Xeinadin
Summary of Budget 2023

2023 BUDGET SUMMARY

xeinadin group

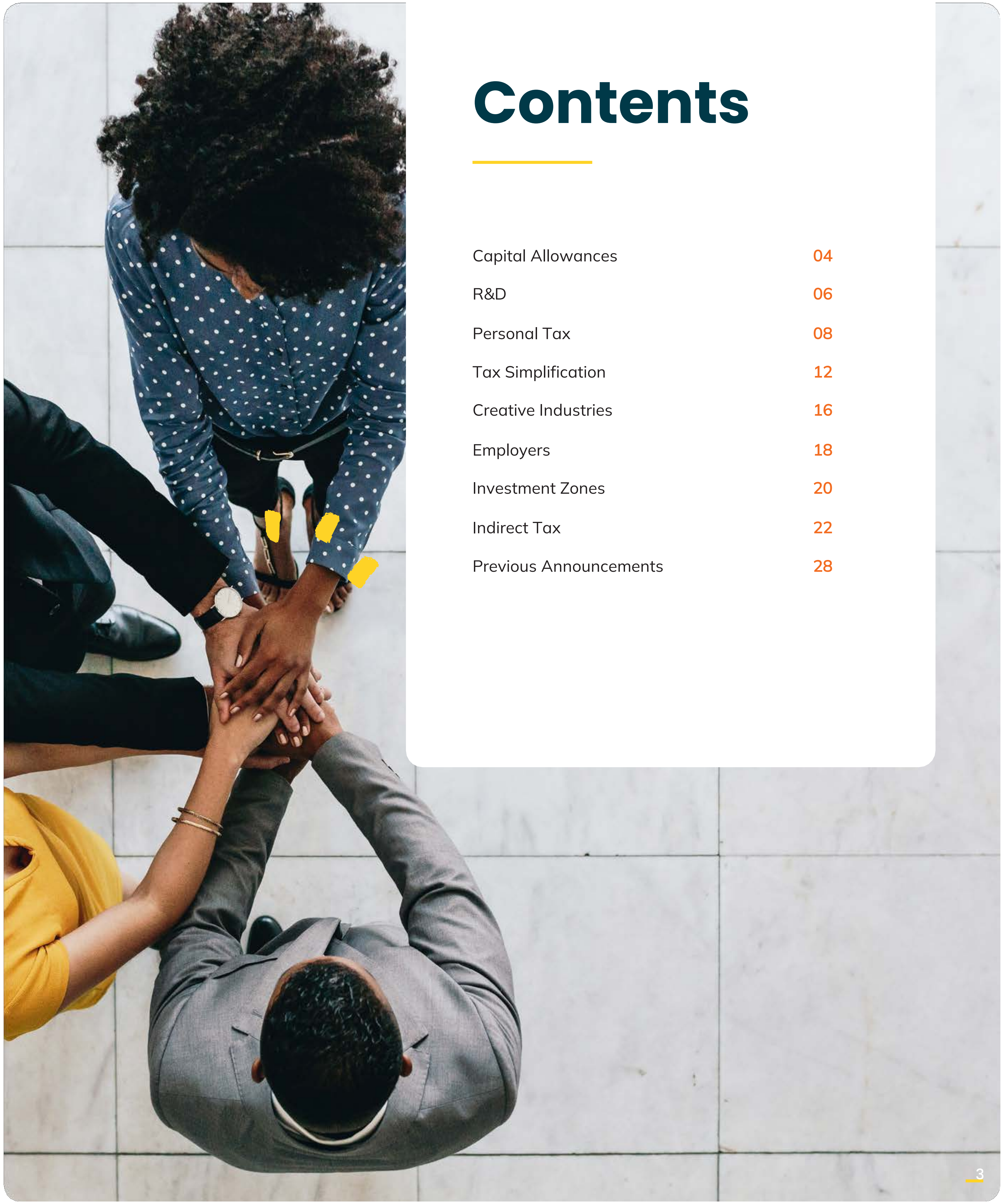
Introduction

In the same week that the Academy Awards was swept by "Everything, Everywhere, All At Once", the Chancellor followed up with his own "Everywhere, Enterprise, Employment and Education" Budget... It might not be award-worthy, but we ask: is it Enough?

Today's Budget was focused on resolving two key issues in the UK economy: improving productivity through capital investment and improving labour supply by bringing workers back into the market.

We consider many of these measures as a step in the right direction: ensuring companies can fully deduct capital expenses, increasing the tax credit available for certain research and development businesses, and of course the abolishment of the lifetime allowance.

