CavanaghKelly

2022
Spring Statement

An Update on the Statement from the Chancellor

INTRODUCTION

The Chancellor used the Spring Statement to announce the government's Tax Plan and the implementation of the first stage of that plan.

The first part of the plan is focused on supporting families faced with rising living costs by reducing taxes. The increase in national insurance thresholds will save a typical employee £330 a year while the reduction in fuel duty by 5p per litre will typically save a car driver £100 a year. Small businesses will benefit from an increase in the Employment Allowance to £5,000, giving a tax cut worth £1,000.

It is unlikely that a reduction in taxes of £430 a year will cushion families who are currently struggling with the rising prices of petrol, diesel, heating oil, gas and electricity and the resulting increased cost of food and clothing. The cut in VAT on solar panels, heat pumps and insulation from 5% to 0% applies to Great Britain only, although Northern Ireland will receive a Barnett share of the value of this reduction. Hopefully Stormont will be able to agree a way to use this money in a meaningful way.

The second part of the Tax Plan is to support businesses by rewarding investment and innovation with tax reliefs to increase growth and productivity. This is to counteract the UK's lower productivity and capital investment compared to other countries. This support will be developed over the rest of the year with input from industry and put in place in April 2023.

The third part of the Tax Plan is to reduce the basic rate of income tax from 20% to 19% on 6 April 2024, less than 30 days before the next General Election.

The Spring Statement is lacking in ambition and is unlikely to help families cope with the rising costs of living or businesses trying to keep their prices affordable while being squeezed by higher energy and materials costs.

The Tax Plan is also underwhelming and smacks more of electioneering than responsible fiscal policies designed to ensure that the UK economy recovers from the impact of Covid and Brexit which have resulted in its economy shrinking more than most of its competitors in Europe.

KEY CONTACTS

Des Kelly
Managing Partner

Catherine Martin
Partner

Michael Drumm
Partner

Ryan Falls
Partner

John McCamley
Partner

Janette Burns
Tax Director

Leona Leonard
Head of Tax Planning

Shane Martin
Head of R&D and Capital Allowances

Kathy Blair
Senior Manager Private Client

PERSONAL TAXES

Personal Tax Rates and Allowances

The Personal Tax rates and allowances will remain unchanged for the 2022/23 tax year. The personal allowance, as previously announced, will remain at £12,570. The higher rate tax threshold remains at £50,270 and the additional rate threshold remains at £150,000.

With inflation at 6.2%, the freezing of these thresholds and allowances is effectively tax increases by stealth.

National Insurance Thresholds

A welcome announcement from the Chancellor was that from 6 July 2022 the level at which employees start to pay National Insurance Contributions (NIC) will increase from £9,880 to £12,570 to align with the personal allowance. For company directors, the annual equivalent is £11,908.

In addition, from 6 April 2022, the level at which self-employed individuals pay Class 2 and Class 4 NIC is also increasing to an annual threshold of £11,908. Credit for Class 2 NIC will still be given to self-employed individuals earning taxable profits below this limit.

This is a tax cut worth over £330 on average in the tax year, for employees. The equivalent saving for a self-employed individual would be worth over £250.

Health and Social Care Levy

As previously announced in September 2021, the new 1.25% Health and Social Care levy will apply from 6 April 2022. The levy will be introduced as an increased National Insurance charge, increasing Class 1 NIC (employee and employer) and Class 4 NIC. The proceeds from this levy being earmarked for funding health and social care.

From July 2022, around 70% of workers subject to NICs will pay less NICs than they otherwise would have, even with the introduction of the Health and Social Care Levy. It is expected that individuals receiving Universal Credit will see a reduction of the benefit of the increase in the National Insurance threshold, due to tapering.

Individuals with earned income in excess of approximately £35,000 will find that the new Health and Social Care Levy outweighs the saving of the increase in the NIC threshold, resulting in increased tax costs.

Dividend Tax Rates

In line with the new Health and Social Care Levy, the decision to also increase dividend income tax rates from 6 April 2022, announced in the Autumn Budget, remains unchanged.

The dividend income tax rates for 2022/23 will be 8.75%, 33.75% and 39.35%. In addition to helping fund health and social care, the increase in dividend income tax rates is designed to reduce the incentive to set up a company which allows profits to be extracted by dividends as well as wages.

