Mini Budget 2022

26th September 2022

On 23 September 2022, Kwasi Kwarteng, the new Chancellor (the fifth in as many years) delivered a Tax Cutting "Fiscal Event" or Mini-Budget to help boost economic growth. This was in line with promises made by the new Prime Minister Liz Truss when she was campaigning to be elected as new leader of the Conservative Party. We take a look at the main details

TEAM TRUSS CUT TAXES TO TRY AND STIMULATE THE ECONOMY

Many commentators are concerned that the cost of the growth measures will add significantly to Government borrowing, which will have to be paid for by tax increases in the future.

The headline announcements were:

- The abolition of the 1.25% Health and Social Care Levy.
- A reversal of the planned increase in corporation tax.
- A reduction in the basic rate of income tax and the abolition of the additional rates of incomes tax.
- Stamp duty reduction

The Government's bold strategy seeks to stimulate economic recovery and save jobs. Many European countries have introduced windfall taxes on energy companies to help fund support for energy costs. Liz Truss has however categorically rejected such a measure in the UK.

WHY WAS THAT NOT A REAL BUDGET?

The normal budget process is for the Office of Budget Responsibility (OBR) to report on the state of the UK economy at the time of the Budget and also assess the impact of the Budget proposals. As there was insufficient time for a full OBR report, the Chancellor's statement was referred to as a "fiscal event".

We still anticipate a 'real' Budget later on this Autumn.

HEALTH AND SOCIAL CARE LEVY SCRAPPED

It was on 7 September 2021 that we first heard about a new 1.25% Health and Social Care Levy, imposed on employers, employees and the self-employed, coming in from 2023/24. Further, this was to be effectively accelerated into 2022/23 by a 1.25 percentage point rise in National Insurance contributions (NICs). As expected, and despite changes to thresholds earlier this year, the increased NIC rates have resulted in a reduction in take home pay for many individuals.

The Health and Social Care Levy has now been abolished and will not come in next April. Further, the Government is removing the associated 1.25 percentage point increase in NICs from 6 November 2022.

Employers will need to make sure that they update their payroll software in time for this third change in NIC rates and bandings in 2022/23!

DIVIDEND RATES REDUCED FROM 2023/24

Many director/shareholders of family companies pay themselves a small salary and take the rest of their "pay" in dividends. With dividends being free of NIC, this would have allowed them to avoid the extra 1.25% NIC charge when it was originally introduced.
Consequently, the Government added 1.25% to the dividend income tax rates for 2022/23.

Although the NIC increase is being abolished from 6 November 2022, the additional 1.25% will continue to be applied to dividends paid throughout 2022/23.

From 2023/24 the dividend income tax rate will however revert to 7.5% where dividends fall within an individual's basic rate band and 32.5% for higher rate taxpayers. Note that the first £2,000 of dividends continue to be taxed at 0%.

£1 MILLION ANNUAL INVESTMENT ALLOWANCE NOW PERMANENT

Businesses investing in plant and machinery will welcome the decision to make the £1 million Annual Investment Allowance (AIA) permanent. This has been extended several times and was scheduled to revert to just £200,000 from April 2023. Unlike the super-deduction, the AIA is available to unincorporated businesses as well as limited companies and the equipment does not have to be new.

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INCOME TAX RATES CUT FOR 2023/24

The previous Chancellor, Rishi Sunak, had dangled a possible cut in the basic rate of income tax from 20% to 19% from 2024/25. This will now be brought forward by one year to 2023/24 and will apply to non-dividend income.

The 45% and 39.35% 'additional rates' of income tax that apply to income over £150,000 will be abolished from 6 April 2023.

This will mean that, in 2023/24, there will be just two rates of tax on general income - 19% and 40%, with two dividend income tax rates of 7.5% and 32.5%.

Further, those who would have otherwise been additional rate taxpayers will, from 6 April 2023, benefit from a Personal Savings Allowance of £500, in line with higher rate taxpayers. This was not previously available to them. Savings income within the Allowance is taxed at 0%.

CORPORATION TAX RATE INCREASE SCRAPPED

In the March 2021 Budget, Rishi Sunak announced that the rate of corporation tax would increase to 25% from 1 April 2023 where a company's profits exceeded £250,000 a year, with the current 19% rate continuing to apply where profits were no more than £50,000 a year. There was also scheduled to be an effective 26.5% rate on profits between £50,000 and £250,000 a year.

The UK would still have had a very competitive rate compared to other major trading countries as many of those are also increasing corporate tax rates.

Nevertheless, the planned increase will not now go ahead in line with the promises made by Liz Truss in her campaign to be Conservative Party leader and Prime Minister.

All companies currently paying corporation tax at 19% will continue to do so.

IR35 U-TURN

The much criticised "off-payroll" working rules were introduced for the public sector from 6 April 2017 and then extended to large and medium-sized private-sector organisations from 6 April 2021.

The rules replaced the 'IR35' rules where workers supplied their services to these organisations via a personal service company (PSC) or other intermediary. The effect was to transfer the, not insignificant, tax compliance burden from the PSC to the service-acquiring organisation.

The off-payrolling rules will now be removed from 6 April 2023 and the IR35 compliance burden will revert to resting with the PSC itself. This means the PSC must calculate and pay PAYE and NICs if the worker (often the Director) would be classed as an employee if they were working directly for the service-acquiring organisation. This aligns with the requirements in cases where a PSC supplies services to a small private-sector organisation.

ENCOURAGING INVESTMENT IN UNLISTED COMPANIES

The new Chancellor has given his support to the tax-advantaged Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) and said he sees the value of extending them in the future.

The vision is for the UK to be an entrepreneurial, share-owning democracy.

In relation to the Seed Enterprise Investment Scheme (SEIS), the Treasury have confirmed that they are widening the criteria and will be allowing companies to raise £250,000 under the scheme, 66% more funding than previously.

The SEIS currently provides unconnected investors with an income tax deduction of 50% of the amount invested, up to £100,000 a year. There is also generous capital gains tax relief for the investor.

SDLT THRESHOLD INCREASED TO £250,000

Chancellors always like to pull rabbits out of the hat and make surprise announcements at the end of their Budget speech.

Although rumoured in the run up to this mini-budget, the SDLT announcement was still a surprise as house prices have been steadily rising. Increases in mortgage rates are likely to slow the market so the SDLT announcements are designed to stave off a housing slump. Moving house has a multiplier effect on the economy as people tend to spend money decorating and furnishing their new home, with estimates suggesting that doing so drives additional spending worth about 5% of the house value.

It is thus crucial to ensure medium-term confidence in the property market and maintain the growing momentum as the UK economy recovers. The Government has therefore cut SDLT for home buyers across England and Northern Ireland.

For residential property transactions completed on or after 23 September 2022;

The Nil Rate Band (NRB) has been increased from £125,000 to £250,000.

The NRB for first-time buyers has been increased from £300,000 to £425,000. This applies where first-time buyers purchase a property costing less than £625,000 (previously £500,000).

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