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# The growth plan 2022 – what you need to know

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Although not strictly a ‘Budget’, Friday’s statement by the new Chancellor of the Exchequer on his “growth plan” contained a raft of significant tax measures, with major changes being announced for both individuals and businesses.

A reversal of the national insurance rise that came into effect in April 2022 had already been announced, and the Chancellor added to this with reductions in income tax for both lower and higher earners. There will also be stamp duty land tax savings for all those buying residential property, with higher savings for first-time buyers.

For businesses, the Chancellor confirmed that corporation tax rates will not increase from next year and made welcome announcements regarding capital investment and off-payroll working.

The wide-ranging – and expensive – package of measures announced will affect most taxpayers in one way or another. Time will tell how successful the package will be in achieving the Chancellor’s aim of turning “stagnation to growth”.

## Income Tax Rates

The main basic rate of income tax will be cut from 20% to 19% from 6 April 2023, 12 months earlier than previously announced.

And in a surprise move, the additional rate of income tax – which applies on incomes above £150,000 – will be abolished from 6 April 2023. The highest rate of income tax will now therefore be 40%, and current additional rate taxpayers will benefit from the personal savings allowance of £500.

The 1.25% increase in dividend tax rates in 2022/23 will be reversed from 6 April 2023. Given the abolition of the additional rate of income tax, this will reduce the dividend tax rates to a basic rate of 7.5% and a higher rate of 32.5%.

There will be a four-year transition period for Gift Aid purposes to maintain income tax relief on charitable donations at 20% until April 2027. There will also be a one-year transitional period to allow pension schemes to continue to claim tax relief at 20% on contributions paid by members.

## National Insurance Contributions - Employees and Employer

The rates of employee’s and employer’s national insurance contributions (NICs) were increased by 1.25% in April 2022, ostensibly to fund health and social care. The rates were due to return to 2021/22 levels from April 2023, at which point a new 1.25% health and social care levy (which was also due to apply to individuals working above state pension age) was due to take effect.

The government announced that the increases will be reversed from 6 November 2022. In addition, the new health and social care levy has been cancelled. The primary threshold for NICs was increased in July 2022, and this increase will remain in place.

For an employee earning £30,000 per annum, this cut is worth approximately £18 per month, whilst an employee earning £100,000 per annum will save around £91 per month.

NICs paid on benefits in kind and expenses will, in 2022/23, be at a blended rate of 14.53%. Company directors are assessed to NICs on an annual basis, and blended rates will also be used in calculating their liabilities.

## National Insurance Contributions - Self-Employed

The rates of class 4 NICs, which apply to self-employed workers, had also been increased by 1.25% from the 2022/23, to 10.25% and 3.25%. These rates will now be amended to 9.73% and 2.73%.

## Stamp Duty Land Tax

The Chancellor announced the following immediate changes to stamp duty land tax (SDLT) on the purchase of residential property:

- The threshold above which SDLT first becomes payable on standard residential property transactions (i.e. where first-time buyer's relief is not available, where neither the 3% surcharge for additional properties nor the 2% surcharge for non-resident purchasers apply etc.) has increased from £125,000 to £250,000. From now on, where these standard rates apply, the first £250,000 of chargeable consideration will be free of SDLT, with the rate on consideration between £250,000 and £925,000 remaining at 5%.

- The maximum property value on which first-time buyer's relief is available has increased from £500,000 to £625,000. Where this relief is available, the threshold above which SDLT first becomes payable has increased from £300,000 to £425,000, with anything above this amount attracting SDLT at 5%.

## Off-Payroll Working Rules

The current off-payroll working rules were introduced in 2017 for public sector organisations and in 2021 for medium and large private sector organisations. Organisations subject to the rules are responsible for determining the employment status of contractors that provide services to them through personal service companies and – if these contractors are working as if they were employees – for ensuring PAYE and NICs are accounted for on this basis.

The rules entail various onerous administrative requirements, including those relating to communicating status decisions and dealing with status disputes. From 6 April 2023, these rules will be repealed, and once again the personal service companies will be responsible for determining employment status and for ensuring they pay the correct amount of tax to HMRC.