Upon review, the benefits will be less substantial than the headlines might suggest. Each step forward in reliefs and allowances is accompanied by a step backward in terms of complexity and restrictions. At Xeinadin, we can help cut through the complexity of these announcements to help ensure your objectives can be met tax efficiently.



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Capital Allowances

From 1 April 2023 until 31 March 2026 capital allowances will be available at 100% for incorporated businesses (i.e., companies) for all expenditure on qualifying plant and machinery without limit. These new measures have been brought in to directly replace the super-deduction that ends on 5 April 2023. The acquisition of new IT equipment, machinery, vans etc. will qualify but expenditure on cars will not.

Companies investing in special rate assets, including integral features such as elevators and long-life assets, will also benefit from a 50% first year allowance in the year of investment. Note however that only new and unused plant and machinery will qualify for first year allowances.

For smaller businesses that spend less than £1 million on capital expenditure, the existing annual investment allowance is already sufficient to provide full relief on capital expenditure, therefore these measures will benefit larger companies contemplating capital expenditure on plant and machinery in excess of £1 million per annum.

Research & Development

Over the last few Budgets, the Government's focus on R&D seems to have been on HMRC increasing enquiries, making the relief less lucrative for SMEs and increasing the administrative hoops through which companies need to jump.

In the Autumn statement, the relief available to large companies was increased from 13% to 20% whilst the uplift available on R&D expenditure incurred by SMEs was cut from 130% to 86%. Loss making SMEs saw their surrenderable tax credit rate fall from 14.5% to 10%.

There was pressure on the Chancellor to redress the balance for SMEs following this decision and, in the Spring Budget, extra relief has been made available to loss-making R&D intensive SMEs. An SME will be viewed as R&D intensive where qualifying R&D expenditure constitutes at least 40% of the company's total expenditure.

The headline for these companies is that they will receive R&D relief of £27 for every £100 spent on R&D qualifying expenditure. The calculation behind this headline however is not quite as generous as it looks. The £100 will receive the 86% uplift giving an enhanced deduction of £186. The company would then be able to surrender that £186 loss for a tax credit under the old rate of 14.5%.

Based on the information available, it appears that any related company's total and qualifying expenditure would need to be aggregated to ensure the R&D intensive definition is met.

It is not yet clear how the cap on the R&D tax credit, limiting this credit to £20,000 plus 300% of the total PAYE and NIC liabilities incurred by those companies, will interact with this new initiative, though a specific exemption is thought to be unlikely.

Despite the increased challenges and reduced reliefs for companies trying to make an R&D claim, the tax relief available continues to be generous and it is still very much worth claiming for companies conducting R&D work.

Personal Tax

Pensions

The Government has announced several major changes to private pensions. The annual allowance is to be increased from £40,000 to £60,000 from 6 April 2023. Additionally, the adjusted income threshold – the point at which the annual allowance begins to be reduced for high earners (subject to a minimum of £10,000) - will also be increased from £240,000 to £260,000 from 6 April 2023.

Finally, in a bold move, the Lifetime Allowance charge has been removed from April 2023 and the Government will abolish the Lifetime Allowance entirely from April 2024.

These measures represent a welcome change for all of those who have been restricted from providing for their future retirement and will also reduce the number of taxpayers that need to report and pay pension tax charges.

The move is expected to help businesses retain their highly-skilled workers by encouraging them to remain in the labour market. It is considered particularly beneficial for retaining NHS doctors and is therefore expected to have the additional important benefit of helping tackle NHS waiting lists.

Childcare

Currently working parents with children between the ages of 3 and 4 are entitled to 30 hours of free childcare per week, for 38 weeks a year. From April 2024, this will be broadened to include working parents of 2-year-olds who will be entitled to receive 15 hours of free childcare per week for the same 38-week period. This will then be further extended to include working parents of children aged 9 months to 2 years old from September 2024. From September 2025, all eligible parents will be entitled to 30 free hours a week for children between 9 months and 3 years.

It is expected that this will enable parents to return to work earlier than they may otherwise have done.

Personal Tax

Qualifying Care Relief

From 6 April 2023, foster carers and shared lives carers will only pay tax on their care income in excess of £18,140 per year (plus £375-£450 per person cared for per week). The thresholds will then be index-linked.

These increases represent tax cuts worth approximately £450 per year on average.

Crypto Assets

From 6 April 2024, changes will be introduced to the self-assessment tax return requiring amounts that relate to crypto assets to be identified separately (rather than aggregated with other gains).

These changes appear to represent a keener focus by HMRC on the taxation of this area and will help ensure that such transactions are not inadvertently overlooked. Where crypto assets are owned and/or sold, careful consideration of the compliance position is recommended in advance of these changes.

