Focus on Tax: Key tax announcements from UK Chancellor's Autumn Statement

Friday, 18 November 2022

On Thursday, 17 November 2022, the Chancellor of the Exchequer delivered his Autumn Statement. Citing an increasing global economic downturn that is projected to disrupt the UK economy, the Chancellor's package of announced measures intends to raise an additional £25 billion by 2027-2028. According to the Chancellor, the new tax and spending measures are designed to help deal with interest rate rises, inflation, increased levels of Government debt and the energy crisis.

With the view to ensuring that each individual makes a fair contribution to repair the public finances, the new tax measures include freezes on most tax thresholds for all taxpayers. This will result in increased overall taxation with a focus on individuals on the highest incomes.

Although the Government insists that businesses "must also pay their fair share", there are, however, also some attempts to stimulate economic growth. In the SME and venture capital sphere, the increase to the annual investment allowance threshold, the Government's commitment to simplify and reform the R&D tax credit system as well as its support of EIS, SEIS, VCT and CSOP schemes will be welcomed.

Below is a summary of the key Autumn Statement announcements affecting businesses and individuals.

1. Businesses

- Corporation Tax: The Chancellor confirmed the planned increase in the corporation tax rate to 25% for companies with over £250,000 of profits. It is expected that 70% of actively trading companies will not be affected by this increase due to availability of a small profits rate reflecting the current 19% corporation tax rate.

- R&D tax credits: As part of the ongoing R&D reform, from 1 April 2023, the Government has announced that the:

    - R&D Expenditure Credit rate will increase from 13% to 20%,
    - Small and medium-sized enterprises (SME) additional deduction will decrease from 130% to 86%, and
    - SME credit rate will decrease from 14.5% to 10%.

  The Government confirmed its commitment to supporting R&D generally and its intention to increase R&D tax reliefs for innovative businesses. It also made clear that the R&D changes are part of the ongoing review of the R&D tax relief regime, with the Government acknowledging that there is significant error and fraud in the SME scheme to be addressed. It is expected that the Government will consult on the incorporation of a single R&D scheme with the view to streamlining the rules. In addition, focusing on support for UK innovative businesses, the Government has confirmed that the R&D tax reliefs will be reformed by expanding qualifying expenditure to include data and cloud costs. Legislation in this area is expected in the Spring Finance Bill 2023.

- Annual investment allowance (AIA): Businesses can currently claim a full tax deduction on any capital assets that qualify for the AIA up to £1 million. This threshold was due to expire on 31 March 2023 and revert to £200,000, but the Government has announced that it will now remain permanently at £1 million. This means 99% of UK businesses will be able to fully expense qualifying capital expenditure.

- Venture Capital Incentivisation: Having confirmed its commitment to support access to finance by cutting-edge innovation businesses, the Government confirmed the previously announced improvements to SEIS and CSOP. It also acknowledged its continued recognition of value provided by EIS and VCT schemes and potential benefits of extending these schemes in the future.

- National Insurance Contributions (NICs) Secondary Threshold : The Government has also announced that it plans to freeze the threshold at which employers start to pay Class 1 Secondary NICs at £9,100 from April 2023 until April 2028, noting that they expect businesses to contribute their share towards the reduction of UK debt. It is expected that 40% of businesses would not be affected due to availability of the NICs Employment Allowance that allows certain eligible employers to reduce their NIC liability by up to £5,000.

- Diverted Profits Tax (DPT): The rate of DPT will increase from 25% to 31% in April 2023 (as originally announced in the Spring 2021 Budget). This will retain the existing difference of 6% with the corporation tax rate when it rises to 25% from April 2023. The DPT is designed to stop multinationals using aggressive tax planning to divert profits from the UK to reduce their corporation tax liability.

- Bank Corporation Tax Surcharge: From April 2023, banks will be charged an additional 3% rate on their profits above £100 million, to align with the increases in the corporation tax rate.

- Tax avoidance: The Government is investing an additional £79 million over the next 5 years so that HMRC can allocate more staff to manage serious tax fraud and tax compliance risks with wealthy taxpayers. This is expected to generate a further £725 million of tax revenue.

