Xeinadin
Budget Docs
2022

SPRING STATEMENT SUMMARY

Focus on what matters with help from Xeinadin

xeinadin group

Content

Introduction

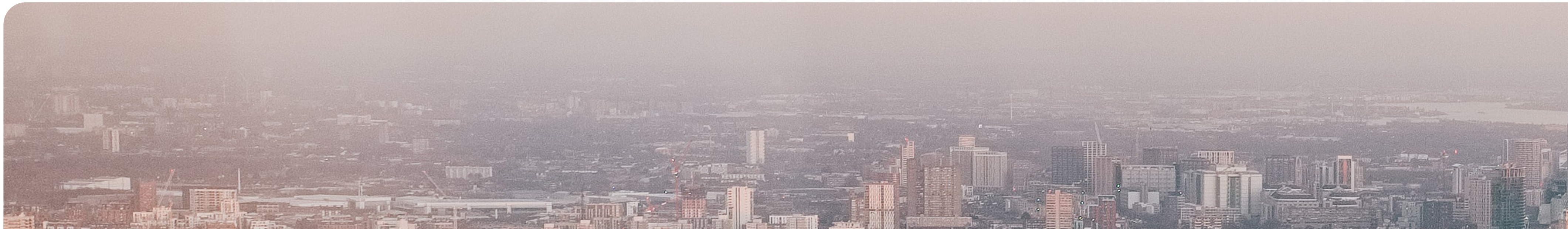
“Tax – an important lever in Government hands to drive the “security of a faster growing economy” acknowledges the Chancellor today – did he press that lever hard enough is the question?”

Liz Maher – Centurion VAT Specialists Xeinadin Group

With the UK economy emerging from two years of a pandemic into a world challenged by conflict and environmental pressures the Chancellor faced both macro-economic challenges across the energy sector to micro economic challenges from the cost of living for UK households.

To give some context to the Spring Statement and beyond, the Chancellor formalised his ‘Tax Plan’ in a specific document, with the tag line ‘My Vision for a Lower Tax Economy’.

Designed to strengthen the economy over the remainder of the current Parliament, the stated aims are to:



- Help families with the cost of living;
- Support Growth in the economy;
- Ensure the proceeds of growth are shared fairly, this latter element ultimately leading to a reduction in the basic rate of income tax to 19% from April 2024.

Although not necessarily new ideas, the Chancellor’s comments suggested increased focus to encourage and stimulate the desired growth. These measures potentially benefit both small and larger businesses in a variety of sectors.

