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Autumn Statement

17.11.22

Experience the difference

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Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

The information in this report is based on our understanding of Autumn Budget 2022, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any investment decisions based on its content.

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INTRODUCTION

“British families make sacrifices every day to live within their means, and so too must their Government, because the United Kingdom will always pay its way.”

Chancellor Jeremy Hunt

As Jeremy Hunt took to the dispatch box just 34 days after taking on the role of Chancellor of the Exchequer, all eyes were on him.

Following the dramatic sacking of Kwasi Kwarteng after his October mini-budget unleashed market turmoil, a swift change in Prime Minister, and an ever-burgeoning cost-of-living crisis, Hunt promised that the Autumn Statement (delayed from 31 October) would ensure his tax and spending plans would “stand the test of time”.

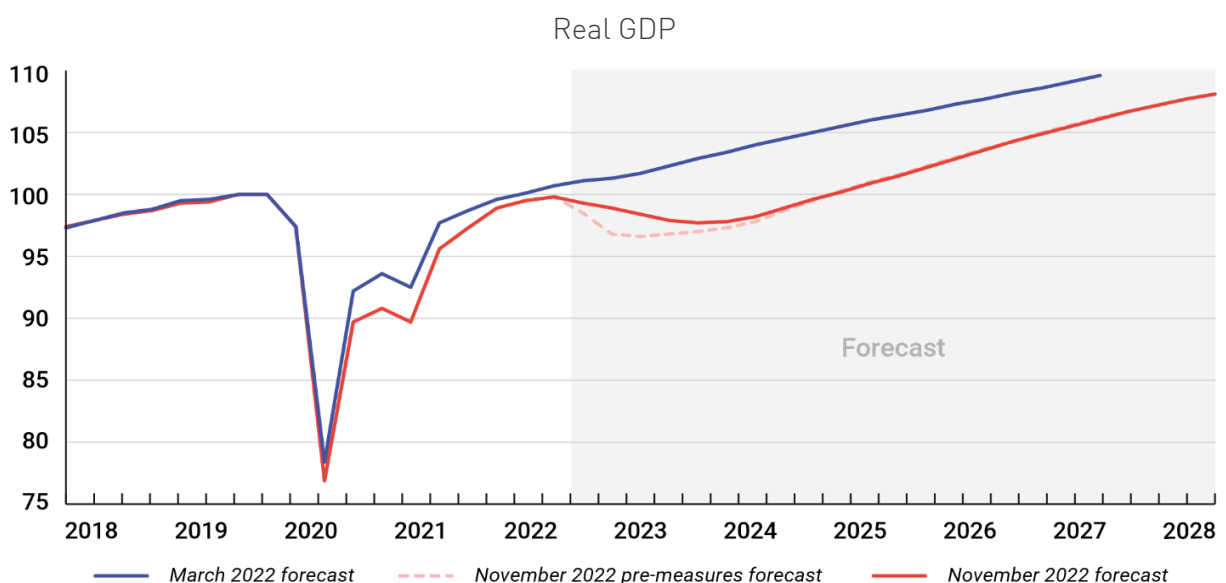
With food prices in the UK rising at their fastest rate for 45 years, and the Bank of England warning that the nation is facing its longest recession since records began, Hunt’s focus, he claimed, would be “economic stability and restoring confidence that the United Kingdom is a country that pays its way”.

New fiscal rules, announced by Hunt in the statement, dictate that public sector borrowing as a percentage of Gross Domestic Product (GDP) must fall and be below 3% within a five-year period. That left Hunt with a “black hole of around £55bn in public finances” to plug – either through spending cuts or tax rises.

Set on such a stage, the Chancellor’s inaugural Autumn Statement proved to be quite unlike any other seen since the days of the coalition.

Acknowledging that the UK is currently in recession while reiterating that the Government’s three-fold priorities (stability, growth and public services) will help rebuild the economy and reduce debt, Hunt went on to announce a barrage of tax hikes, spending cuts and threshold freezes.

We’ve outlined the highlights of the statement and what it means for you and your business, below.



Source: ONS, OBR

ECONOMIC LOOK

Hunt began his statement with a summary of expectations for the economy according to the Office for Budget Responsibility (OBR), which is required to publish an economic report at least twice a year.

The objective of the reports by the OBR is to summarise the UK economy, considering the changes made to national spending and the tax system in the accompanying Budget document.

