View on the Automn Statement 2022

Published on Alvarez & Marsal | Management Consulting | Professional Services
(https://www.alvarezandmarsal.com)

November 17, 2022

Chancellor of the Exchequer Jeremy Hunt addressed the UK parliament at 11:30 this morning to set out a £54 billion plan to cut spending and raise taxes – with the latter contributing around £24 billion of that total. Naturally, the fiscal measures will kick-in first whereas some of the spending cuts are timetabled for later in the Budgetary cycle, after the next general election.

The Autumn Statement comes against a backdrop of high inflation, spiralling energy costs and not least the considerable market turmoil caused by the previous government's ill conceived mini-Budget less than two months ago. The Office for Budget Responsibility confirmed the gloomy outlook with the economy forecast to shrink by 1.4% next year. The chancellor was keen to put the country's current economic woes at the door of external global factors such as Putin's war in Ukraine and the Covid-19 pandemic of 2020 and 2021. Whilst the reversal of many of the previous chancellor's unfunded tax cuts may have stabilised the government's cost of borrowing, this had the feel of crashing your car through someone else's living room wall and then turning up a few weeks later and offering to fix the damage.

We were promised pain and this was delivered to the middle classes or, to echo the rhetoric, those with the broadest shoulders. This came in the form of a number of measures that essentially amount to stealth taxes – primarily the freezing of allowances and thresholds in a time of high inflation rather than the raising of headline rates. The reduction in the level of earnings at which people start to pay 45% income tax from £150,000 to £125,000 will grab some of the headlines but in fact is only estimated to contribute approximately £800m per annum. Someone earning £150,000 a year will see their annual tax bill go up by approximately £1,200. To put these figures in perspective, the reversal in the measures previously set out in the mini-Budget is worth over £20 billion a year to the exchequer.

Under political pressure to raise windfall taxes, the chancellor announced an increase in windfall tax on the 'extraordinary' profits of oil & gas companies' UK operations from 25% to 35% with its period of operation also extended to 31 March 2028. There is now also going to be a new temporary 45% windfall tax on certain electricity producers. Total tax revenues from these windfall measures are forecast to be £55billion from this year until 2028.

In this special edition of the Tax Advisor Update, our team of experts was on hand to analyse the announcements and summarise the most important developments.

BUSINESS TAX MEASURES

Corporation Tax Rates

HM treasury reaffirmed that the current mainstream rate of corporation tax of 19% will rise to 25% with effect from 1 April 2023.

As a reminder, the current 19% tax rate will be maintained for businesses with profits of £50,000 or less (but close investment holding companies will pay at the full 25% rate), and businesses with profits between £50,000 and £250,000 will pay a marginal rate of tax between 19% and 25%. The last time corporation tax rates were comparable to this was in 2011/2012 although the thresholds were significantly higher then (£300,000 and £1.5m). There will of course be the usual reduction in thresholds for short accounting periods and associated companies.

The rate of diverted profits tax will also increase from 25% to 31% to ensure that the deterrent remains effective in discouraging multinationals from diverting profits out of the UK.

Pillar 2

The government confirmed its intention to implement the Pillar 2 framework agreed with the OECD to make it effective for UK businesses. Pillar 2 is a mechanism designed to ensure large multinational enterprises pay a minimum 15% level of tax on the income arising in each jurisdiction where they operate. This is not unexpected as there has already been draft legislation published and the government is trying to protect its own revenues as other countries also start to implement Pillar 2.

The changes will apply for accounting periods beginning on or after 31 December 2023 whereby there will be an Income Inclusion Rule 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%. There will also be a supplementary Qualified Domestic Minimum Top-up 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%. Both tests will incorporate the substance based income exclusion that formed part of the G20-OECD agreement. This will be legislated for in Spring Finance Bill 2023. The government intends to implement the backstop Undertaxed Profits Rule in the UK, but with effect no earlier than accounting periods beginning on or after 31 December 2024.

Transfer Pricing Documentation

From April 2023, large multinational businesses operating in the UK will be required to keep and retain transfer pricing documentation in a prescribed and standardised format which is set out in the OECD's Transfer Pricing Guidelines (Master File and Local File). This is designed to give businesses more certainty on the appropriate documentation they need to keep and enable HMRC to identify risks more effectively. This will be legislated for in Spring Finance Bill 2023. HMRC will continue to consult on a Summary Audit Trail which is a questionnaire that businesses would be required to complete as part of the Local File preparation.

Online Sales Tax (OST)

Following consultation, the government has decided not to introduce an OST, an idea previously advanced in the context of Business Rates reform. The government's decision reflects concerns raised about an OST's complexity and the risk of creating unintended distortion or unfair outcomes between different business models. A response to the OST consultation is to be issued shortly.

Capital Allowances

As the main rate of corporation tax will increase, previously proposed technical changes to the related capital allowance super-deduction rules are no longer required.

The Annual Investment Allowance (the level of capital expenditure which qualifies for a 100% first year deduction) is now permanently fixed at £1 million per annum.

Research & Development

The chancellor was keen to allay rumours that the overall budget for research and development would be cut, recommitting to the £20 billion previously promised.

On the tax side there was good news for large companies with the R&D expenditure credit available increased from 13% to 20% for expenditure incurred on or after 1 April 2023. Coupled with the increase in CT rate, this equates to an increase in net benefit from 10.53% to 15%.

On the other hand, SME relief has been cut significantly, with a reduction in the additional deduction from 130% of R&D expenditure to 86%. Combined with the increase in tax rates, this equates to a net rate of relief of 21.5%, down from 24.7%.