General Highlights

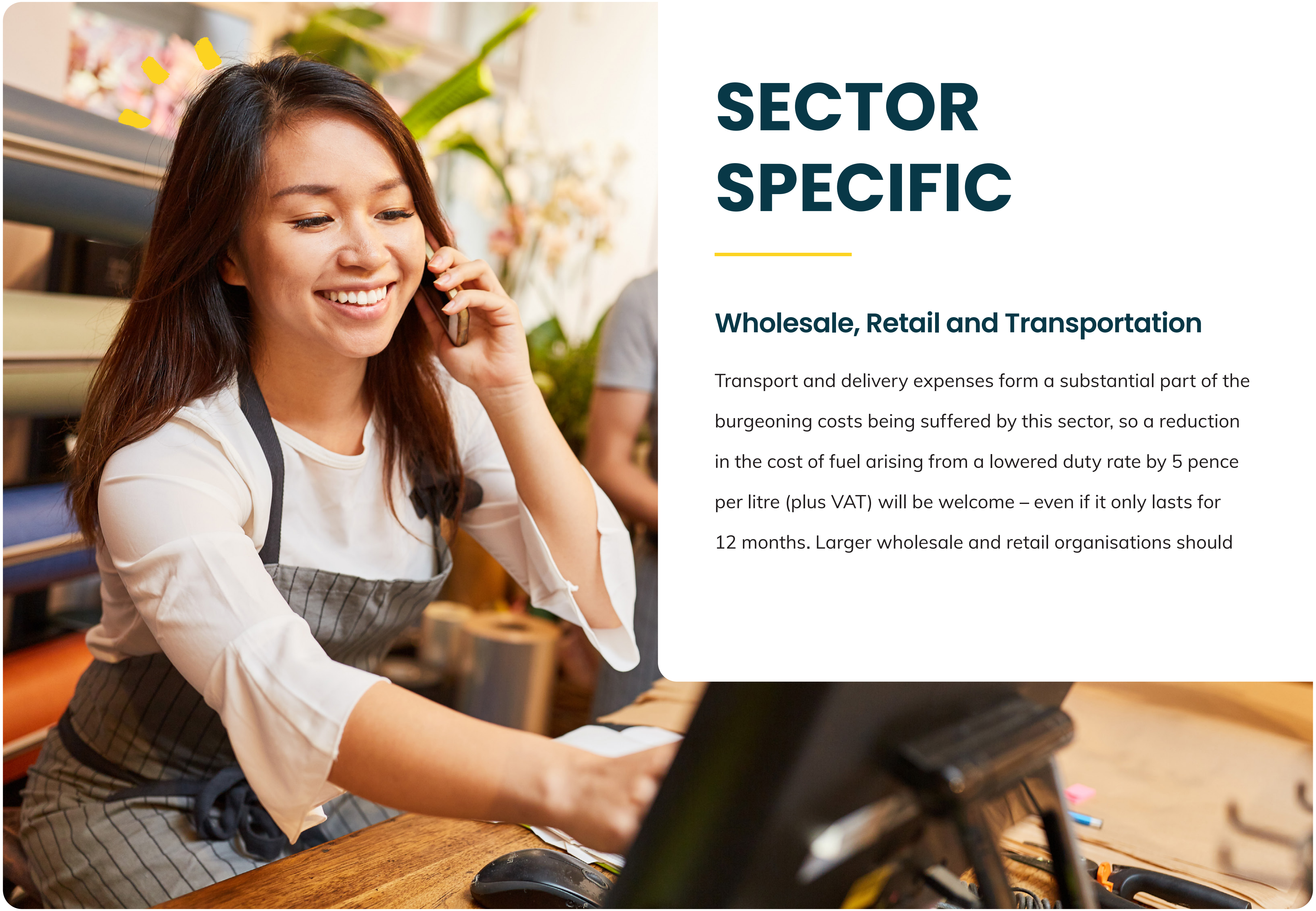
The Chancellor wants to meet his promise of reducing taxes by the end of this parliament.

Inflation at 6.2% and expected to increase over the coming months, forecast to hit 7.4% by the end of the year.

Economy forecast to grow by 3.8% this year

By 2024 the OBR expects inflation to be under control

Country debt expected to fall from 83.5% of GDP in the next financial year to 79.8% in 26/27



SECTOR SPECIFIC

Wholesale, Retail and Transportation

Transport and delivery expenses form a substantial part of the burgeoning costs being suffered by this sector, so a reduction in the cost of fuel arising from a lowered duty rate by 5 pence per litre (plus VAT) will be welcome – even if it only lasts for 12 months. Larger wholesale and retail organisations should consider how to make the most from this temporary relief and should liaise with their contractors and fuel providers to do so.

Whilst not a measure in the spring statement, the introduction of plastic packaging tax ('PPT') on 1 April 2022, is likely to affect the sector in terms of increased packaging costs and, potentially, lead to an obligation to pay PPT to HMRC. In particular, where businesses buy packaging from UK manufacturers, the manufacturer will have primary responsibility for PPT, but the buyer also has a joint and several liability for PPT if the supplier has failed to apply PPT on table items. Hence, any UK buyer will need to undertake adequate due diligence of its suppliers to make sure that they are not held accountable for underpaid PPT under this measure.

Business tax updates

50% discount on business rates up to £110,000 in the retail, leisure, and hospitality industries

VAT for retail, leisure, and hospitality industries to return to 20%

Employment allowance increased to £5,000 from April 6th

In the autumn statement, the Chancellor will make announcements regarding reforms to R&D tax credits. He will also announce tax cuts on business investments

R&D claims will include data, cloud and pure math

Construction

Following recent years budgets and the impact to the Construction Industry mainly in the form of the Domestic Reverse Charge we are pleased to note that there are no direct changes on the industry announced this year.

This does not however mean there is nothing to consider, and we can look at the following points:

Domestic Reverse Charge

This new regulation has broadly achieved what it was intended to do, as such we are seeing more and more HMRC VAT enquiries at the End User level due to the rebates being claimed. These enquiries eventually lead to CIS verification and as such bring in the necessity for clients to ensure that they are correctly adhering to the CIS scheme.