## Corporation Tax Rates

The Chancellor confirmed rumours that the planned increase in the rate of corporation tax from 19% to 25% from 1 April 2023 will be cancelled. This increase was due to apply to companies making profits of more than £250,000 but the current single rate of 19% will be retained. Companies that have reflected the increase in calculating their deferred tax assets or liabilities in their financial statements will need to reverse this at the appropriate time.

In line with this, the surcharge on banking companies will remain at 8% and will not be reduced to 3% as planned, meaning their corporate tax rate will remain at 27%. The proposed increase in the surcharge allowance from £25m to £100m will go ahead as planned. The rate of diverted profits tax was due to increase from 25% to 31% but will now remain at 25%.

## Annual Investment Allowance

The annual investment allowance (AIA) – which gives businesses a 100% first-year write-down for qualifying capital expenditure – is currently set at £1 million. This was due to fall to the 'permanent' level of £200,000 from 1 April 2023. However, the Chancellor has announced that it will remain at £1 million, which is to become the new permanent level for this allowance.

## Investment Zones

The government is in discussions with 38 local authorities to establish investment zones. These will aim to drive rapid development and business investment in particular areas through a package of benefits.

The following tax incentives are intended to be available to businesses operating within investment zones in England (with work being done to achieve similar incentives elsewhere in the UK):

- 100% relief from business rates for newly occupied premises.
- Full SDLT relief for land acquired for development or for commercial use.
- 100% first-year capital allowances on the acquisition of qualifying plant and machinery.
- An annual 20% rate of structures and buildings allowance (in contrast to the standard rate of 3%) for the cost of qualifying non-residential structures and buildings.
- Relief from employer's national insurance contributions for earnings of up to £50,270 per annum for new employees working for at least 60% of their time in the area.

## Venture Capital Schemes

The Chancellor has confirmed that the government remains supportive of the enterprise investment scheme (EIS) and venture capital trusts (VCT). Under the legislation as it currently stands, the tax reliefs associated with these schemes will come to an end in 2025. Although we do not yet have the full details, we now know that the Chancellor sees value in extending them in the future.

## Seed Enterprise Investment Scheme Extension to Limits

From April 2023, the amount that can be invested in qualifying companies under the seed enterprise investment scheme (SEIS) will be increased by £100,000 to £250,000. Some of the qualifying conditions will also be relaxed, with the gross asset limit for qualifying companies being increased from £250,000 to £350,000 and the maximum age limit being stretched from two to three years. Individuals will now be able to invest up to £200,000 in SEIS companies each year, being double the current limit, and providing an income tax reduction under the scheme of up to £100,000.

## Company Share Option Plan (CSOP) Increase to Option Numbers

The Chancellor announced a doubling of the current limit in the value of share options which can be granted to employees under the HMRC-approved CSOP scheme. Previously, qualifying companies could issue options with a value of up to £30,000, but this will be increased to £60,000 from April 2023. A general widening of the CSOP rules has also been promised, to better align these with those of other tax-favoured share reward schemes.

## VAT- Free Shopping

The government has announced its intention to introduce a new digital scheme to allow for VAT-free shopping by visitors to the UK. The scheme will allow visitors to the UK to obtain a VAT refund on purchases of goods made in UK high streets, airports and other departure points from the UK, which are then exported by the visitor in their own personal baggage. The government intends to issue a consultation as soon as possible to gather views on how the scheme should be structured and implemented.

A version of this scheme is currently in operation in Northern Ireland, and the government intends to modernise that scheme as part of this process

## Tax Simplification

Throughout his speech, the Chancellor was keen to stress the importance of a simple tax system. The Office of Tax Simplification has been in place since 2010, as a source of independent advice to the government on simplifying the tax system. Over the past 12 years, it has published good-quality and considered reports. This body is now to be abolished and, instead, the government wants to "embed tax simplification into the institutions of government", giving both HM Treasury and HMRC a mandate to focus on simplifying the tax code.

## CONTACT US

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