Xeinadin
Autumn Statement 2022

AUTUMN STATEMENT SUMMARY

Focus on what matters with help from Xeinadin

xeinadin group

Contents

Introduction

"This was a much-trailed Autumn Statement – designed to calm markets and provide a direction of travel that, in the Chancellor's words, concentrated on the mantra of "Stability, Growth and Public Services". But did it deliver? Across our teams of business advisors, from Corporate and Personal Tax, VAT, Environmental Tax and R&D specialisms that support businesses and organisations across all sectors, the real sense was one of "missed opportunities".

Liz Maher **– Centurion VAT Specialists Xeinadin Group**

The messaging, from the political perspective, may focus on there being few tax rate rises but as our specialists note, the freezing of tax thresholds brings more tax into the equation for the government as do the reductions to thresholds around Capital Gains Tax and Higher Rate Bands.

As business advisers we work with our clients to ensure their longer-term stability and potential for growth – we are more than your accountant, we are your trusted adviser.

As we consider the ramification of today's Autumn Statement, we'll not just comment on what has changed but look to the positive steps organisations could look to benefit from – improving their bottom line and cash flow as we move into more uncertain times ahead.

Headlines

Energy bills are increasing again, rising from £2,500 to £3,000 a year, but the current scheme of government help over winter will be continued in some form after April, potentially via price guarantees.

State pension, benefits and tax credits will rise in line with inflation – 10.1%

National living wage for over 23's to rise to £10.42 (9.7%) from April 2023

Extra payments are coming: £900 for those on means-tested benefits, £300 for pensioner households and £150 for those on disability benefits

Energy firms will pay an expanded windfall tax of 35% (up from the 25% already levied)

Electric vehicles will no longer be exempt from road tax duty from April 2025

Tax-free allowances frozen for another two years to 2028

Business rates revaluation will go ahead but transitional support means two-thirds of properties won't pay more in 2023

Increase in schools budget of £2.3bn, increase in NHS budget of £3.3bn, and social care of £4.7bn

Capital Gains Tax annual exempt amount will reduce from £12,300 to £6,000 from 6 April 2023. This will further reduce to £3,000 from 6 April 2024

Pension triple lock would be protected

Corporation Tax

The changes announced in the Autumn Statement are very much in line with what was expected. From April 2023 we will see the main rate of corporation tax rise to 25% for companies with profits above £250,000, with the 19% rate remaining in place for smaller companies under the Small Profits Rate and marginal relief for those in between the upper and lower limits.

There will be a change to how groups of companies are recognised for corporation tax, with the current 51% group company test being replaced with the associated company rules, affecting whether companies will be within the upper and lower limits for corporation tax as well as whether companies and groups will fall into the Quarterly Instalment Payment (QIP) regime.

This will likely lead to more companies falling into QIPs and therefore those companies having to look at their cash flow in the anticipation of having paid their full corporation tax liability 6 months earlier than they would have otherwise outside of the regime.

It is also important to note that interest is charged on late QIPs and so for companies falling into the regime it is just as important that their corporation tax payments are made on time and even more so with interest rates increasing.

We would suggest that group companies think about setting up a Group Payment Arrangement, this would enable payments to be made on behalf of the group and then split out between the companies once liabilities are confirmed.

Filing requirements will also increase from April 2023 for multinational groups operating in the UK, requiring companies to retain their transfer pricing documents in a standardised format to align with the OECD's current guidelines. Meaning more onerous filing requirements and more alignment within the company group.

Research & Development

In his speech, the Chancellor referred to having "heard concerning reports of abuse and fraud" in R&D tax relief for SMEs.

This has been extensively reported over the past couple of years both within the tax profession and more widely in general media, as a plethora of unregulated, non-technical, advisors sought to make quick profits from getting businesses to make spurious claims.

HMRC which was initially swamped with such claims is somewhat belatedly now being adequately resourced in an effort to tackle the abuse. There is perhaps a question as to why the Chancellor still thought it necessary to announce restrictions in the way the relief works.