Energy Saving Materials and Zero Rating

VAT Relief Extended for Energy Saving Materials.

The Reduced VAT rate of 5% applies to specific Energy Saving Materials where they are supplied and installed by a provider in residential accommodation. The materials that qualify for this relief used to include water and wind turbines, but these were removed from October 2019. Today the Chancellor announced that these items would both be returned to the list.

The list of specific items does not apply to the installation of double glazing which was an area that many had hoped would fall into the approved list. In addition, there is comment as to the "complex eligibility conditions" being removed. The detail is yet to be seen on this but may relate to the 60% test that applies to the value of the material element in the supply and install contract. Other eligibility conditions relate to:

- the age of the person to whom the supply is made
- whether the supply is to an housing association or
- in respect of a building which is regarded as a "relevant residential use" building such as a residential care home or student accommodation block

Any reduction to complexity in the realm of VAT is to be welcomed.

Of wider impact in this regard was the announcement that the actual VAT relate to apply to the supply and installation of qualifying materials is to reduce from the 5% rate to 0% with effect from the 1 April 2022 for a period of 5 years. This should certainly encourage more homeowners to look at the installation of solar panels, ground source heat pumps and the like.

Small Business

For the smaller business with the increase in employment allowance, continuance of the Help to Grow Schemes and an alignment of the National Insurance threshold with the personal allowance for employees and self-employed is to be welcomed.

The employment allowance is being increased from £4,000 to £5,000 with effect from April 2022 bringing the tax saving up to £1,000 for those able to fully utilise the allowance.

The allowance covers both the Employers' NIC and the Employers' Health & Social Care Levy.

The Help to Grow Schemes for management training & productivity and digital upscaling continue to be available to businesses.

For those in the Retail, Hospitality and Leisure sector a 50% business rate relief will come in from April 2022 and will benefit those with rates bills up to £110,000 p.a..

Further announcements are expected within the Autumn Budget to assist businesses investing in innovation and any changes should be effective from April 2023 along with plans for a reform of the business tax system. Two elements within the 'Supporting Growth' component were put forward specifically to help businesses invest in the future.

Capital Allowances

The Chancellor stressed that investment is a key driver of productivity growth, noting that the UK lags behind the OECD average in terms of business investment as a percentage of GPD.

Currently, most capital expenditure up to a cap, is eligible for the Annual Investment Allowance (AIA) 100% tax deduction in the year of spend. This cap, initially introduced as £200k, was last extended in the Autumn 2021 Budget to £1m and that now remains the case for expenditure to 31 March 2023.

This sits alongside the continuing 'super-deduction' announced last year, providing a write-off equivalent to 130% for qualifying plant and machinery, which also is scheduled to end in 2023.

Whilst not all small businesses would in any event benefit from the maximum level of expenditure, for some sectors, especially aligned to property refurbishment, for example health-care or hospitality, this could give impetus to business recovery post Covid.

Although cars are excluded from the above allowances, electric or zero emission vehicles will still be eligible for First year Allowances, again generating a full write -off of the cost in the year of spend. There is certainly anecdotal evidence to suggest that this policy is swaying some businesses to purchase electric cars, especially in conjunction with the comparatively low benefit in kind treatment for company cars.

As part of the 'Tax Plan' a raft of alternative measures will be considered over coming months in order to ensure UK businesses remain encouraged to invest in capital expenditure. These include:

- increasing the permanent level of the AIA above the £200k due to come back in from April 2023;
- increasing the writing down allowances from the current 18% and 6% levels;
- creating a hybrid allowance to replace the current 'super-deduction' when that is phased out.

It therefore remains to be seen whether subsequent Budgets result in recommended implementation.

R&D

There has been increasing concern in the Government that the UK's R&D tax relief system is not necessarily yielding the results anticipated. Although generous, self-financed business R&D remains at less than half the OECD average. In response the Government conducted a review during 2021 to ensure the R&D tax relief system remains fit for purpose.

Although trailed in the 2021 Autumn Budget, reforms now to be brought in will enhance the current offering by extending qualifying expenditure to data and cloud computing costs.

Originally it had been proposed only some cloud computing costs would be accepted but following consultation this is being widened to include all such costs, such as storage of vital data and data-heavy research costs.

