Spring Budget 2023

What it means for you

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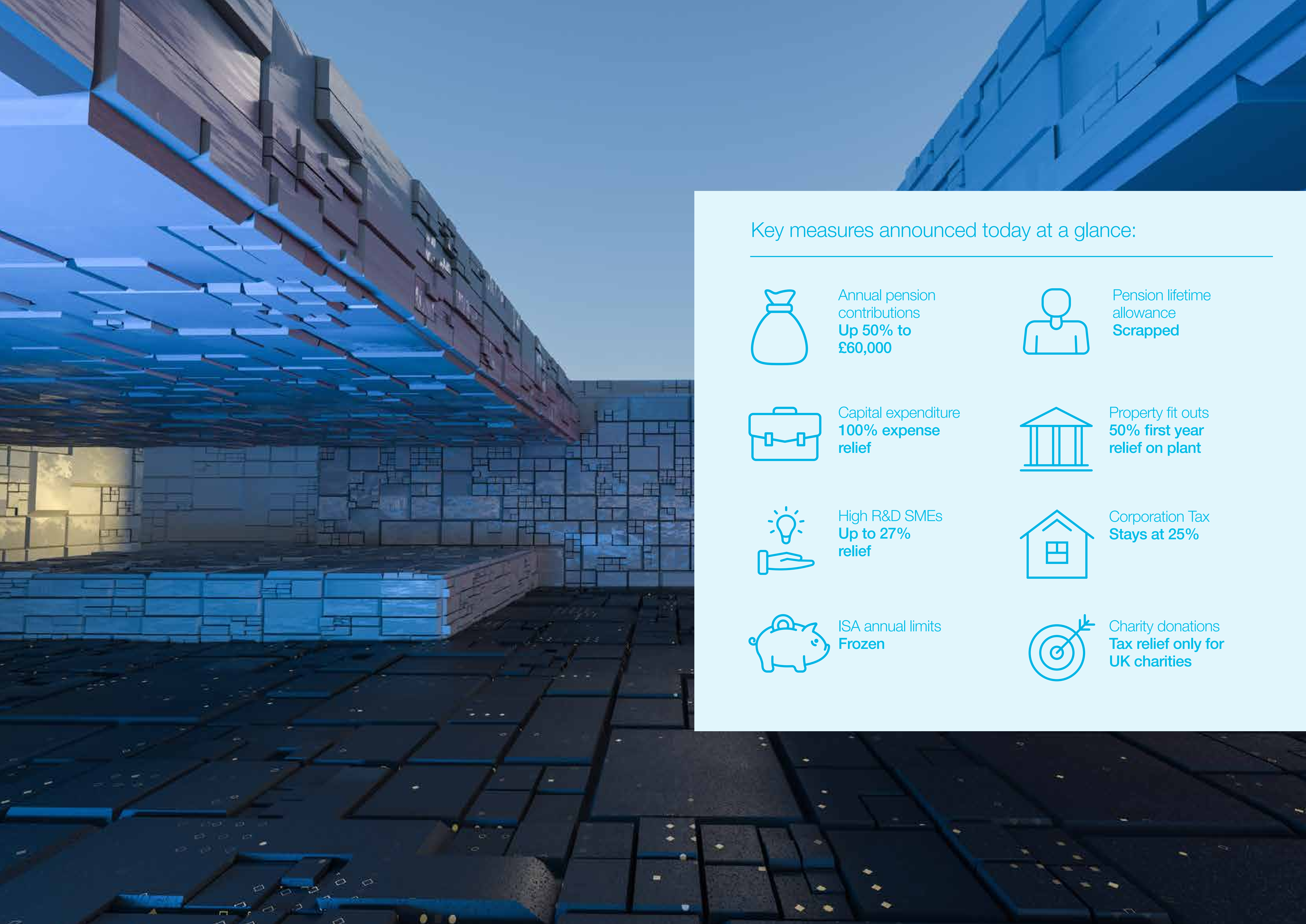

Key measures announced today at a glance:

Annual pension contributions
Up 50% to £60,000

Pension lifetime allowance
Scrapped

Capital expenditure
100% expense relief

Property fit outs
50% first year relief on plant

High R&D SMEs
Up to 27% relief

Corporation Tax
Stays at 25%

ISA annual limits
Frozen

Charity donations
Tax relief only for UK charities

Today marked the first fiscal event for the UK Government in 2023. After the multiple changes (and reversions) in tax policy through the second half of 2022, and the still fragile nature of the economy, it may yet be too early to predict whether it will be the only one.