These changes could have a significant impact on limiting growth as industry sectors, such as the Travel Industry, continue to seek recovery post-Covid.

Currently, qualifying expenditure for SMEs generates a 130% uplift. So, for a £100 cost, tax relief of £230 can be claimed. For companies in a loss position, this £230 can be surrendered for a cash rebate of 14.5%, so a refund of £33.35.

The proposals announced today, to be legislated for in the Autumn Finance Bill 2022, will reduce the level of the percentage uplift to 86% and similarly reduce the credit rate to 10%. So, going forward a £100 spend will only generate a refund of £18.60 a drop of around 45%.

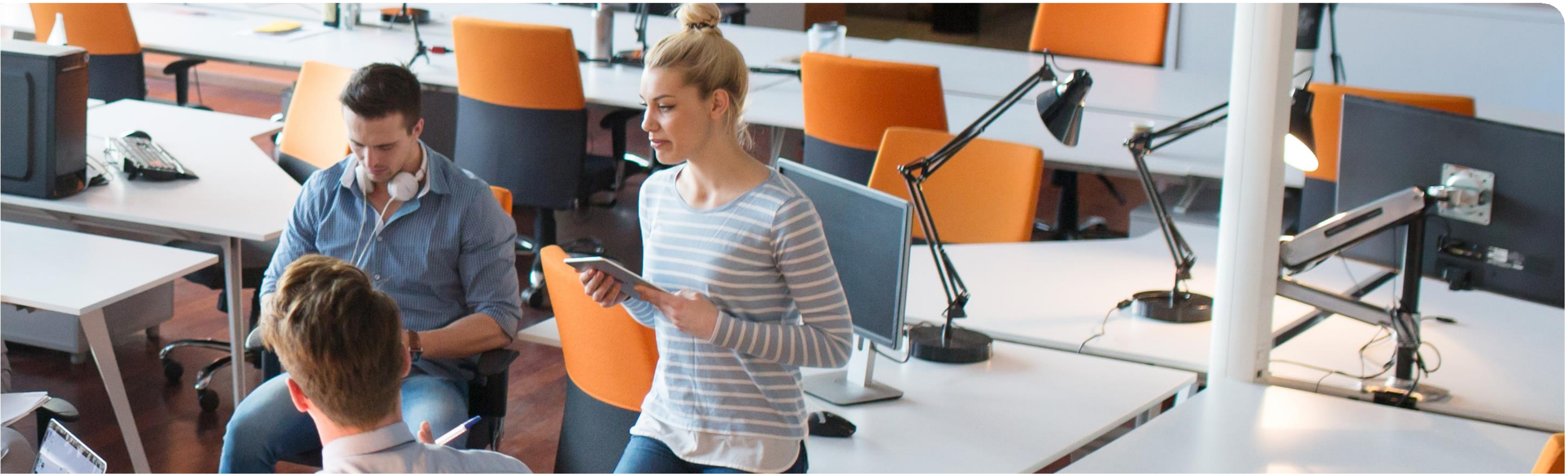
Whilst the Autumn 2021 Budget announced some changes that potentially increase the range of expenditure upon which claims can be made, for example, to include data and cloud storage, for many SMEs this will not be adequate compensation, and even these earlier announced changes will only be legislated for in the Spring Finance Bill 2023.

To put the announcement into perspective, the Government's estimate of the cost to the Treasury of the increased range of expenditure over the next 6 years is around £185m, whereas the changes announced today for SMEs will save the Treasury around £4.5bn!

The Chancellor stated, “despite raising revenue, the OBR has confirmed that these measures have no detrimental impact on the level of R&D investment in the economy”. Given aligned to the SME announcement made today there was also a change to the larger company RDEC tax credit scheme, increasing the rate from 13% to 20%, which would perhaps suggest a definite shift in Government policy away from SMEs when it comes to growth and investment support.

There has possibly been a missed opportunity to tackle the known abuse by measures that don’t hit SME companies genuinely claiming tax relief on innovation or even to await the introduction of the anti-abuse administrative measures that take effect from 1 April 2023.