The summary of the OBR report has long been anticipated, after the lack of such a report in Kwarteng's mini budget in September contributed to the market backlash that eventually led to his departure.

The economic forecast, released one day after the Office for National Statistics revealed inflation (excluding owner occupier housing costs) had hit 11.1% in the year to September – the highest level since October 1981 – proved to be sombre listening.

The UK is currently in a recession, according to the OBR, which will last “just over a year from the third quarter of 2022 to a peak-to-trough fall in GDP of 2%”. In 2023, GDP is expected to fall by 1.4%.

“Without the fiscal support to households and businesses provided by the energy price guarantee and other measures announced since March, we estimate that the recession would be 1.1 percentage points deeper”, the OBR wrote.

GDP will rise by 1.3%, 2.6%, and 2.7% in the following years, according to the OBR's forecast,

while the economy will recover to its pre-pandemic level in the fourth quarter of 2024 as inflation begins to fall.

Overall, this year, the economy is still forecast to grow by 4.2%.

The OBR said inflation had already peaked at a high of 11% in the current quarter and would be dropping “sharply” in 2023, dragging “below zero” in the middle of the decade, and returning to the target of 2% in 2027.

Rising prices will erode real wages and reduce living standards by 7% over the two financial years to 2023/24, wiping out the previous eight years' growth, according to the OBR.

Meanwhile, unemployment will rise by 505,000 from 3.5% to a peak of 4.9% in the third quarter, according to the report.

On public debt, Hunt confirmed two new fiscal rules, dictating that underlying debt must fall as a percentage of GDP by the fifth year of a rolling five year period, and be below 3% of GDP in the same year.

As such, Government plans will borrow a forecasted 7.1% of GDP in 2022, 5.5% in 2023, and 2.4% in 2027/28.

However, the OBR noted that “the Government's two legislated fiscal targets to balance the current budget and get underlying debt falling in 2025-26 are on course to be missed by £8.7 billion and £11.4 billion respectively”.

PERSONAL CHANGES

A few changes for individuals had already been confirmed ahead of the Autumn Statement, either as part of Kwarteng's mini-budget or its aftermath:

- ❑ Basic-rate income tax remains at 20% "indefinitely". While Rishi Sunak originally announced the rate would drop to 19% from April 2024 during his previous role as Chancellor, and Kwarteng brought this change forward to 2023, Hunt has since announced the measure will be dropped altogether. The Government says it will save around £6bn a year by doing so.
- ❑ National Insurance increase has been scrapped. The National Insurance rise of 1.25 percentage points, which took effect in April this year, was reversed as part of the mini-budget. This measure has been kept in effect, along with the cancellation of the April 2023 health and social care levy.
- ❑ Dividend tax rates will remain unchanged. These also increased by 1.25 percentage points alongside National Insurance this April, and Hunt has confirmed they will remain at their increased levels from April 2023.

Additional-rate income tax

One of the biggest announcements made by the Chancellor was the lowering of the additional-rate tax threshold from £150,000 a year to £125,140 as of 6 April 2023.

The additional-rate threshold will be applied to anyone earning more than £125,140 a year in England, Wales and Northern Ireland. The Government will legislate this change in the Autumn finance bill 2022.

It's predicted that the change to the additional-rate threshold will mean 250,000 more taxpayers will now find themselves paying 45%.

This announcement is in stark contrast to Hunt's predecessor's plans to scrap the additional tax rate altogether.

Income tax thresholds

The personal allowance threshold will remain frozen for a further two years, continuing until 2028, along with the higher-rate threshold and the National Insurance contributions (NICs) thresholds.

Some are referring to this as a 'stealth tax' – where wage increases over time will cause people to find themselves caught in higher tax bands, potentially negating pay rises.

Richard Murphy, political economist, said: "The net effect of freezing tax allowances is that most people will pay greater than £400 more in tax next year, and every year thereafter – putting the burden on those least able to afford it."

National Insurance

In July 2022, NICs thresholds were increased to be brought in line with the income tax personal allowance and fixed until April 2026. The Chancellor announced that this freeze will be maintained for an additional two years, until April 2028.

Capital gains tax

In the statement, the Chancellor announced a cut to the capital gains tax (CGT) allowance, also known as the annual exempt amount, over the next two years.