Especially in the travel sector, much R&D incorporates software and computing costs and this is therefore seen as a welcome addition.

The scheme is also being extended to cover where there is a requirement for R&D work to be undertaken outside the UK, so that associated costs will now qualify, in a change to current policy.

In addition, just like the position on capital allowances, the Government has stated that it remains committed to reviewing the R&D tax reliefs and indicated that further announcements will be made in the Autumn.

PERSONAL TAX AND NIC

The Chancellor has clearly resisted pressure from all sides to abandon the Health and Social Care Levy of announced last autumn and due to take effect from 6 April 2022. The levy will apply to earnings and dividends at the rate of 1.25%, with a similar contribution from employers.

The levy is a form of hypothecated tax specifically to provide extra funds for the NHS. It is estimated to raise £12bn in a full year and initially will be allocated to the NHS to provide extra funding to help clear the back log of patient treatments that have built up during the Covid pandemic.

Ultimately the idea is that it will make funding available for an integrated Health and Social Care programme. In his Spring Statement the Chancellor did not expand on these long term aims.

Proposals

In an attempt to head off some of the criticism for effectively increasing tax at a time when general inflation, interest rate rises and massive increases in domestic fuel costs are already severely impacting lower paid workers, the Chancellor has announced an increase in the lower earnings limit where NIC start to bite.

The lower limit will increase from £9,880 to £12,570 with effect from 6 July 2022. The figure of £12,570 is equivalent to the personal allowance for income tax.

For employed workers it means that they will not be liable to income tax or NI until they earn more than £12,570 spread evenly over a year. For self-employed individuals who pay Class 4 NI on their profits it means they will not pay this form of NI until their profits exceed £12,570, remembering that the new limits do not apply until 6 July 2022.

Personal Tax Update

NI threshold increased from £9,500 to £12,570 from July. This is a £6bn tax cut for 30m employee's worth on average £330 a year. This is the largest individual tax cut in a decade. 70% of all workers will have taxes cut by more than they pay through new levy.

Health and care levy stayingfrom April 6th

By 2024, the Chancellor wants the basic rate of income tax cut from 20% to 19%

There is also a further measure of relief for self-employed individuals whose profits fall between the Low Profits Threshold of £6,725 and £12,570 in that they will not be required to pay Class 2 NI at these profit levels. They will still however be entitled to build up NI credits.

As the changes do not come into effect until 6 July 2022 it means that for the tax year 2022-23 the lower limit across the whole year is £11,908, representing 13 weeks at the current limit of £9,880 and 39 weeks at the new limit of £12,570.

The impact on individuals

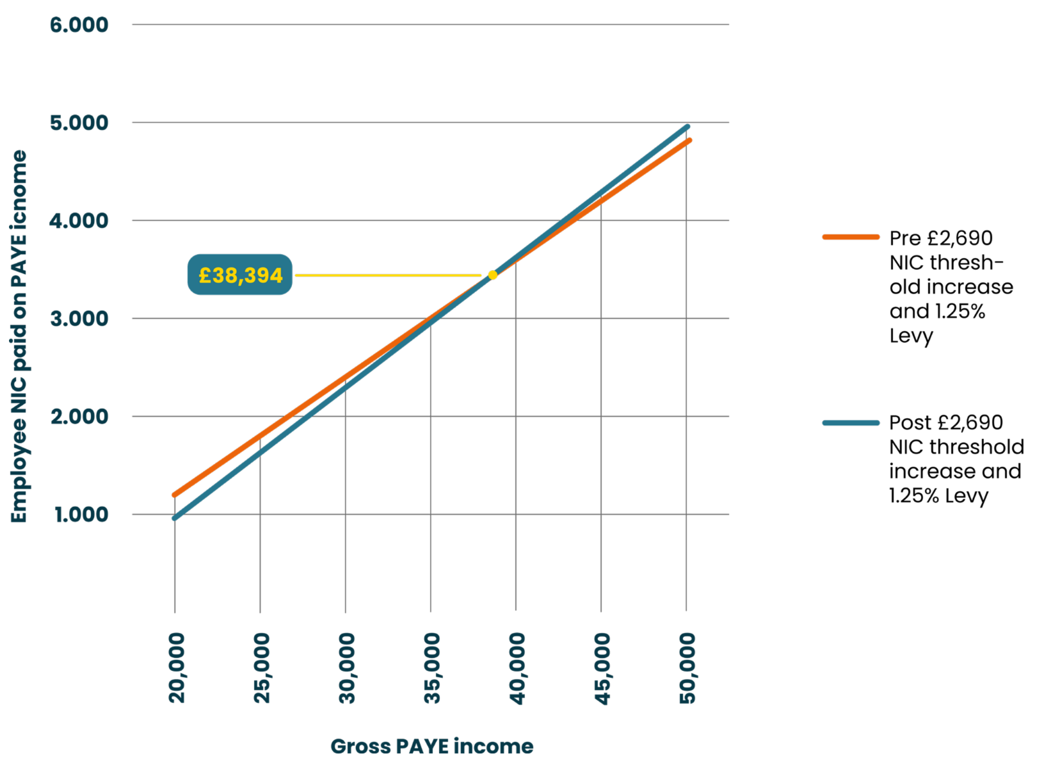
For a typical employed worker this represents a saving of about £300 in the 2022-23 tax year.