Our advice on R&D claims which has always been so is even more important now than ever. If you are doing anything that could be construed as R&D, and very often this may not be so obvious, for example when linked to software applications, make sure you are speaking to your trusted advisor to have the conversation about whether or not you qualify.



Annual Investment Allowance (AIA)

There have been many changes to the AIA limit in the recent past. Summer Budget 2015 set the permanent level of AIA at £200,000. At Budget 2018, the level was temporarily increased to £1,000,000 for two years from 1 January 2019. In November 2020, this was extended by a further year. In the 2021 Spring Budget, the temporarily enhanced rate was extended further up to 31 March 2023 to help companies already stretched by Covid.

The limit was supposed to be reduced back to £200,000 from 1 April 2023, however, the Chancellor has made the £1,000,000 limit permanent, facilitating an estimated 99% of UK businesses to write off the cost of qualifying plant machinery investment in one go.

This permanent increase will provide stability for businesses planning to invest in plant and machinery in the future and makes tax simpler for any business investing between £200,000 and £1 million.

First-Year Allowance for Electric Vehicle charge-points

100% first-year allowance (FYA) for expenditure incurred on electric charge-point equipment was first introduced on 23 November 2016 to support the transition in the UK to cleaner vehicles with zero or ultra-low emissions, which will improve air quality and make the UK a more environmentally friendly place.

Finance Bill 18/19 extended the FYA for a further 4 years and was intended to expire on 31 March 2023 for corporation tax purposes and 5 April 2023 for Income Tax purposes.

Today the Chancellor announced it will legislate in Spring Finance Bill 2023 to extend the 100% First Year Allowance for electric vehicle charge points to 31 March 2025 for corporation tax purposes and 5 April 2025 for income tax purposes.

This is a welcome change to ensure the tax system continues to incentivise business investment in charging infrastructure and moving the UK toward a greener tomorrow.

Benefit in kind on electric cars

An employee who is given a car by his employer for personal use is subject to income tax on the value of the benefit in kind (BIK). While the company pays Class 1A National Insurance (NI) at 13.8% on the benefit.

Up till the tax year 2020/21, the BIK rate applicable to electric cars was 0%. This was increased to 1% for the tax year 2021/22 and was set to increase to 2% for 2022/23.

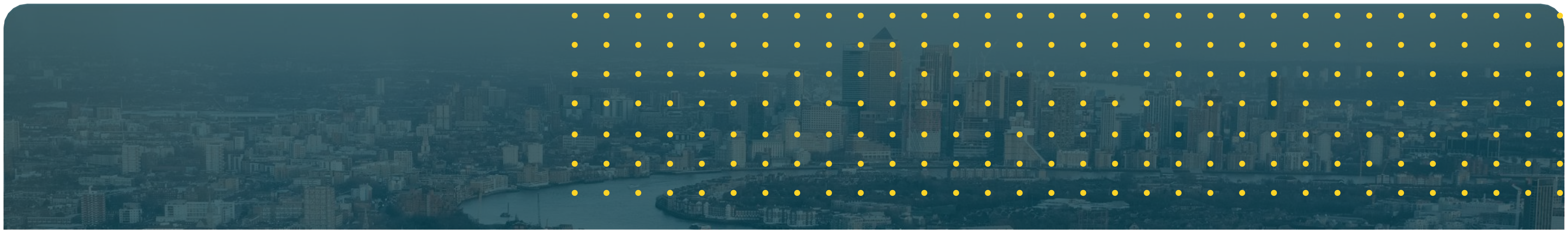
As part of the Autumn Statement, the government has now set rates for Company Car Tax until April 2028 with the intention to provide long-term certainty for taxpayers and the industry. As such, appropriate percentages for electric cars (and ultra-low emission cars) now increase by 1% each year from 2025/26 to 2027/28. The maximum percentage for electric cars is set at 5% (21% for ultra-low emission cars).