Many of the significant changes that affect the population were - as seems to have become tradition - leaked or outright announced in advance of today's formal statement to the House of Commons with fundamental changes to the taxation of pensions widely expected. Even here however, surprises were announced, with the anticipated increase in the Pensions Lifetime allowance going even further with a scrapping of the cap on the value of pension funds. However, as the tapering of relief for High Income taxpayers remains in place, this may genuinely only be of benefit to a few.

While acknowledging the increase in Corporation Tax from next month to 25%, the Chancellor stopped short of reducing or even promising to reduce the rate in the future. For many businesses with significant capital expenditure however, the move to full expensing for such relief (rather than claiming Capital Allowances) is a potentially huge benefit which may more than compensate for the increase in the rate.

These significant changes aside, the Budget speech itself was fairly uneventful from the perspective of taxation. Within the more detailed red-book however, we've identified more technical changes that still have the ability to affect many companies and individuals. After 2022 however, I think we all appreciated "a quiet one".

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Your business taxation

The rise in the rate of Corporation Tax from 19% to 25% is due to go ahead from 1 April 2023. To incentivise businesses to continue to invest in the UK, new measures in relation to capital allowances and R&D incentives have been introduced.

The super-deduction allowance introduced in April 2021, which allowed a 130% deduction on qualifying capital expenditure, will end on 31 March 2023. In place of this, the Budget announced a 'full expensing capital allowance', which enables companies to claim a full first year deduction on qualifying plant & machinery expenditure at 100% for the next three years to 31 March 2026.

The 100% allowance will be available on 'main pool' additions, with a 50% first year allowance available on other capital expenditure considered 'special rate pool' assets – such as plant & machinery installed in properties.

A new rate of relief will be increased for loss making SME R&D intensive companies from 1 April 2023. This will apply for companies which have at least 40% of their total spend on qualifying R&D and will result in a £27 credit for every £100 of R&D spend.

In addition to this, there will be a delay in the implementation of overseas expenditure restrictions by one year; this is to enable further consideration of the implications of a merged RDEC and SME scheme, following closure of that consultation.

There will also be a reform of audiovisual tax reliefs resulting in a higher rate of relief than the existing regime from 1 April 2024. The temporary higher rates for theatre, orchestra, museum and galleries relief will also be extended for two years from April 2023, but with gradual phasing down.

A number of modifications will be made to the Corporate Interest Restriction rules in order to reduce administrative burdens and unfair outcomes for businesses, with most changes planned to take effect from 1 April 2023.

Funding for the 'investment zones' previously mentioned in the 2022 mini-Budget has been announced. The focus of this is to increase growth potential and investment in 12 clusters across the UK. Eligible businesses in England will have access to £80m of funding over five years including tax reliefs matching that in Freeports such as enhanced capital allowances, relief from SDLT, business rates and employer national insurance. They will also have access to flexible grant funding to support skills, incentivise apprenticeships and improve local infrastructure.

Social Investment Tax Relief, which enabled qualifying investments to attract a 30% income tax relief and capital gains tax free disposals, will expire in April 2023.

The existing VAT registration threshold of £85,000 remains in place. Given the recent inflationary environment, this is likely to result in many additional businesses having to register for VAT.

The government also announced it is considering the recent responses to its consultation on the VAT exemption for fund management and will publish its response in the coming months.

The government has published a call for evidence on options to reform the VAT relief for the installation of energy saving materials in the UK. This will consider the inclusion of additional technologies and the possible extension of the relief to include buildings used solely for a relevant charitable purpose.