Tax Simplification

The Office for Tax Simplification may be closing but, in a positive development, the Government appears to be continuing to focus on making tax more accessible for individuals and businesses.

In the Spring Budget, several simplification measures were announced and even more will be under consultation in the coming months.

EMI Options

In good news for SMEs, the process of granting EMI options has been made simpler and as a result, may make the implementation of an EMI scheme even more attractive.

From April 2023 share restrictions will no longer need to be detailed in the option agreements and the obligation for the company to declare that the employee has signed a working time declaration will also be removed.

From April 2024 the Government will extend the deadline for a company to notify HMRC of the grant of EMI options from 92 days following the grant to the 6 July following the end of the tax year.

Transforming HMRC Guidance for Small Businesses

The Government, together with businesses and representatives will undertake a systematic review of the guidance and forms available to small businesses over the next 24 months. The aim will be to ensure the guidance is clear, as simple as possible and is easy to find. The review will also seek to make its guidance and forms more modern, making them interactive and easier to use.

Agent Access for Payroll Benefits

The Government will deliver IT systems to enable tax agents to payroll Benefits in Kind on behalf of employers.

This will help reduce burdens on employers and enable agents to support their clients more effectively.

Tax Simplification

Trusts

Trustees and personal representatives of death estates do not receive tax allowances in the same way as individuals and are therefore required to file a self-assessment return for small amounts of income received, increasing their administrative burden.

The Government has announced its intention to legislate recent proposals such that:

1. trusts and estates with income up to £500 will not pay tax on that income as it arises
2. the default basic rate and dividend ordinary rate of tax that applies to the first £1,000 slice of discretionary trust income will be removed
3. beneficiaries of UK estates will not pay tax on income distributed to them that is within the £500 limit for the personal representatives.

These changes will apply from the tax year 2024-25.

From 6 April 2023, HMRC will make technical amendments to ensure tax credits and savings allowances continue to operate correctly for beneficiaries of estates.

The proposed changes should ease compliance burdens for trusts in receipt of nominal amounts of income.

R&D

Despite today's announcement regarding R&D, the Government has confirmed it is reviewing the outcome of its consultation on aligning the R&D tax reliefs available under the RDEC and SME schemes.

This could greatly simplify some of the challenges for companies when it comes to quantifying the tax savings of making an R&D claim, particularly those on the borderline of the two schemes.

Cash Basis

The Government has announced a consultation on the extension of the cash basis form of accounting, which could see the scheme made available to sole traders who are not able to access the scheme due to the turnover limits.

An extension to the current parameters of the scheme could open the door for many businesses to use this simplification.

Creative Industries

Audio-Visual Tax Reliefs

Following a recent consultation, from April 2024 the following tax reliefs will be reformed:

- Film Tax Relief (FTR)
- High-End Television Tax Relief (HETV)
- Animation Tax Relief (ATR)
- Children's TV Tax Relief (CTR) and
- Video Games Tax Relief (VGTR)

Rather than an adjustment to the taxable profit under the existing regime, tax credits will be calculated from qualifying expenditure. The conditions for relief are expected to otherwise remain unchanged.

It is suggested that these changes will increase the value of tax advantages available. While the headline figures do seem generous – FTR, HETV and VGTR at 34%, and ATR and CTR at 39% - the changes also bring additional complexities.

The Budget publications suggest that the tax credit will be limited to the claimant's expenditure on workers' PAYE and NICs, potentially restricting relief for many companies that rely primarily on contractors, rather than salaried staff.

Care should be taken to ensure that these valuable tax reliefs are not lost.

Other Creative Tax Reliefs

The Government will also extend the temporary higher rates of theatre, orchestra, and museums and galleries tax reliefs for 2 further years, from April 2023.

However, new rules are to be introduced to limit qualifying expenditure to costs incurred within the UK (previously expenditure across the EEA has qualified for relief).

Employers

The majority of the Chancellor's announcements around personal finance were aimed at supporting people in work.

For those working low hours, the Administrative Earnings Threshold will increase from the equivalent of 15 hours to 18 hours at the National Living Wage for an individual.

This means anyone currently working fewer than 18 hours will have fresh requirements to meet with DWP officials to find more work. If they do not, they risk having their benefits cut.

The Chancellor also announced "returnerships", otherwise known as later-life apprenticeships, to harness the skills of the over-50s and boost their chance of finding higher-paid jobs. Given these were directly compared to apprenticeships, it would seem likely that there would be some tax incentives associated with this scheme.

A more stringent Universal Credit job search requirement features in the plan that will boost the UK's workforce, fill vacancies, and support economic growth.