The BIK percentage for electric cars will be as follows:

2021/22	1%
2022/23	2%
2023/24	2%
2024/25	2%
2025/26	3%
2026/27	4%
2027/28	5%

The rates for all other vehicle bands will be increased by 1% for 2025-26 up to a maximum appropriate percentage of 37% and will then be fixed from 2026-27.

Although the rates are still substantially lower than that for petrol and diesel cars, the additional BIK income tax to the employee and the Class 1A NIC cost payable by the company will now need to be considered when deciding to provide a company car to an employee.



Benefit in kind - vans

From 6 April 2023 car and van fuel benefits and van benefit charges will increase in line with the Consumer Price index (CPI).

Whilst the Government is keen to incentivise the use of electric vehicles by applying much lower levels of taxation on such vehicles compared with diesel and petrol alternatives, it also recognises that these vehicles should make a contribution to the cost of maintaining the road system through Vehicle Excise Duty.

It is still attractive for businesses that provide their employees with company vehicles to purchase or hire electric vehicles. There is also the advantage of First Year Allowances on the purchase price of new electric vehicles.

Capital Gains

The Government have also brought forward reductions in the capital gains allowance reducing over the next two years to £3,000, it currently sits at £12,300. Reducing next year to £6,000 and then a further reduction on 6 April 2024 to £3,000.

Personal Tax

Decrease in additional rate threshold

Any individual who earns £125,140 or more will now pay the top rate (45%) of income tax. This means that high-earning individuals over £100,000 will now pay an effective 60% tax rate up to £125,140 and then 45% on the remainder of their income. This is a maximum additional tax of £1,243 per annum, for people who earn £150,000+.

Top tip

Increase pension contributions if pension annual allowances are still available for the year.

Personal allowances frozen

Individuals' personal allowances, high rate threshold band, national insurance thresholds and Inheritance tax band are all frozen for a further two years. Although this was advertised as a two-year freeze, this will now take the current thresholds up to 2028. This means that although tax will not increase, whilst inflation is running out of control, everyone could find significantly less in their pockets at the end of each month.

With inflation currently sitting at 11.1% and the OBR suggesting it will fall to 7.4% next year. If wages are to increase in line with inflation for the next 2 years, the average person could see their wages increase by as high as 20%. Meanwhile, the personal allowance limit remains the same, meaning they will be exposed to more tax at the basic rate.

Dividends

The dividend allowance is proposed to be reduced from £2,000 to £1,000 from April 2023. An additional reduction to £500 will follow from April 2024.

This effectively means that there will an additional tax of £87.50 for a basic rate taxpayer, £337.50 for higher rate taxpayers and £393.50 for additional rate taxpayers.

A potential move towards an 'equilibrium'?

Tax efficient remuneration planning, particularly most relevant to 'SMEs', plays an important part in the number of dividends or salaries owners withdraw from their Limited Companies.

The subsequent effect of this planning lead to dividends, due to the lower tax rates, making up a larger proportion of withdrawals rather than a salary.

Given the proposed reduction in the dividend allowance to £1,000 from 6 April 2023 and a further reduction to £500 from 6 April 2024, coupled with the freeze in personal tax thresholds, lowering the limit of the higher rate band to between £50,270 to £125,140, and the expected increase in corporation tax to 25%, it appears the government is moving towards creating an 'equilibrium effect'. Whereby, withdrawing dividends of a certain amount within the higher rate and additional rate thresholds compared to a salary would no longer be a viable option and thus, could nullify such tax planning.

This indirectly relates to the private sector IR35 reforms implemented by the government to reduce the number of personal service companies and move more individuals towards PAYE taxation. Overall, this ties in with the general vibe of the budget and the tax changes being targeted more towards lower incomes rather than "those who can afford it".

Climate Change Levy rates rebalanced

The previous examination of the equitability of Climate Change Levy(CCL) rates applying to different fossil fuels established that supplies of gas incurred a lower effective rate of this carbon tax than other fossil fuels. As promised, the government has announced that it will legislate to increase the CCL rate for gas (and for solid fuels) by 2025 to ensure equitable treatment.