- Transfer pricing (TP) documentation: The Government has announced that large multinational businesses operating in the UK will have to keep and retain transfer pricing documentation in a prescribed and standardised format (i.e., using the OECD TP Guidelines' Master and Local File) from April 2023.

- OECD Pillar 2: The Government has confirmed its plans to implement the OECD Pillar 2 rules designed to impose a minimum global tax rate for multinationals of 15%. In particular, the Government plans to introduce an Income Inclusion Rule (IIR) which will require large UK headquartered multinational groups to pay a top-up tax where their foreign operations have an effective tax rate of less than 15% and introduce a supplementary Qualified Domestic Minimum Top-up (QDMTT) tax rule which will require large groups, including those operating exclusively in the UK, to pay a top-up tax where their UK operations have an effective tax rate of less than 15%. A substance-based income exclusion would be available to businesses. This will apply for accounting periods beginning on or after 31 December 2023. As an additional measure, the Government plans to implement the backstop Undertaxed Profits Rule for accounting periods starting on or after 31 December 2024. The package of these measures is expected to raise £2.3 a year by 2027-28. Draft legislation will be included in the Spring Finance Bill 2023.

2. Individuals

- Income tax: The Government is reducing the income tax additional rate threshold from £150,000 to £125,140 from 6 April 2023. The new additional rate threshold (ART) for non-savings and non-dividend income will apply to taxpayers in England, Wales and Northern Ireland only (excluding Scotland) while the ART for savings and dividend income will apply throughout the UK. All other income tax thresholds will be maintained so that the position for the year beginning 6 April 2023 will be:

Band	Taxable income
Personal allowance (0%)	Up to £12,570
Basic rate (20%)	£12,571 to £50,270
Higher rate (40%)	£50,271 to £125,140
Additional rate (45%)	Over £125,140

- Dividend Allowance: Taxpayers currently have an annual dividend allowance up to which dividends are received tax-free. The Government has announced that it will reduce this threshold from £2,000 to £1,000 from April 2023, followed by a further reduction to £500 from April 2024. After a taxpayer's allowance is used up, dividends are taxed depending on the taxpayers' income tax band. Currently, basic rate taxpayers are taxed at 8.75%, higher rate at 33.75% and additional rate at 39.35%.

- Capital Gains Tax (CGT) Annual Exempt Amount**:** As with the dividend allowance, the Government will also reduce the CGT Annual Exempt Amount from £12,300 to £6,000 from April 2023, followed by a further reduction to £3,000 from April 2024. For the 2022-23 tax year, the CGT rate is 10% for basic rate taxpayers and 20% for higher and additional rate taxpayers.

- Other tax thresholds: National insurance contributions and inheritance tax thresholds will be frozen for a further two years until April 2028. VAT registration and deregistration thresholds, currently set at £85,000, will be unchanged for a further 2 years until April 2026.

- Stamp duty land (SDLT) taxes: The Chancellor has announced a time limit on the SDLT reductions announced by his predecessor. In the Mini Budget, the Government:

    - increased the nil rate threshold of SDLT from £125,000 to £250,000 for residential property
    - increased the nil-rate SDLT threshold for first-time buyers from £300,000 to £425,000.
    - Increased the maximum purchase price for First Time Buyers' Relief from £500,000 to £625,000.

  These reductions will end on 31 March 2025.

- CGT Avoidance: Having noted existing tax avoidance by certain UK resident but non-UK domiciled individuals, the Government plans to introduce a measure whereby shares and securities in a non-UK company acquired in exchange for securities in a UK close company after

17 November 2022 will be treated as a UK-situs asset. This is expected to apply to individuals holding a material interest in both the UK and non-UK companies. The effect of this measure is to prevent non-UK domiciled individuals to claim the remittance basis of taxation on an ultimate disposal of shares in non-UK companies. Draft legislation covering this measure was published on 17 November 2022.

If you have any questions or would like to discuss any issues raised in this publication, please contact Katerina Heal or Michael Hansby.