George Hay
Chartered Accountants

Autumn Statement Summary 2022

17 November 2022

The much awaited Autumn Statement was delivered on Thursday 17 November, by Chancellor Jeremy Hunt.

The Government had given plenty of doom laden forecasts, preparing the public for the difficult decisions to be made. Broadly, the plan was to look at 50% revenue to be raised by taxation, and 50% to be recovered by reducing expenditure.

The Chancellor delivered on the politically sensitive matters, such as preserving the triple lock for pensioners, upgrading benefits by the rate of inflation, and increased spending for the NHS.

Most of the revenue is to be raised by “stealth taxes”, since virtually all allowances are to be frozen until April 2028.

GH Comment

Freezing thresholds until 2028 was probably needed to satisfy the Office for Budget Responsibility (OBR), to ensure fiscal stability in the medium term. We should not forget that by January 2025, there has to be a general election, so it may well all change.

Income Tax

Threshold

The main announcement was the freezing of the personal income tax allowance, at £12,570 until 5 April 2028. The allowance was £12,500 on 6 April 2019, which means that it has been sustained at a this largely unchanged level for a long time! Higher rate tax will continue to be paid on income above £50,270.

Additional Rate Tax

The limit that taxpayers pay additional rate tax at 45% has been reduced from £150,000 to £125,140 from 6 April 2023. Considering the £150,000 limit was set in 2010, this reduction is hugely significant.

GH Comment

It is a peculiarity of the British tax system that we have ridiculous bands e.g., "over £125,140". The reason for this is that taxpayers with income over £100,000 start to lose their personal allowance at a rate of £1 for every £2 of income above the limit. With the personal allowance at £12,570, this means that between £100,001 and £125,140 taxpayers are paying income tax at an effective tax rate of 60%.

Dividend Allowance

At present, an individual can receive dividend of £2,000 per annum tax free. From 6 April 2023, this is being reduced to £1,000 and from 6 April 2024, to £500. In excess of these amounts, the rates are:

Basic rate taxpayer	8.75%
Higher rate taxpayer	33.75%
Additional rate taxpayer	39.35%

When the dividend rate was introduced in April 2016, the tax free element was £5,000.

GH Comment

This exemption was introduced in 2016, when dividends ceased to have a tax credit, to save taxpayers with few dividends needing to complete a tax return. From 2024/25, any taxpayer with dividend income over £500 and with total income over £12,570 will need to complete a tax return.

Capital Gains Tax

Prior to the announcement, there was speculation that the rate of CGT would be increased. Instead, it remains at 20% for higher or additional rate taxpayers and 10% for basic rate taxpayers, unless the gain relates to residential property, in which case the rates are 28% and 18% respectively.

Instead of increasing these rates the Government have reduced the annual tax free element as follows:

2022/23 (Currently)	£12,300
2023/24	£6,000
2024/25	£3,000

GH Comment

It is important to remember this is a ‘use it or lose it’ exemption. If you do not use it in a tax year, it is not carried forward. Many stockbrokers for example will ensure that clients realise gains, each year, of just under the annual exemption. It will also reduce the opportunity for Inheritance Tax and other planning by a taxpayer gifting, say, some shares in an investment company to the children each year to use the annual exemption (a gift is a sale for CGT purposes). The process will now take four times as long!! Also, it will require more taxpayers to complete a tax return as from 2024/25, if proceeds are higher than £12,000, the transaction will need to be reported whether or not there is a gain.

Business Tax

Corporation Tax

The Government having already announced the reversal of the proposed cut made no further announcements. The rates from 1 April 2023 will be:

First £50,000	19%
Next £200,000	26.5%*
Above £250,000	25%

**Companies receiving dividends will pay higher than 26.5% if their profits fall between £50,000 and £250,000.*

Capital Allowances

The Annual Investment Allowance (AIA) has, for the past few years, allowed 100% tax relief on qualifying expenditure on the first £1 million p.a.

This was due to be reduced back to £200,000 from 1 April 2023, but Kwasi Kwarteng announced in his Mini-Budget that the £1 million limit was to stay.