National Living Wage (NLW) and National Minimum Wage (NMW)

From 1 April 2022 the following increases will take affect:

- For individuals over 23 NLW will increase from £8.91 to £9.50 per hour
- For 21-22 year olds, NMW will increase from £8.36 to £9.18 per hour
- For 18-20 year olds, NMW will increase from £6.56 to £6.83 per hour
- For 16-17 year olds, NMW will increase from £4.62 to £4.81 per hour
- The apprentice rate NMW will increase from £4.30 to £4.81 per hour

Cut in Tax Rate by 2024

The Chancellor announced a cut to the basic rate of income tax from 20% to 19% from April 2024, as part of the government's plan to help people keep more of what they earn. This will be the first cut to the basic rate of income tax in 16 years.

As a result of this reduction to the basic rate of income tax, taxpayers will gain £175 on average from April 2024.

The cut will apply to the basic rate applicable to all savings income and non-savings income (excluding dividend income) for taxpayers in England, Wales, and Northern Ireland.

The Treasury has confirmed there is no change to the 40% and 45% income tax rates for higher earners.

In addition to this tax cut, the government have also reaffirmed their commitment to making the tax system simpler, fairer, and more efficient. The government will look to go further with their reform of some of the approximately 1,000 tax reliefs and allowances in the tax system, ahead of 2024.

The government have stated that this £5 billion income tax cut for over 30 million people and the changes to the National Insurance threshold, represent the largest net cut in personal taxes in over 25 years.

Basis Period Reform Goes Ahead

The proposed change that will result in all sole traders and partnerships having the same accounting year end which will correspond to the tax year, continues to be scheduled for 2023/24.

For businesses that do not have a 31 March/5 April accounting year end, there could be additional costs as a result of the reform.

Sole traders and partnerships should look at their basis periods and consider changes to their accounting reference date now, with a view to releasing overlap profits. Early planning can help reduce unexpected practical and financial implications.

BUSINESS TAXES & TAX INCENTIVES

Employment Allowance Increase

It was announced that the employment allowance which reduces the employers NIC liability of qualifying companies will increase from £4k to £5k in the 2022/23 tax year.

This is most beneficial to companies with lower paid employees such as the retail, hospitality and care businesses, as the first £8,840 of wages for each employee are not subject to employers NIC. However, the increased national insurance thresholds do not apply to employers so the increase in employers' National Insurance from 13.8% to 15.05% will be payable on any employees' wages above £8,840 in the 2022/23 tax year.

Research & Development Tax Credits

In a follow up to the announcements made in the Autumn Budget, the Chancellor has again pledged to continue the improvement in R&D (Research & Development) reliefs. Currently, as a percentage of GDP, UK's businesses investment in R&D is less than half of the OECD (Organisation for Economic Co-operation and Development) average. There is a planned reform of the R&D system to deliver not only more generous reliefs, but also better value for money for the UK taxpayer.

From April 2023, businesses will be able to claim relief on the storage of their vital data and pure maths research allowing UK businesses to capture the benefits of cutting-edge research methods more effectively. This is set to boost the sectors where the UK is a world leader, including AI (Artificial Intelligence), robotics, manufacturing, and design.

The government remains committed to refocus support towards innovation in the UK, ensuring that the UK more effectively captures the benefits of R&D funded by the reliefs. The government recognises that there are some cases where it is necessary for the R&D to take place overseas. The government will, therefore, legislate 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 – for example, deep ocean research.

- regulatory or other legal requirements that activities must take place outside of the UK – for example, clinical trials.

To ensure the effective targeting of the UK's R&D relief the government will consider increasing the generosity of Research and Development Expenditure Credit (RDEC) to boost R&D investment in the UK. This would rebalance the schemes and make RDEC more internationally competitive. In addition to making the RDEC scheme more attractive, the government will consider what more can be done to tackle the abuse of R&D tax reliefs, particularly in the SME scheme.

Today's announcements about the government's continued support for R&D relief in the UK is a positive one. We have received some further clarification on the extension of the additional qualifying cost categories which is very welcome. Additionally, the government have indicated that there will be certain scenarios where overseas R&D could still qualify for R&D relief.

Annual Investment Allowance

In the Autumn Statement the Chancellor announced an extension of the temporary annual investment allowance (AIA) of £1,000,000 to 31 March 2023.

As part of the second step of his Tax Plan, the Chancellor has stated that changes to the AIA could be considered to continue to help small businesses.

The government are considering several changes that will help to achieve the best balance between simplicity, generosity, and impact on investment.