Retail suppliers of gas will need to update their systems to recognise this change in the CCL rate, but this should not present an issue for major suppliers with sophisticated systems. The rate increase better recognises the carbon content of gas and will increase the retail cost of gas supplied by utilities, but in light of the increasing energy prices generally, it seems unlikely that this measure will have much effect on the purchasing habits of gas consumers.

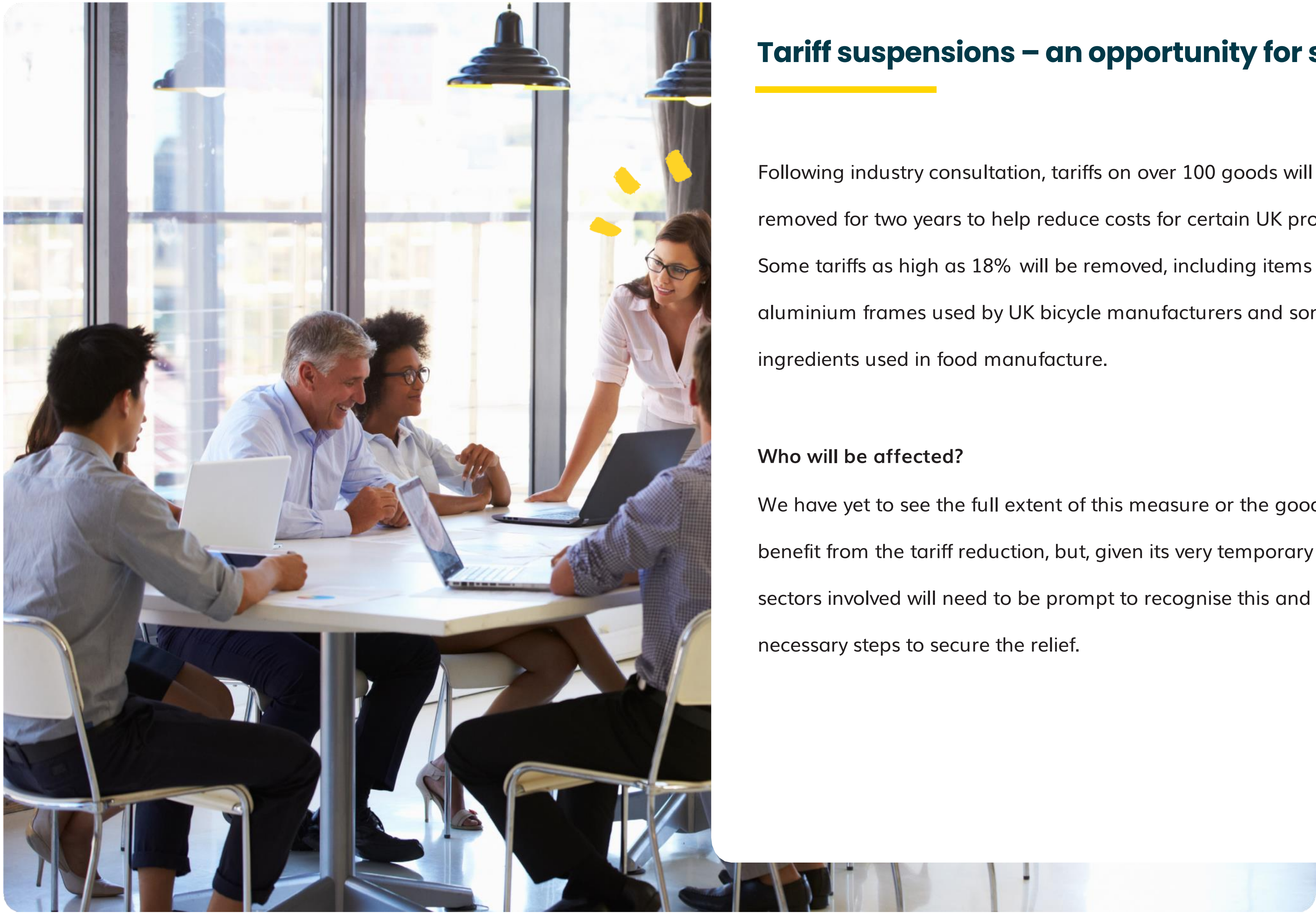
CCL is designed to have a cooling effect on the purchase and consumption of fossil fuels including gas. So, while this rebalancing is welcomed, we wonder if more could have been done with the CCL regime in general, given the increasing concern over climate change.