However, the most eye-catching reduction was in the benefit under the SME loss surrender: a reduction in credit rate from 14.5% to 10%. Combined with a reduction in the amount of expenditure that may be surrendered, this means that the cash credit available to loss-making SMEs has declined from 33.4% to 18.6%. As is widely appreciated in the tax community, this element of the relief has been particularly targeted for abuse with several criminal cases in the offing.

Looking forward, the documents accompanying the Autumn Statement suggest a move towards making an RDEC-style relief available to all claimants. Economic research has suggested that RDEC generates much higher additional R&D investment than the SME relief, which will be one factor driving this move.

Business Rates

As originally planned, from 1 April 2023, business rate bills in England will be updated to reflect changes in property values since the last revaluation in 2017. It wasn't all bad news as a package of targeted support worth £13.6 billion over the next 5 years was announced designed to support businesses as they transition to their new bills.

The specific reliefs available to qualifying retail, hospitality and leisure premises are to be both extended and increased from 50% of the total bill to 75% up to a cap of £110,000 per business.

ENERGY TAXATION

Electricity Generator Levy (EGL)

This new, temporary tax at a rate of 45% will apply from 1 January 2023 to companies generating electricity in the UK, whether that power is sold domestically or exported. The EGL will apply to Exceptional Generation Receipts (as defined by reference to a benchmark price of £75 per MWh and a de minimis threshold). The tax will not apply to gas generators (owing to their increased cost of raw material) or pumped storage hydroelectricity and battery storage but, most notably, also not to coal and oil producers.

Oil and Gas Profits Taxation

From 1 January 2023, the rate of the Energy Profits Levy will be increased by 10% to 35%. This will bring the headline rate for this sector to 75% which, interestingly, is comparable to major North Sea tax regimes such as Norway.

However, to help maintain investment in the UK, the existing cash value of the investment allowance will be maintained albeit by (complexly) reducing the rate of the allowance from 80% to 29% for all investment expenditure other than on decarbonisation. The impact of this on investment will, of course, remain to be seen.

PERSONAL TAXATION

Whilst there were no changes to headline rates the chancellor announced a number of "stealth" measures and reductions in reliefs leading to a package of measures worth about £2 billion per annum to the Exchequer:

With effect from April 2023, the threshold for the 45% tax rate drops from £150,000 to £125,140, leaving those earning £150,000 and above with around £1,200 extra tax per year. This change will increase the benefits of employee share incentive schemes which provide access to capital gains tax ("CGT") treatment including the HMRC tax-advantaged share plans, particularly as CGT rates are unchanged and the main rate for individuals remains at 20% (except for carried interest and non-residential property gains). The government has already announced a relaxation of the rules and benefits of the Company Share Option Plan (CSOP), which will allow more companies to grant tax-efficient shares options to employees over shares with a market value of up to £60,000. These plans will be worth closely looking at for additional rate and other taxpayers as income tax thresholds are held.

The higher rate 40% tax band, personal income tax allowance and main national insurance thresholds are frozen until 2028, meaning, depending on inflationary pay rises, more people will fall within the charge to tax or will suffer higher tax and NIC costs.

The capital gains tax annual exemption which is currently £12,300 will fall to £6,000 from April 2023 and £3,000 from April 2024. This will result in more people needing to notify HMRC of taxable gains or file tax returns, which will mean some additional administrative burden for HMRC, with a relatively modest increase in tax take. It will affect employee shareholders who rely on the CGT annual exemption to exempt gains from sales of shares acquired following the exercise of tax-advantaged share options including save-as-you-earn (SAYE) options. This may encourage employee shareholders to hold shares for longer periods aligning employees with owners.

The dividend allowance will be reduced from £2,000 to £1,000 from April 2023 and to £500 from April 2024.

The inheritance tax nil rate band will be frozen until 2028, meaning that property price increases could push a greater proportion of inheritances into the charge to tax.

EMPLOYMENT MATTERS

Employers' National Insurance Contributions

The government will fix the level at which employers start to pay Class 1 Secondary NICs for their employees (the Secondary Threshold) at £9,100 from April 2023 until April 2028. This measure is to be legislated for in affirmative secondary legislation in early 2023. Whilst seemingly innocuous this is actually a significant revenue raiser estimated to be worth £5.5 billion a year to the exchequer.

National Living Wage

With effect from April 2023, the National Living Wage will be increased by 9.7% from £9.50 to £10.42 an hour for those aged 23 and over, giving a full-time worker a pay rise of over £1,600 a year. This change is expected to benefit 2 million of the lowest paid workers. The change is broadly in line with inflation (10.1% in September 2022).

VAT AND OTHER INDIRECT TAXES

VAT registration threshold

The chancellor confirmed that the VAT threshold is to be maintained at the current level of £85,000 until April 2025. This is more than twice as high as EU averages but clearly as inflation starts to be reflected in business takings, more small businesses will find themselves needing to register.

Stamp Duty Land Tax (SDLT)

At the previous mini-Budget the government increased the nil rate threshold of SDLT from £125,000 to £250,000 for all purchasers of residential property in England and Northern Ireland and increased the nil-rate threshold paid by first-time buyers from £300,000 to £425,000. The maximum purchase price for which First Time Buyers' Relief can be claimed was increased from £500,000 to £625,000. These will now be temporary measures ending on 31 March 2025.

Annual Tax on Enveloped Dwellings (ATED)

The annual chargeable amounts for ATED will go up by 10.1% for 2023/2024. This is determined by September's Consumer Price Index rise.

Source URL: https://www.alvarezandmarsal.com/insights/view-autumn-statement-2022

Authors:
Marvin Rust
Claire Lambert
Paul Baldwin

ALVAREZ & MARSAL