Potential changes are:
1. Increasing the permanent level of AIA from £200,000 to £500,000.
2. Increasing writing down allowances on main rate assets from 18% to 20% and on special rate assets from 6% to 8%.
3. Introducing a first-year allowance on main rate and special rate assets of 40% and 13% respectively.
4. Introduce an Additional First Year Allowance, to bring the overall amount that can be claimed to greater than 100% of the initial cost.
5. Introduce full expensing, to allow businesses to write off the costs of qualifying investment in one go (given the potential cost of circa £11bn in a single year this is less likely to happen).

These changes relate to capital expenditure on general plant and machinery. However, the government could also consider changes to other allowances, such as the Structures and Buildings Allowance, or new reliefs targeted at specific investments (such as the current Enhanced Capital Allowances within designated Freeport areas).

The possible changes mentioned will have to go a long way to counteract the increase in the corporation tax rate to 25% and the removal of the super-deduction in April 2023.

VAT AND DUTY

Fuel Duty rates reduced by 5p

The rate of fuel duty applying to petrol, diesel and other road fuels is to reduce temporarily for 12 months by 5p per litre, effective from 6pm on Budget Day.

The government's own figures put the average savings for the next 12 months as £100 for a car driver, £200 for a van driver and £1,500 for a haulier. This will only partially offset the cost of fuel which is currently averaging 170p to 195p per litre for diesel with petrol about 1p per litre cheaper. A reduction in the VAT rate on fuel or exclusion of VAT on the fuel duty would have had a more significant impact. It is not only oil companies who benefit from higher oil prices but also the government as the cost paid by drivers at the pump includes 20% VAT.

0% VAT rate for energy saving materials

The VAT rate applicable to energy saving materials such as heat pumps and solar panels is being reduced from 5% to 0% effective from 1 April 2022. The 0% rate will last for the next 5 years before reverting to 5%. This change does not currently apply to Northern Ireland.

Rishi announced this change as something which the UK is now free to do following its exit from the EU (European Union), but unfortunately it does not apply to Northern Ireland due to the NI Protocol.

Other announcements

No other changes were announced in relation to alcohol duty, tobacco duty, the climate change levy, or carbon tax.

The absence of any change in the climate change levy was notable as it applies to gas, electricity and solid fuels, and a reduction would have been appreciated by many households to help offset the rising cost of home heating.

RATES & ALLOWANCES TABLE

Personal Taxation

	2022/2023	2021/2022
Personal Allowance (Note 1)	**£12,570**	£12,570
Personal Savings Allowance		
Basic rate taxpayers	**£1,000**	£1,000
Higher rate taxpayers	**£500**	£500
Additional rate taxpayers	**£0**	£0
Property Trading Allowance (Note 2)	**£1,000**	£1,000
Marriage Allowance (10% Relief) (Note 3)	**£1,260**	£1,260
Married Couples Allowance (10% Relief)		
Elder spouse born before 6 April 1935	**£9,415**	£9,125
Age allowance income limit (born before 6 April 1948)	**£31,400**	£30,400
Minimum allowance where income exceeds limit	**£3,640**	£3,530
Blind Person's Allowance	**£2,600**	£2,520
Rent a room relief	**£7,500**	£7,500

Note 1 – Personal allowance will be reduced by £1 for every £2 of income over £100,000 until it is completely removed.
Note 2 – Up to £1,000 allowances are available for each type of income. Restrictions apply.
Note 3 – Marriage allowance is only available where one spouse does not pay tax and can transfer this allowance to their spouse who pays tax at the basic rate

Income Tax

	2022/2023	2021/2022
Savings rate (Note 4)	**0%**	0%
On taxable income up to	**£5,000**	£5,000
Basic rate	**20%**	20%
On taxable income up to	**£0-£37,700**	£0-£37,700
Higher rate	**40%**	40%
On taxable income between	**£37,701-£150,000**	£37,701-£150,000
Additional Rate	**45%**	45%
On taxable income over	**£150,000**	£150,000

Note 4 - The 0% savings rate is only available where an individual's taxable non-savings income is below this limit: a 0% tax rate applies to savings income up to the limit

Dividends

	2022/2023	2021/2022
Dividend Allowance	**0%**	0%
On taxable income up to	**£2,000**	£2,000
Basic rate	**8.75%**	7.5%
On taxable income between	**£2,001 - £37,700**	£2,001 - £37,700
Higher rate	**33.75%**	32.5%
On taxable income between	**£37,701-£150,000**	£37,701-£150,000
Additional Rate	**39.35%**	38.1%
On taxable income over	**£150,000**	£150,000