Electricity Generator Levy

This new levy will be introduced temporarily from 1 January 2023 to 31 March 2028 at a rate of 45% of 'extraordinary returns' (aggregate revenue that generators make at an average output price above £75/MWh) by low-carbon electricity generation. Essentially, this is to claw back the additional revenue that large-scale renewable generators are perceived to have gained when their government-contracted price for the renewable energy they generated was linked to the market price for gas. Since then, the market price for gas has soared, but the costs of generating renewable electricity have fallen.

The levy is directed at large-scale generators only, so it is unlikely to impact the many small generators of renewable electricity.

This suggests strongly that the government's initial linking of renewable electricity prices with gas prices was flawed. The measure will claw back revenue for the government, but it is not clear that it will lead to any further reduction in the price of renewable electricity for consumers. The statement also announced that the government will remain committed to carbon-free generation through the delivery of new nuclear, including Sizewell C. But given the long lead time for this project, the levy will have ceased before the plant starts to generate, so any potential for its output being caught by the levy will be moot..



Tariff suspensions – an opportunity for some?

Following industry consultation, tariffs on over 100 goods will be removed for two years to help reduce costs for certain UK producers. Some tariffs as high as 18% will be removed, including items such as aluminium frames used by UK bicycle manufacturers and some ingredients used in food manufacture.

Who will be affected?

We have yet to see the full extent of this measure or the goods that will benefit from the tariff reduction, but, given its very temporary nature, the sectors involved will need to be prompt to recognise this and take any necessary steps to secure the relief.

VAT

One of the key opportunities we feel was missing was to address the complexity of the VAT rules around the fitting of energy-saving materials into residential properties across the UK. Such supplies were reduced to the Zero VAT rate from April 2022 which you might see as an encouraging step – which it was, however, the legislation does not allow contractors to apply the Zero rate on works contracts where new insulation work or fitting of green energy solutions form only a part of the scope of the works. This is proving a real cost to the UK social housing sector unable to recover the 20% VAT they are charged and could have been easily remedied in this statement. A missed opportunity from both an environmental and financial perspective to improve the energy efficiency of social housing in these difficult times.

Top tips

It is important that only the correct amount of VAT is paid at the right time and that all available VAT reliefs are identified. The very nature of VAT is that it is a 'now' tax – VAT liabilities arise when supplies are made rather than when annual accounts are completed at the end of the financial year – so the benefit of adopting VAT-efficient practices is often immediate.