For a typical self-employed worker this represents a saving of about £250 in the 2022-23 tax year.

For those self-employed individuals who benefit from the lower earnings exemption it will save up to £165 in a full year.

The Treasury estimates that this will mean around 70% of workers who pay NI will pay less than they would otherwise have done and it takes about 2.2m workers out of paying NI (including the Health and Social Care Levy).

As noted above this measure goes some way towards mitigating the impact of the new levy, especially for lower paid workers. In a full year the graph below shows the point at which, in a full year the cost of the levy outweighs the benefit of the increase in the lower earnings limit for NI. For a typical salaried employee this will be at an annual salary of just under £38,500.



The Chancellor emphasised that these measures are designed to reward work. He repeated the phrase we have heard before that the measures he has taken are designed to promote growth in the economy. To the extent that a considerable number of employees will be able to keep more of their own money as a result of these measures, it should benefit business generally by encouraging more people to take up employment at the lower end of the scale.

VAT

The 1st April sees the introduction for all VAT registered businesses of the Making Tax Digital regime and this remains an area of concern in terms of insuring compliance with these regulations.

Penalty Regime

An additional point to note is the change in respect of the planned VAT penalty regime. The Chancellor first announced the delay in the implementation of the VAT penalty regime in his Spring Budget of 2021. He re-announced this delay in today's Spring Statement, confirming that the new regime will commence for periods starting on or after 1 January 2023. When introduced, the imposition of late penalties will be determined using a points system where points are awarded for each late submission. Penalties will be applied where points exceed certain thresholds.

Potentially all VAT registered taxpayers could be affected by this new regime and should consider reviewing its VAT reporting and payment systems before it is introduced.

This will be a substantial overhaul of the current penalty regime for VAT compliance and will bring with it the risk that businesses will fail to fully recognise the change and might fall foul of penalties for the first time. At least this postponement will provide businesses with a little more time to get some comfort about their processes and to make any changes they feel are necessary to make sure all VAT returns are submitted and paid in time.

Energy Saving Materials

The most significant VAT change in this statement related to the announcement on energy saving materials, the details of which outlined in the Construction section.

VAT and Environmental tax update

- 5p cut to fuel duty with effect tonight from 6pm
- VAT removed from energy efficiency improvements such as solar panels or heat pumps