National Insurance Contributions

Class 1: Employed Earners - Weekly Earnings	2022/2023	2022/2023
Employee rates from 6 April 22 - 5 July 22		
Earnings up to £190 (£184 2021/2022)	0%	0%
Earnings between £190 and £967	13.25%	12%
Earnings over £967	3.25%	2%
Employee rates from 6 July 22 – 5 April 23		
Earnings up to £242 (£184 2021/2022)	0%	0%
Earnings between £242 and £967	13.25%	12%
Earnings over £967	3.25%	2%
Employer		
Earnings up to £175 (£170 2021/2022)	0%	0%
Earnings between £175 and £967 (under-21s)	0%	0%
Earnings between £175 and £967 (apprentices under 25)	0%	0%
Earnings over £175 (all other employees)	15.05%	13.8%

From 6 April 2022, the employment allowance will increase to £5,000 per employer

National Insurance Contributions cont.

Class 2: Self Employed Persons	2022/2023	2021/2022
Weekly contribution rate	£3.15	£3.05
Lower profits limit*	£11,908	£6,515
Class 3: Voluntary Contributions		
Weekly contribution rate	£15.85	£15.40
Class 4: Self Employed Person - Annual Profits		
Profits up to £11,908* (£9,568 in 2021/2022)	0%	0%
Profits between £11,908 and £50,270 (£9,568 to £50,270 in 2021/2022)	10.25%	9%
Profits over £50,270	3.25%	2%

* The self-employed pay NICs on an annual basis, and at the end of the tax year. The annual figure for the self-employed is £11,908 because this accounts for 13 weeks of £9,880 and 39 weeks of £12,570.

CavanaghKelly

Corporation Tax

	FY22 to 31/03/2022	FY21 to 31/03/2021
Rate applicable to all companies	**19%**	19%
Annual Investment Allowance (AIA)	**£1,000,000***	£1,000,000

Inheritance Tax

	2022/2023	2021/2022
Nil Rate Band	£325,000	£325,000
Additional Residence Nil Rate Band (Restrictions apply)	£175,000	£175,000
Lifetime rate	20%	20%
Death Rate (Note 5)	40%	40%

Note 5 - A lower rate of 36% will be charged where at least 10% of the estate has been left to a charity.

Capital Gains Tax

	2022/2023	2021/2022
Annual Allowance	£12,300	£12,300
Standard Rate	10%	10%
Standard Rate (residential property)	18%	18%
Higher Rate	20%	20%
Higher Rate (residential property)	28%	28%
Business Asset Disposal Relief effective rate	10%	10%
Business Asset Disposal Relief lifetime limit of gains	£1,000,000	£1,000,000
Investors' Relief effective rate	10%	10%
Investors' Relief lifetime limit of gains	£10,000,000	£10,000,000

VAT

	2022/2023	2021/2022
Lower Rate	**5%**	5%
Standard Rate	**20%**	20%
Registration threshold	**£85,000**	£85,000
Deregistration threshold	**£83,000**	£83,000

Pensions

	2022/2023	2021/2022
Annual allowance (Note 6)	£40,000	£40,000
Lifetime allowance	£1,073,100	£1,073,100
Money Purchase Annual Allowance	£4,000	£4,000

Note 6 - Annual allowance restricted to minimum of £4k for individuals earning over £200k

Stamp Duty Land Tax (SDLT)

The rates below apply to acquisitions of chargeable interests in land in England and Northern Ireland including leases:

Purchase of Residential Property	First property rate	Additional property rate
0 – £125,000	0%	3%
£125,001 – £250,000	2%	5%
£250,001 – £925,000	5%	8%
£925,001- £1,500,000	10%	13%
Over £1,500,000	12%	15%
Purchase by first-time buyers		
0 – £300,000	0%	
£300,001 – £500,000	5%	
>£500,000	Normal rates	
Purchase of Non-residential Property		
0 – £150,000	0%	
£150,001 – £250,000	2%	
Over £250,000	5%	
Lease of Non-residential Property		
- on the Net Present value of lease payments		
0 – £150,000	0%	
£150,001 – £5,000,000	1%	
Over £5,000,000	2%	
- on lease premiums		
0 – £150,000	0%	
£150,001 – £250,000	2%	
Over £250,000	5%	

Rates apply to the portion of consideration within each band.
From 1 April 2021, an extra 2% surcharge is applied to purchasers of residential property in England and Northern Ireland who are non-resident in the UK.
This surcharge applies to purchases by UK Resident companies controlled by non-resident shareholders.

