

David Allen

Tax



Spring Budget 2022

david-allen.co.uk



Overview

Spring Budget 2022

#SpringBudget

Today Rishi Sunak delivered his Spring Budget amidst a time of global uncertainty.

His speech opened by confirming our commitment to assisting Ukraine with their fight against Putin's invasion, but this came with a warning to the British public that the global instability presents a risk to our recovery. The Office for Budget Responsibility (OBR) has lowered its growth forecasts over the next 5 years as a result.

That said, Rishi went on to offer reassurances that unemployment forecasts were unaffected and inflation was expected to be back under control by 2024. The remainder of the speech aimed to reassure working families during the cost of living crisis by setting out a three stage 'Tax Plan' as follows:

- Stage one provides tax cuts on income and energy to help provide for the cost of living increases. The cut to fuel duty from 6pm this evening by 5p per litre will be welcomed by motorists. Small businesses will benefit from an increase in the Employment Allowance to £5,000 from this April and, from July this year, the National Insurance thresholds for class 1 and class 4 NIC will rise to equal the Income Tax personal allowance of £12,570. Indeed, this does mean that workers can earn up to £12,570 completely tax free, however, the planned 1.25% increase to NIC and dividend rates from this coming April remain firmly in force.
- Stage two aims to boost growth and productivity with tax reforms to incentivise investment in capital, people and ideas. There will be consultation with businesses throughout the rest of this year with plans for further announcements in the Autumn Budget.
- The final stage aims to help people keep more of what they earn, by quite simply cutting taxes. The cut to the rate of Income Tax was announced as a revolutionary measure having not happened for 16 years, however the decrease of 1% will not be introduced until April 2024, so there will be little saving noticed just yet.

There are reforms announced which widen the scope of the Research and Development Tax Relief from April 2023 and there was considerable discussion about energy efficiency savings with a 0% VAT rate applying to a wider category of energy efficiency equipment, now that European Union restrictions are no longer in place.

As always the books have to balance and tax cuts and allowances have to come from somewhere. On closer examination of the analysis released today it is clear the biggest income gain to the treasury will come from the recently announced Student Loan reform, which not surprisingly didn't feature in today's speech. The repayment threshold is being lowered to £25,000 and the length of time over which loans will be repaid is lengthened by 10 years, with these new measures affecting those attending University from September 2023 onwards.

Our experts have been busy dissecting all the information from the Chancellor's statement and have created useful, jargon free summaries to outline how today's announcements affect you and your business. We will also be covering a few of the headline changes in more detail over the coming days, so keep watching.

Income Tax

The Chancellor is standing by his promise to cut the Income Tax rates and announced that from April 2024 the basic rate of Income Tax will reduce by 1% from 20% to 19%.

This rate change will affect taxpayers in England, Wales and Northern Ireland only, with the Scottish Government having the powers to set their own Income Tax rates.

This change is expected to benefit over 30 million taxpayers who will benefit on average by £175.

Please do not hesitate to contact one of our Tax Specialists if you have any Income Tax queries.

Business and Corporation Tax

There were no new announcements in the Spring Budget, but the following support was confirmed as continuing by the Chancellor to assist businesses struggling to get back on their feet after Covid and to promote business investment:

Business Rates Relief

- Business rates relief of 50% for eligible businesses in the retail, hospitality and leisure sector for 2022 to 2023. Eligible properties will receive 50% relief, with a cap of £110,000 per business.
- Freezing of the business rates multiplier for a second year from 1 April 2022 to 31 March 2023.
- Introduction of a 100% Improvement Relief, giving a 12 month rate holiday for businesses that undertake qualifying property improvements which increase the rateable value of the property. This will take effect in 2023. Implementation is under consultation.

Corporation Tax

- Temporary extension to the £1,000,000 Annual Investment Allowance to 31 March 2023. This was set to reduce to £200,000 from 1 January 2022.
- From 1 April 2021 to 31 March 2023 companies investing in qualifying new plant and machinery continue to be able to claim 130% capital allowances as a 'Super Deduction'.
- Losses of up to £2,000,000 can continue to be carried back for three years to obtain a tax repayment. This is a temporary measure and is effective for accounting periods ending between 1 April 2020 to 31 March 2022.
- To incentivise increased business investment, Research and Development (R&D) tax reliefs will be reformed from April 2023. All cloud computing costs associated with R&D, including storage, will qualify for relief, and the definition of R&D for tax reliefs will be expanded to clarify that pure mathematics is a qualifying cost.
- Support will be refocussed on R&D carried out in the UK, however in recognition that there are some cases where it is necessary for the R&D to take place overseas, legislation will be brought in so that expenditure on overseas R&D activities can still qualify where there are material factors such as geography, environment, population or other conditions that are not present in the UK and are required for the research.

Sole trade/partnership businesses

- Temporary extension to the £1,000,000 Annual Investment Allowance to 31 March 2023. This was set to reduce to £200,000 from 1 January 2022.
- The continuation of the temporary carry back for any loss which arises in the tax years ending 5 April 2021 and 5 April 2022. This can be carried back for three years instead of just one.