The government will legislate to digitise the DIY housebuilders' scheme and will also extend the time limit for making claims from three to six6 months. These measures should improve the overall customer experience and reduce the administrative burden for claimants and HMRC.

Your personal taxation

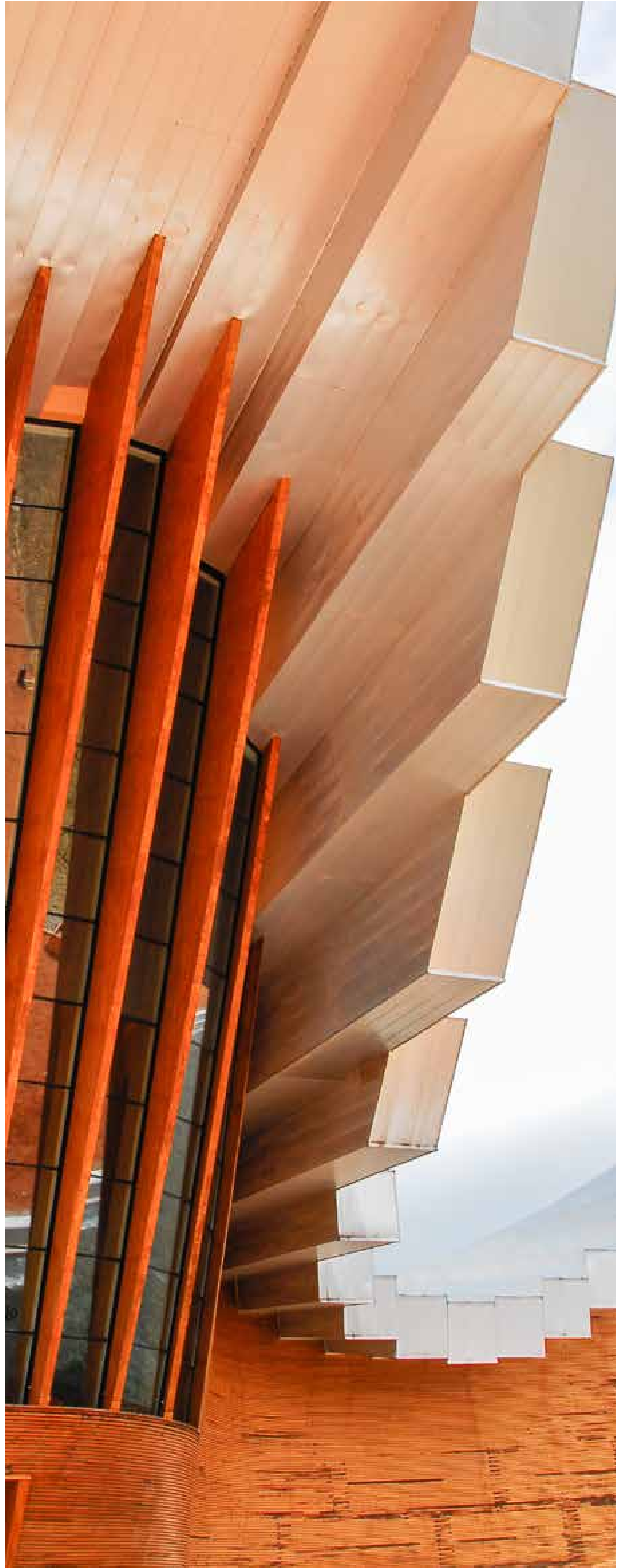
The budget was fairly light on personal tax changes. As expected, the government confirmed the freeze in rates until 2028 and the lowering of the saving rate bands for dividends and the annual allowance for capital gains. This is a stealth tax rise for many that will pull more people into the tax system.

The biggest surprise was the removal of the Pension Lifetime Allowance, something that has been in place since 2006 and the last big reforms of the pension rules. This change will aid those with large existing pensions or defined benefit schemes but will do little for the young taxpayer entering the workplace. The change could present a large Inheritance Tax saving for the affected taxpayers.

The Budget announcement contained the usual rhetoric on tackling tax avoidance. The detail in the red book suggests that the government may see cryptoassets as a key part of that plan, changing the reporting of them to increase transparency.