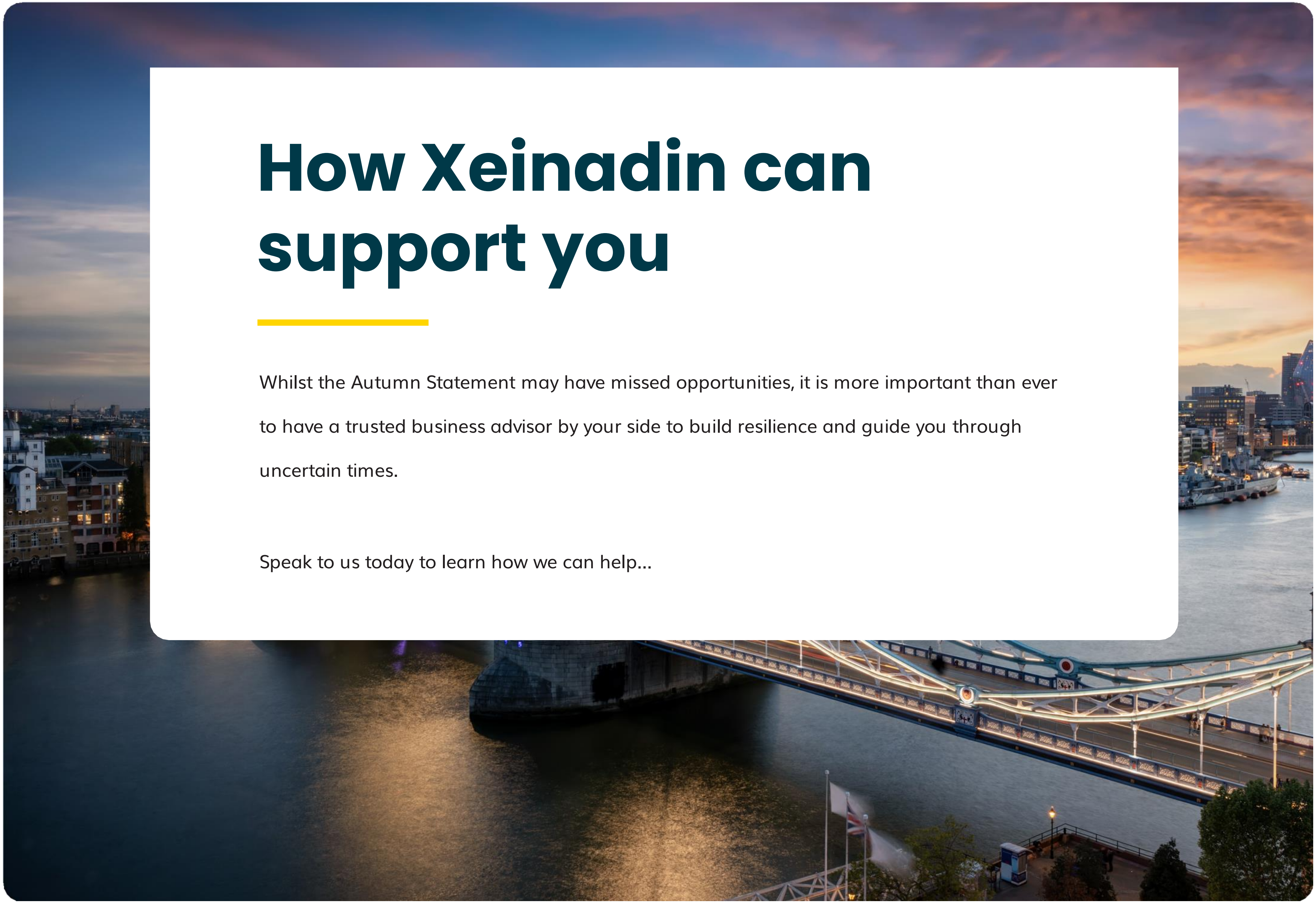
We set out below just some of the areas that we recommend should be examined by any VAT-registered entity seeking to improve VAT cashflow, minimise VAT costs and be as VAT efficient as possible.

- ✓ Use the Bad Debt Relief Rules to ease the VAT burden when customers are late in paying your invoices
- ✓ Check to ensure you are claiming your recoverable VAT at the earliest point
- ✓ Ensure property activities deliver the most VAT effective outcomes – could the option to tax unlock additional VAT recovery for you?
- ✓ As a charity are you maximizing the VAT reliefs available to you?

Whilst this Autumn Statement offered little relief in the VAT context our VAT specialist teams can work alongside you to make the most of the options you can access.

Education

Working across the Education sector as we do with Academies, Universities and Colleges we know that schools will welcome the promise of £2.3bn per year extra funding in this statement. Our university clients will be interested to see the direction of travel on the investment zones as there has been much talk of these and the role of Freeports, which would offer tax incentives for businesses located within them.



How Xeinadin can support you

Whilst the Autumn Statement may have missed opportunities, it is more important than ever to have a trusted business advisor by your side to build resilience and guide you through uncertain times.

Speak to us today to learn how we can help...

We are

XEINADIN

Xeinadin Group
Head Office

Becket House,
36 Old Jewry, Bank
London, EC2R 8DD

hello@xeinadin.com