ENVIRONMENTAL

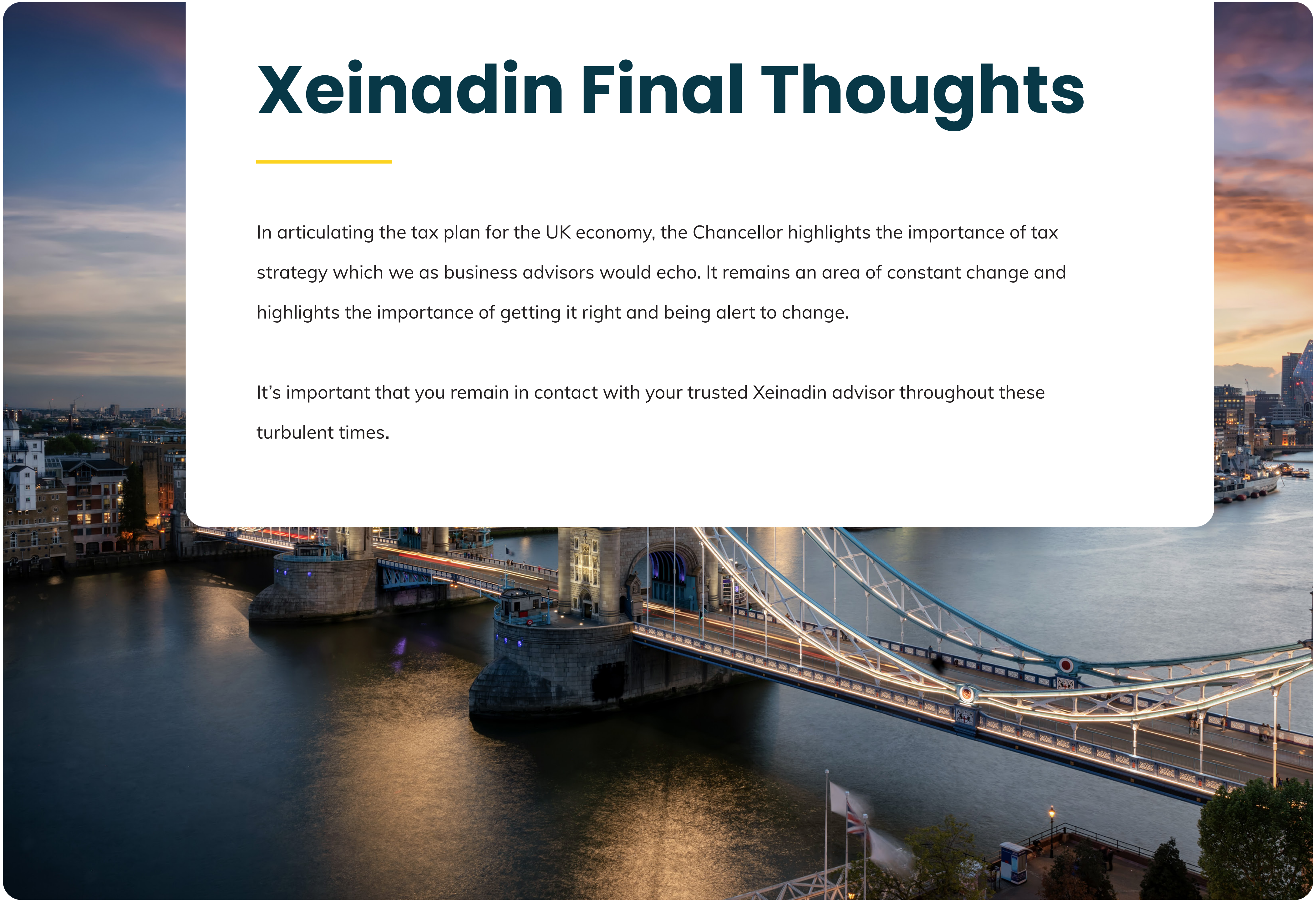
Announced several budgets ago, plastic packaging tax ('PPT') will come into force on 1 April this year. A tax on the supply or importation of packaging products which comprise less than 30% of recycled plastic, it is designed to make plastic recycling more attractive. Where the tax applies, it will be levied at £200 per tonne of taxable plastic packaging.

PPT registration is required if either:

- it is expected that more than 10 tonnes of plastic packaging will be manufactured or imported in the following 30 days, or;
- more than 10 tonnes of plastic packaging have been manufactured or imported in the previous 12 months.

Given the importation trigger point, many businesses could, conceivably, have an obligation to register for PPT even if they do not see themselves as operating in the plastics sector. Also, buyers of taxed plastic packaging may see their costs increasing as a consequence of PPT.

As with other environmental taxes, much of the complexity is in the detailed processes of the registered businesses. For peace of mind, we recommend that anyone mildly concerned about a potential PPT exposure should review their position.



Xeinadin Final Thoughts

In articulating the tax plan for the UK economy, the Chancellor highlights the importance of tax strategy which we as business advisors would echo. It remains an area of constant change and highlights the importance of getting it right and being alert to change.

It's important that you remain in contact with your trusted Xeinadin advisor throughout these turbulent times.

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