The other personal tax theme was limiting the territorial scope of tax relief to UK based investments for Inheritance Tax and charitable giving.

There were no announcements in relation to non-domiciled individuals or the remittance basis. It was widely speculated before the Budget that the government would announce a review of the current rules.



Pensions

The Chancellor announced generous changes to the pension Lifetime Allowance and Annual Allowance from 6 April 2023. The Lifetime Allowance, previously restricted to £1,073,100, will now be abolished and the maximum tax-free lump sum drawn of qualifying pension schemes frozen at its current level of £268,275.

In addition to abolishing the Lifetime Allowance, the pension Annual Allowance will increase from £40,000 to £60,000 from 6 April 2023. Equally, the Tapered Annual Allowance, which applies when your adjusted income is between £260,000 and £360,000, will revert to the previous minimum level of £10,000 from its current level of £4,000.

To encourage retired taxpayers back to work, the Money Purchase Annual Allowance (MPAA) will increase from £4,000 to £10,000. The MPAA affects those who have started drawing benefits from a Defined Contribution pension scheme.

Taken as a whole, the pension changes amount to a significant tax saving for affected taxpayers and may present a valuable tax planning opportunity. Unfortunately, most taxpayers will see little to no benefit from the pension changes and are unlikely to benefit younger taxpayers.

Income Tax and Capital Gains Tax

The freeze on the personal allowance, currently £12,570, and the higher rate of £50,270 until 2027/28, will remain. This is a stealth tax rise for millions of people, who will be pulled into the higher rate tax bands.

A reduction in the dividend allowance from £2,000 to £1,000 from 6 April 2023 and to £500 from 6 April 2024, will go ahead as planned. Equally, the Capital Gains Tax Annual Exempt Amount will reduce to £6,000 from 6 April 2023 and to £3,000 from 6 April 2024, potentially pulling more people into the tax system.

As part of the measure to close the tax gap, the government announced changes to the Self Assessment Tax Return forms, requiring owners of cryptoassets to report taxable income and gains separately. These changes will be introduced from the 2024/25 tax year. This suggests the treatment of cryptoassets will be an area of scrutiny for the government going forward and an area of focus for enquiries.

Inheritance Tax, trusts & estates

Whilst the Chancellor made no changes to the headline rates or bands of Inheritance Tax (IHT), it was announced that the geographical scope of Agricultural Property and Woodlands Relief will be restricted from 6 April 2024. These valuable reliefs from IHT will be restricted to eligible property in the UK, exposing some estates to significant future IHT liabilities. It is important people affected by these changes consider the impact on their estates.

The government has announced plans to simplify the administration of lowincome trusts and estates. HMRC also intends to make certain changes to IHT regulations to remove non-taxpaying trusts from reporting requirements.

Tax reliefs

From April 2023, the government plans to restrict charitable tax reliefs such as Gift Aid to UK-based charities only. Currently, UK taxpayers can claim tax relief on eligible donations made to charities located in the UK, the EU and the EEA. Whilst this will be a welcome boost to UK-based charities, it will no doubt come at the expense of EU and EEA-based charities.

As expected, the government announced that investments made to the Social Investment Tax Relief (SITR) on or after 6 April 2023 will no longer qualify for Income Tax and Capital Gains Tax relief. There will no scheme introduced to replace the SITR.

Junior ISA and ISA limits will remain frozen at £9,000 and £20,000 respectively for the 2023/24 tax year.

Carried Interest

The government is introducing a new elective accruals basis for taxation of Carried Interest.

This will allow UK resident investment managers to accelerate their tax liabilities in order to align the tax timing position with other jurisdictions where they may obtain double tax relief.

This will be of most relevance to US investment managers living in the UK. The US taxes Carried Interest on the accruals basis, which previously created a timing difference to the UK treatment, taxing on an arising basis. Historically the UK/US double tax treaty prevented double tax arising on Carried Interest. However, in February 2022 HMRC removed the 'no double tax provision' from their manuals, effectively meaning a UK tax resident US citizen could be subject to double tax on their Carried Interest. The election to accelerate the tax charge in the UK should address this discrepancy.