The original allowance of £12,300 will be cut to £6,000 for the tax year 2023/24 and will then be halved again to £3,000 in 2024/25. This means a couple's allowance will be reduced to £12,000 and £6,000 respectively.

The Government's aim is to raise an extra £40m by 2027 by reducing the allowance rates for CGT.

Inheritance tax

The inheritance tax nil-rate is currently set at £325,000 until April 2026 and will remain at this rate for a further two years until April 2028. The residence nil-rate band will continue at £175,000, and the residence nil-rate band taper will still start at £2 million.

Qualifying estates will still be able to pass on up to £500,000, with the qualifying estate of a surviving spouse or civil partner remaining at £1m without inheritance tax liability.

The threshold freeze is seen by some to increase inheritance tax bills without directly changing the rate. Due to the increase in house prices, more and more people will face higher inheritance tax bills when dealing with an estate.

Data published by HMRC in October showed a £400m increase in inheritance tax income when compared to the same time the previous year. These measures will be legislated by the Government in the Autumn finance bill.

Dividend allowance

The Chancellor announced that the dividend tax threshold will be slashed from £2,000 to £1,000 from April 2023 and then again to £500 the following year.

Along with the changes to CGT, the Chancellor says that these changes will raise over £1.2bn a year from 2025. Regardless of your tax band, anyone who receives dividends will be affected by the change.

Pension triple lock upheld

Ending weeks of speculation about whether or not the so-called 'triple lock' protection would be upheld, the Chancellor confirmed that pensions – like benefits – would rise in line with September's inflation rate of 10.1%.

The triple lock refers to a manifesto pledge that state pensions would rise in line with whichever is highest of the following: the average wage increase, the previous September's inflation figure, or 2.5%.

Acknowledging that the cost-of-living crisis is hurting all pensioners, Hunt announced that in April 2023, an £870 increase will represent the "biggest ever cash increase in the state pension". The standard minimum income guarantee in pension credit will also increase in line with inflation from April 2023 (rather than in line with average earnings growth).

From April 2023, state pension payments will be:

- ❑ £203.85 per week (up from £185.15) for those who reached state pension age after April 2016
- ❑ £156.20 per week (up from £141.85) for those who reached state pension age before April 2016.

A review of the state pension age is currently being carried out, which considers whether the existing timetable remains appropriate. This will be published in early 2023.

Vehicle excise duty

Electric vehicles will no longer be exempt from vehicle excise duty from April 2025. Vehicle excise duty is a tax on all vehicles using public roads in the UK and applies differently based on the vehicle's CO2 emissions.

Stamp duty cuts remain until 2025

One of a few measures to remain initially unchanged from the mini budget was the decision to raise the threshold at which stamp duty land tax is paid (in England and Northern Ireland) from £125,000 to £250,000. For first-time buyers, the threshold increased from £300,000 to £425,000. Now, because the OBR

expects housing activity to slow over the next two years, these cuts will only remain in place

until 31st March 2025 – after which, Hunt will “sunset the measure”.



BUSINESS CHANGES

Changes for businesses were also confirmed following Kwarteng’s September mini budget:

- ❑ Corporation tax rises to 25% from 1 April 2023. This increase will go ahead, despite previous plans to scrap it. The full 25% rate will apply to profits of £250,000 and over, while companies with profits up to £50,000 will continue to pay at 19%. Profits between these two figures will be subject to a tapered rate.
- ❑ IR35 reforms to stay. Planned changes to IR35 will no longer be repealed, reportedly saving some £2bn in tax. The reforms, which were rolled out in 2017 for the public sector and 2021 for the private sector, saw changes to the way tax status is determined for off-payroll workers, including contractors.
- ❑ Bankers’ bonus cap abolished. One of the mini-budget measures left untouched by Hunt was the decision to lift the cap on bankers’ bonuses, which currently stands at 100% of a banker’s annual salary, or 200% depending on shareholder approval. The Prudential Regulation Authority (PRA) is set to consult on plans later this year.
- ❑ Alcohol duty freeze cancelled. The £600 million alcohol duty freeze that the Truss administration had planned on introducing on 1 February 2023 has been cancelled.
- ❑ VAT-free shopping scheme cancelled. The shopping scheme, which was originally proposed

to remove VAT for tourists on UK products, has been scrapped.