When Jeremy Hunt made his previous statement, reversing most Mini-Budget tax measures, he didn't make any comment about this.

No comment was made today, but an analysis of the Government's funding tables indicates that the limit of £1 million is to stay.

GH Comment
This will be welcome news for businesses, as this is a valuable relief.

Research & Development (R&D) credits

To encourage R&D expenditure, the Government gives tax breaks to companies spending on R&D. For SME's, there is a 130% enhancement of expenditure to qualify for a Corporation Tax deduction. For example, if a company spends £10,000 on R&D, it can claim a deduction of £23,000. This is to be reduced to an enhancement of 86% i.e., in the above example, £8,600.

Should the R&D claim result in an overall tax loss, a company can sell the loss to HMRC and would receive a credit of 14%. This credit is being reduced to 10%.

GH Comment
The Chancellor justified the reduction in the R&D tax credits by explaining that the R&D market has received bad publicity recently, with many unprofessional "specialist" firms making spurious claims and being paid a percentage of the tax saved. It is disappointing that legitimate businesses are being affected. It is also odd to see the repayable credit being reduced. A company currently has the option of selling the loss now and receiving 14% or carrying the loss forward to save tax at 19%. Now, the choice could be receiving a 10% credit, or carrying forward a loss and saving tax at a rate of 26.5%; quite a wide margin.

Employers' National Insurance

The Government is maintaining the starting point for Employers' NI contributions at £9,100 until 5 April 2028. The Employment Allowance of £5,000, which many small businesses claim, will be maintained at £5,000.

GH Comment
The decision to freeze the limit until 2028 is, for the Government, the most lucrative tax announcement made in the Autumn Statement.

Electric Cars

With the increase in electric cars, the Government are now seeking to maintain the tax take. From April 2025, electric car owners will pay their fair share of VED (Road Tax).

Also, for employees with company cars, the rate at which they will pay tax on their company car will increase by 1% p.a. from 2025/26 until a limit of 5% is reached.

Other car and van benefits are to increase by the rate of inflation.

Business Rates

From the 1 April 2023, business rate bills will be based on current property revaluations; the first revaluation since 2017.

The multiplier which is used to calculate the actual amount to be paid is to be frozen at its current levels of either 49.9p or 51.2p.

From 2023/24, transitional relief will be maintained for the retail, hospitality and leisure sectors and will be increased from 50% to 75%.

National Living and Minimum Wage

The National Living Wage (NLW) is being increased to £10.42 an hour from 1 April 2023; an increase of 9.7%. This is the amount payable to employees aged 23 or over (unless in their first year of an apprenticeship).

The National Minimum Wage (NMW) for younger employees will be:

21-22 year olds	£10.18ph
18-20 year olds	£7.69ph
16-17 year olds	£5.28ph

GH Comment

This means that anybody aged over 23 on a minimum wage contract will be guaranteed a pay rise of 9.7%. For somebody working a 37.5 hour week, the minimum annual salary will be £20,319.

Conclusion

From a tax perspective, there were the usual murmurings of apocalyptic changes to be taking place, with a vast reform of much of the tax system. As is often the case, reality is different.

There were no significant changes in any of the major rates. The only significant changes were the reduction in the starting point for the 45% income tax band, the Dividend allowance, and the CGT annual exemption.

The big increase in revenue is being achieved via the freezing of rate bands and allowances. At a time of high wage increases, the Government will collect more tax and for many taxpayers, especially around the £50,270 higher rate band, the rate of tax will be increasing, as well as the amount.

We will continue to monitor developments in respect of the Autumn Statement. A copy of this summary will be included in our monthly Highlight email, and our usual comprehensive Budget Summary offering will resume in Spring 2023.

This summary was written on 17 November 2022. We will continue to monitor developments relating to the Chancellors announcements and report on these accordingly.

Biggleswade Office
t: 01767 315010

Letchworth Office
t: 01462 708810

Huntingdon Office
t: 01480 426500