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

To find out more please contact our Tax team.

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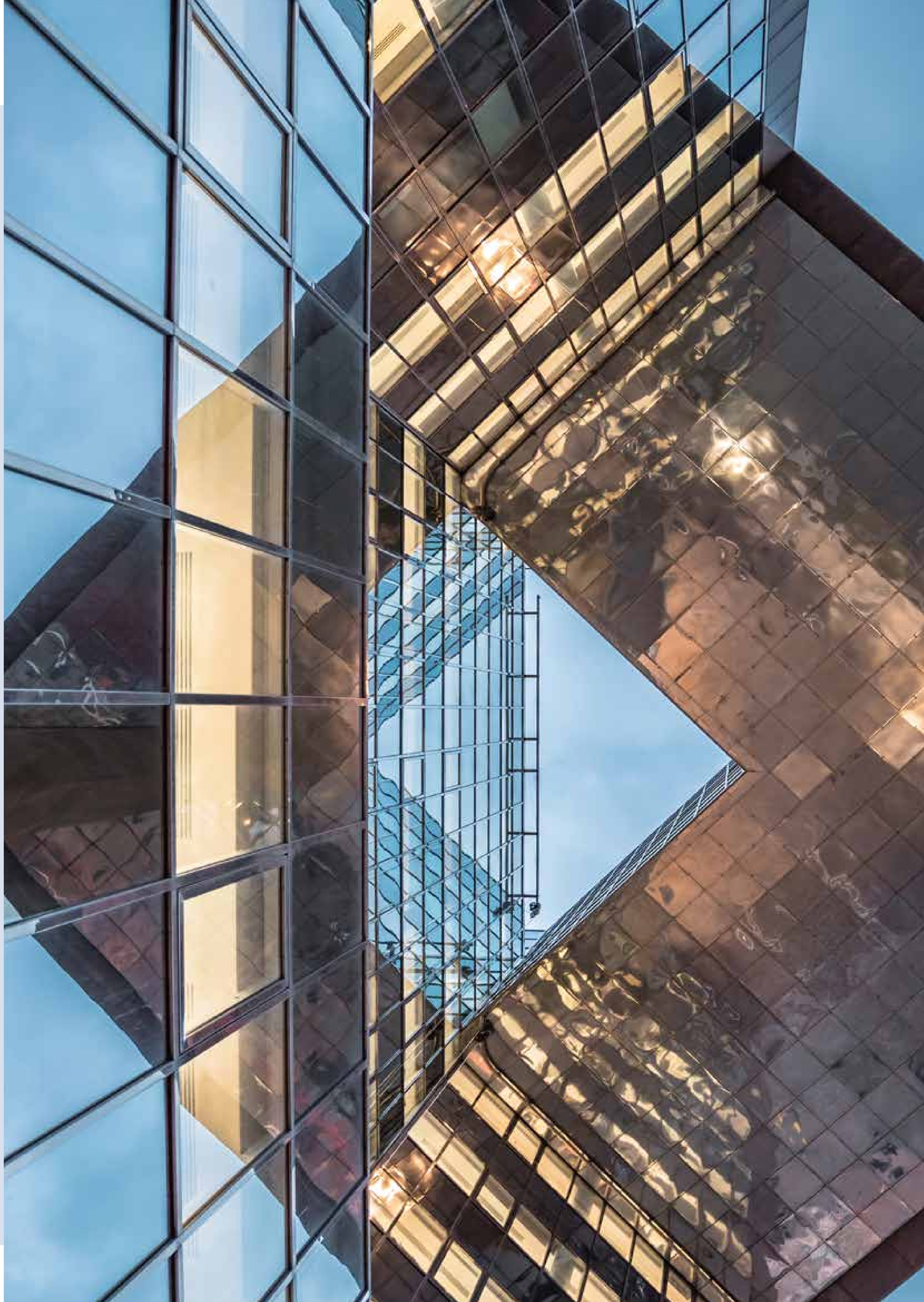

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