If you have any queries regarding your business, and how the changes announced in the Budget may affect you, please contact one of our Tax Specialists.

VAT and Duties

VAT

As previously announced, the VAT registration and deregistration thresholds will not change for 2 years from 1 April 2022, giving businesses certainty.

The taxable turnover threshold, which determines whether a person must be registered for VAT, will remain at £85,000.

The taxable turnover threshold for deregistration will remain at £83,000.

Unfortunately, there was no extension to the temporary reduced rate of 12.5% VAT for goods and services supplied by the tourism and hospitality sector. This will end on 31 March 2022 with the VAT rate returning to 20%.

The Government will reverse a Court of Justice of the European Union ruling that restricted the application of VAT relief on the installation of energy saving materials (ESMs). This will mean wind and water turbines will be added to the list of ESMs and the complex eligibility conditions will be removed. The Government will also increase the relief further by introducing a time-limited VAT zero rate for the installation of ESMs which includes solar panels, heat pumps and insulation. These changes will take effect from April 2022.

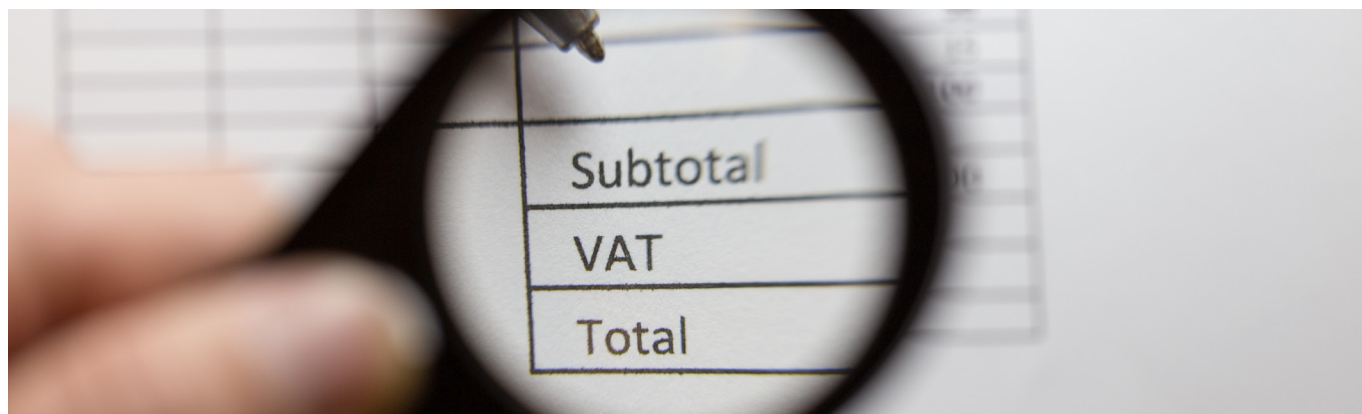
Alcohol Duties

To support the hospitality industry, alcohol duty rates on beer, cider, wine and spirits are frozen.

Vehicle and Fuel Duties

The Government announced that in response to fuel prices reaching their highest ever levels, there will be a temporary 12-month cut to duty from 6pm on 23 March on petrol and diesel of 5p per litre. This measure represents a tax cut of around £2.4 billion over the next year and will save the average UK car driver around £100, van driver around £200 and haulier around £1,500, based on average fuel consumption.

For more details on what was announced in the 2022 Spring Budget in relation to VAT and other duties, do not hesitate to give one of our specialist advisers a call.



National Insurance (NIC)

For once, National Insurance was at the forefront of the announcements in the Chancellor's Statement.

- From April 2022, the Employment Allowance, which reduces an employers NIC bill, will increase from £4,000 per year up to £5,000.
- From 6 July 2022, the point at which an employee will start to pay Class 1 NIC aligns with the Income Tax threshold of £12,570. This means that from 6 April to 5 July 2022 an employee can earn £190 per week without paying Class 1 NIC. Between 6 July 2022 and 5 April 2023, this weekly threshold increases to £242.

From April 2023 onwards, employees will be able to earn £242 a week, equivalent to £12,570 a year without paying any Class 1 NIC.

This announcement is expected to benefit 30 million employees, 70% of whom should still find themselves better off even after the new Health and Social Care Levy is introduced (see below).

- Self employed people pay Class 4 NIC's on an annual basis. The Chancellor also announced that they would see a similar increase in their limits for the upcoming 2022/23 tax year, which means that they will not pay any Class 4 NIC on the first £11,908 of their business profits.

From April 2023 onwards, they will not pay any Class 4 NIC on the first £12,570 of their business profits.

- Self employed people also pay Class 2 NIC's if their business profits are over a certain limit. For the upcoming 2022/23 tax year this limit has been increased to £11,908 with a further increase up to £12,570 set to kick in from April 2023 onwards.

The following announcements were made in the 2021 Autumn Budget, but kick in from April 2022 onwards:

- The Government has legislated for a new 1.25% Health and Social Care Levy to help fund the NHS and Social Care.