Stamp Duty

Transfer of Shares & Marketable Securities 0.5%

Income Tax Reliefs and Incentives

	2022/2023 limit	Income Tax Relief	2021/2022 limit	Income Tax Relief
Enterprise Investment Scheme (EIS)				
- standard	**£1,000,000**	30%	£1,000,000	30%
- additional for investments in knowledge-intensive companies only	**£1,000,000**	30%	£1,000,000	30%
Seed Enterprise Investment Scheme (SEIS)	**£100,000**	50%	£100,000	50%
Venture Capital Trust (VCT)	**£200,000**	30%	£200,000	30%
Individual Savings Account (ISA) *	**£20,000**		£20,000	
Junior ISA (per child)	**£9,000**		**£9,000**	
Lifetime ISA	**£4,000**		**£4,000**	

*The ISA allowance can be split between any combination of cash ISA, stocks and shares ISA, or finance ISA.

Taxable Car and Fuel Benefits

The taxable car benefit for 2022/2023 is calculated as a percentage of the car's list price based on carbon dioxide (CO_2) emissions as follows:

Cars registered before 6 April 2020	**Petrol and Diesel (if RDE2 compliant)**	**Diesel (if not RDE2 compliant)**
Cars emitting below 50g / km of CO_2:		
- Electric range of >130 miles	2%	N/A
- Electric range of 70-129 miles	5%	N/A
- Electric range of 40-69 miles	8%	N/A
- Electric range of 30-39 miles	12%	N/A
- Electric range of <30 miles	14%	N/A
Cars emitting >50 /km of CO_2	15%	19%
For each additional 5g / km of CO_2	1%	1%
Maximum benefit where CO_2 at least 170g / km	37%	37%

Cars registered on or after 6 April 2020	**Petrol and Diesel (if RDE2 compliant)**	**Diesel (if not RDE2 compliant)**
Cars emitting below 50g / km of CO_2:		
- Electric range of >130 miles	2%	N/A
- Electric range of 70-129 miles	5%	N/A
- Electric range of 40-69 miles	8%	N/A
- Electric range of 30-39 miles	12%	N/A
- Electric range of <30 miles	14%	N/A
Cars emitting >50 /km of CO_2	15%	19%
For each additional 5g / km of CO_2	1%	1%
Maximum benefit where CO_2 at least 170g / km	37%	37%

Fuel benefit for cars is calculated by applying the relevant car CO_2 emissions percentage to £25,300 (£24,600 in 2021/2022).

As of 6 April 2022, the private use of vans attracts a scale charge of £3,600 pa.

Taxable fuel benefit for private use of a company van is £688 for 2021/2022.

The appropriate percentage for purely electric cars for the purposes of company car tax is 1%.

Approved Mileage Rates for Employees Use of Own Vehicles for Business Travel

Cars/Vans	
-First 10,000 Business Miles Per Annum	45p
-Excess over 10,000 Miles	25p
-Each Passenger Making Same Trip	5p
Motor Cycles	24p
Bicycles	20p

Advisory Fuel Rates for Employees Use of Company Cars for Business Travel

Engine Size	Petrol	Diesel	LPG	Electric
1,400cc or less	13p		8p	5p
1,600cc or less		11p		5p
1,400cc - 2,000cc	15p		10p	5p
1,601cc to 2,000cc		13p		5p
Over 2,00cc	22p	16p	15p	5p

We have made every effort to ensure the information provided in this document is accurate, but we cannot accept responsibility for the consequences of any action you take in reliance on it contents. If you have any matters which you would like to discuss further, one of our staff will be pleased to help you.

Dungannon Office

36-38 Northland Row
Dungannon
BT71 6AP

T: +44 (0) 28 8775 2990

Omagh Office

43 Dublin Road
Omagh
BT78 1HE

T: +44 (0) 28 8224 4339

Enniskillen Office

1 Broadmeadow Place
Unit 2 Castle Island Court
Enniskillen
BT74 7HR

T: +44 (0) 28 6632 2617

Belfast Office

Scottish Provident Building
7 Donegall Square West
Belfast
BT1 6JH

T: +44 (0) 28 9091 8230