Investment Zones

There is a plan to introduce eight new Investment Zones, ‘Canary Wharfs’, across England with four more planned across Scotland, Wales and Northern Ireland. These eight areas include the East Midlands, Greater Manchester, Liverpool, the North East, South Yorkshire, the Tees Valley, the West Midlands and West Yorkshire - areas with an established or proposed Mayoral Combined Authority (MCA).

These zones are to be backed by £80m investment over the next five years, clustered around universities or other research institutions in areas which the Government says have traditionally underperformed. These zones will be focused on a series of key sectors including technology, life sciences, advanced manufacturing, and green technology.

Plans will be developed by MCAs in partnership with local councils, universities and businesses, and agreed upon with the Government by the end of 2023.

The zones will have access to a single 5-year tax offer matching that in freeports, including enhanced rates of Capital Allowance, Structures and Building Allowance, and relief from Stamp Duty Land Tax, Business Rates and Employer National Insurance Contributions.

Indirect Tax

Duties

- To support British pubs, the Chancellor announced an increase to draught relief from 1 August, freezing the duty for beer served in pubs to ensure that it will be lower than in supermarkets. Meanwhile, duty rates of all alcoholic products produced in or imported into the UK will increase in line with RPI.

- The Chancellor also announced that duty rates on all tobacco products will increase by RPI + 2%. The rate on hand-rolling tobacco will increase by RPI + 6%, and the minimum excise tax will increase by RPI + 3% this year.

- In a boost to drivers, the Chancellor confirmed that the 5p cut in fuel duty will remain in place for another year, while the planned increase in line with inflation for 2023-24 will also be cancelled.

- Air Passenger Duty rates will increase in line with RPI for 2024-25 rounded to the nearest pound, meaning that short haul international rates remain frozen.

Indirect Tax

Sustainability and the Environment

The Chancellor introduced new funding for certain carbon capture and storage (CCS) technologies, the reclassification of nuclear energy as sustainable, the extension of the Climate Change Agreement (CCA) scheme while freezing the rates of a number of environmental taxes.

Environmental taxation can be a useful lever to nudge behaviour towards more sustainable activities. This year's Budget has left environmental taxation relatively undisturbed while promising to invest substantial sums into developing environmental technologies. The commitment to inject £20bn into the development of carbon capture is unprecedented - even though a previous Government set up a similar competition some 10 years ago, albeit for a smaller sum of £1bn. Hopefully this will help the UK become a leader in this technology.

Climate change levy (CCL) is a carbon tax on energy commodities supplied for consumption in the UK and is part of the UK's carbon price support mechanism. Updating the UK's green taxonomy to describe nuclear power as "environmentally sustainable" may result in the nuclear industry being able to access some financial incentives that would not otherwise be available but will not attract any beneficial treatment for CCL given that the exemption for renewable source energy was withdrawn in 2015.

On the other hand, the scope for CCL relief will be improved by the two-year extension of the Climate Change Agreement Scheme, re-announced by the Chancellor in this Budget. The extension of the scheme to include new applicants may, according to the Chancellor, lead to an additional £60M of tax relief arising from energy efficient measures.

Other environmental tax measures announced or confirmed in the Budget are likely to have minimal impact on businesses or individuals. These included:

- Increasing the rate of plastic packaging tax in line with CPI from 1 April 2023
- Increasing the rates of landfill tax in line with RPI from the 1 April 2023;
- Freezing the rate of aggregates levy for 2023-2024;
- Increasing rates for air passenger duty in line with RPI for 2024–2025 (following a 50% cut in APD for domestic flights in 2023-2024).

Indirect Tax

Pharmacists

From 1 May 2023, pharmacists will be able to extend the VAT exemption they apply to services covered under the medical provision. It is important to note, however, that the greater the VAT exempt supplies that are made, the less potential VAT can be recovered on business costs. This is an issue for pharmacists to carefully consider as they recode their income from May.

A plan to extend the zero rating on prescriptions to medicines supplied through Patient Group Directions, will be more welcome as the zero rate enables no VAT to be accounted for on the charge, but protects VAT recovery on associated costs.

Previous Announcements

Corporation Tax

From April 2023, the main rate of corporation tax will 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.

BIK on Electric Cars

The Government has 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).

Capital Gains

The capital gains allowance will from 6 April 2023 be reduced to £6,000, followed by a further reduction from 6 April 2024 to only £3,000.

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 of 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+.

Personal Allowances and Thresholds 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 at more than 10%, everyone could find significantly less in their pockets at the end of each month.

Dividends

The dividend allowance will 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 be additional tax of £87.50 for a basic rate taxpayer, £337.50 for higher rate taxpayers and £393.50 for additional rate taxpayers.

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.

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