This levy will initially apply to those who pay Class 1 (Employees and Employers) and Class 4 (Self Employed) NIC's.

The levy will be added to the main and additional rates of Class 1 and Class 4 National Insurance from 1 April 2022.

From April 2023, once the systems are updated, the levy will be separate from National Insurance Contributions and will also be applied to working individuals above State Pension age.

National Minimum Wage

From 1 April 2022 the National Minimum Wage rates are:

- | | |
|--|-------|
| • employees aged 23 and over: | £9.50 |
| • employees aged between 21-22: | £9.18 |
| • employees aged between 18-20: | £6.83 |
| • employees aged between 16-17: | £4.81 |
| • apprentices up to age 19 or in their first year of apprenticeship:
(unless rates specified in apprentice training contract) | £4.81 |

If you have any questions on payroll matters our specialists are on hand to help, please give them a call today.

Savings, Investments and Mortgages

Savings, Investments and Mortgages

The Chancellor decided to avoid making any significant changes to the savings and retirement planning landscape. There were also no changes affecting house buyers.

Pensions

The amount that can be saved tax efficiently into a pension, throughout a working lifetime, remains capped at £1,073,000. No changes were announced to the pensions annual allowance of £40,000, the tax free cash limits or the levels of tax relief applicable on personal contributions, although the announcement of a basic rate Income Tax cut from 20% to 19% starting in 2024 may impact on the relief available on pension contributions.

In 2025/26 the Government will however introduce a system to make top-up payments in respect of contributions made in 2024/25 onwards directly to low-earning individuals saving in a pension scheme using a Net Pay Arrangement. These top-ups will help to better align outcomes with equivalent savers saving into pension schemes using Relief at Source. An estimated 1.2 million individuals could benefit by an average of £53 a year.

State Pensions

The Government is continuing to temporarily suspend the earnings element of the 'Triple Lock' used to uprate the State Pension, but has announced that this will be introduced again next April. Therefore the level of basic and new State Pension from 11 April 2023 will rise from £137.60 per week to £141.85 per week and £179.60 per week to £185.15 per week respectively.

Investments and Individual Savings Accounts

The annual ISA allowance remains at £20,000 per person, the same as it has been since April 2017.

The annual subscription limit for Junior ISAs and Child Trust Funds will remain at £9,000.

National Savings and Investments

Green Savings Bonds were made available to customers via NS&I on 22 October last year following the Autumn Budget. These are a 3-year fixed-term savings product and given the recent rise in interest rates, this means the original launch rate of 0.65% has now increased to 1.30% and customers can invest between £100 and £100,000. As with all NS&I products, the Green Savings Bonds come with a HM Treasury-backed 100% guarantee.

The bonds are a world-first innovative product closely linked to the UK Government Green Financing Framework and will provide UK savers with the opportunity to contribute towards the Government's environmental agenda and take part in the collective effort to tackle climate change.

David Allen Financial Services, as an independent financial adviser, can help you make the most of your savings and investments as well as ensuring your retirement planning makes the most of the tax advantages available. We can also help you plan for a home purchase or remortgage via our Mortgage and Protection Advice Team.

For an initial discussion to see how we can help, please contact one of our team.

Capital Gains Tax

Following a simplification review, Capital Gains Tax (CGT) is an area that we have been expecting to hear some major announcements in, but the Chancellor decided to leave things as they are with no changes being announced in the Spring Budget.

- The CGT annual exempt amount therefore remains frozen at £12,300 through to April 2026.
- The CGT rates remain at 10%/20% for non-residential property disposals and 18%/28% for residential property sales.

Planning should be undertaken before disposing of any assets to ensure that the annual exemption and any other available reliefs are taken advantage of.

Please contact a member of our Tax team if you have any queries or are thinking of making a disposal.

Inheritance Tax

Recent months have seen much speculation around reforms to Inheritance Tax (IHT), in particular an increase in the current IHT rate of 40% and the withdrawal of some valuable reliefs.

However, the Chancellor did not make any changes to current legislation.

- IHT continues to be charged at the rate of 40%.
- The IHT nil-rate band remains frozen at £325,000 through to April 2026.
- The residence nil-rate band remains frozen at £175,000 through to April 2026.

Inheritance Tax is a complex subject, however with careful planning your exposure can be minimised. If you would like to review your IHT position, please do not hesitate to contact one of our Tax Specialists today.



David Allen

Our Summary 2022/23

Dalston

Dalmar House
Barras Lane Estate
Dalston, Carlisle
CA5 7NY

Tel: 01228 711888

Dumfries

51 Newall Terrace
Dumfries
DG1 1LN

Tel: 01387 270340

Penrith

3 Hobson Court
Penrith 40 Business Park
Penrith
CA11 9GQ

Tel: 01768 877000

Workington

Prosper House
Regents Court
Guard Street
Workington
CA14 4EW

Tel: 01900 878000

Carlisle

Atlantic House
Parkhouse
Carlisle
CA3 0LJ

Tel: 01228 585300



mail@david-allen.co.uk • david-allen.co.uk