Employment allowance

The employment allowance will remain at its current level of £5,000, having increased to that amount in April 2022. This offers eligible employers’ relief on their class 1 NICs.

Business rates

The Chancellor confirmed that a business rate revaluation will still take place in April 2023, but also announced a set of changes, including:

- ❑ Multipliers will be frozen in 2023/24 at 49.9p and 51.2p (instead of rising to 52.9p and 54.2p).
- ❑ Relief for retail, hospitality and leisure will increase from 50% to 75%, equating to £110,000 per business in 2023/24.
- ❑ A transitional relief scheme will be put in place, placing ‘upward caps’ on bill increases caused by changes in rateable values at the 2023 revaluation. The caps will apply at different rates depending on business size.
- ❑ A new supporting small business scheme (SSBS) will take effect from 1 April 2023, capping bill increases at £600 per year for small businesses that are losing eligibility or seeing reductions in small business rate relief or rural rate relief.

- Improvement relief, which was announced at Autumn Budget 2021, will now be introduced from April 2024 until 2028.

Windfall tax

In response to recent increases to energy prices, Hunt announced that the current energy profits levy will be extended until March 2028, as well as increasing its rate from 25% to 35% from 1 January 2023.

A new, temporary levy will also be introduced for electricity generators. This will apply at 45% on excess returns, also from 1 January 2023 to 31 March 2028.

Annual investment allowance

One thing not mentioned directly in the Chancellor's speech, but included in the accompanying documents, is the decision to permanently set the annual investment allowance (AIA) at £1m for businesses.

In September, Kwarteng announced that the AIA would remain at £1m rather than being decreased to £200,000 a year after 31 March 2023.

Now, Hunt has reinforced this change and will continue to keep the allowance at £1m from April next year.

R&D relief

Changes to the rates of the two research & development (R&D) relief schemes were announced.

The additional deduction for SME R&D relief will

decrease from 130% to 86%, and the SME credit rate will decrease from 14.5% to 10%.

Meanwhile, the research and development expenditure credit (RDEC) rate will increase from 13% to 20%.

Hunt positioned the change as a "rebalancing" of the two reliefs, in response to reports of fraudulent claims. Broadly speaking, it means larger companies have more opportunity to benefit from the relief than smaller companies.

National living wage increase

From 1 April 2023, the national living wage will increase by 9.7%, to £10.42 an hour. This rate applies to people aged 23 and over and is said to equal an extra £150 per month.

Online sales tax

Following consultation, the Government has decided not to introduce a proposed online sales tax. This tax would have aimed to rebalance the way online retail is taxed compared to in-store, but the Government said there were concerns it would be too complex and distort behaviour.

VAT threshold

The VAT registration and deregistration thresholds will remain at their current levels of £85,000 and £83,000 respectively until 1 April 2026.

These had previously been fixed at their current levels until 1 April 2024, but the statement confirmed they won't change for a further two years.



ENERGY BILLS SUPPORT

The current energy bill support scheme - the energy price guarantee — only runs until April 2023, with a price guarantee levied to help British taxpayers with their rising bills.

Originally announced by Kwarteng earlier in the year, Hunt made a change to this measure in his initial budget speech, reducing the time scale for support from two years down to only six months, lasting until April next year.

In the Autumn Statement, Hunt confirmed the change to the guarantee, continuing Government support, but increasing the threshold: with the average household now paying £3,000 a year, up £500 from the previous limit.

Experts predicted that, without Government support, energy bills could reach up to £3,700, but – regardless of this comparison – households that are already struggling with the current costs will see their bills increase by a further £500.

In response to these changes, Mike Foster, CEO of the Energy and Utilities Alliance, said: “News of the energy price cap protection coming to an end in April will surprise and worry millions of hard-pressed families. Together with the announcement that promised tax cuts have also been withdrawn will heap huge financial pressure onto those already struggling to pay their bills.”

Hunt also announced the following energy initiatives:

- ❑ Households on means-tested benefits will get £900 support payments next year
- ❑ £300 payments will be made to pensioner households, and £150 for individuals on disability benefit.

The one-off payment of £400 for winter energy bills has been in effect for the last month, so this saw no change.

The energy bill relief scheme, which is aimed at supporting businesses (which aren't covered by the energy price cap) also remained in place – as did the energy markets financing scheme.

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