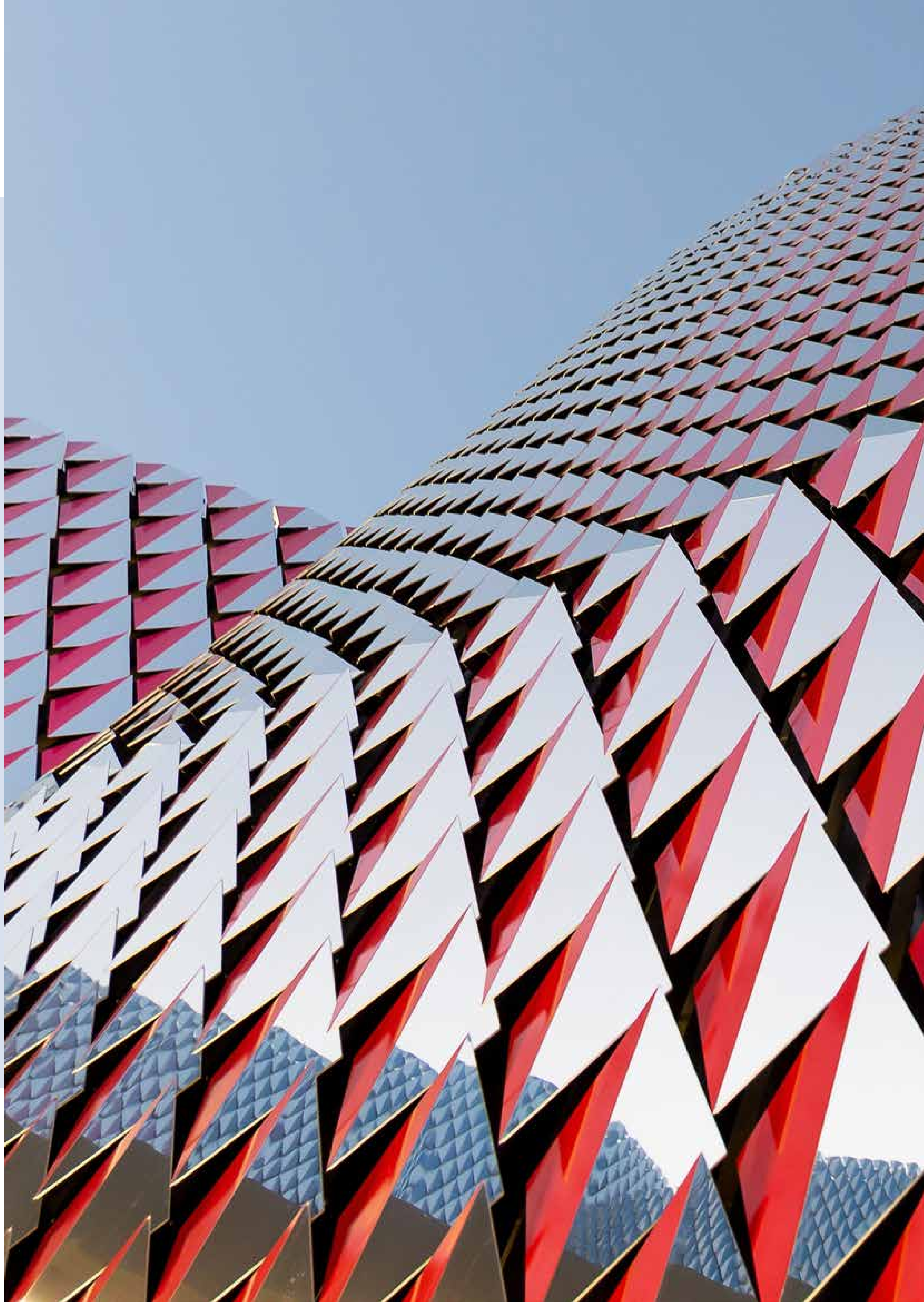

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