Budget Summary 15 March 2023

As expected, the Chancellor, Jeremy Hunt, resisted pressure to reduce taxes in any significant way, and the majority of his announced changes were already in the public domain. According to the Chancellor, the UK economy is on track to grow in the coming year with inflation halving.

We have listed any new variations in the UK tax rates, allowances, reliefs and other matters of interest in the update set out below.

Impact on personal finances

Increase in pensions' tax support
The present £40,000 cap on annual pension contributions that qualify for income tax relief is being increased to £60,000 from 6 April 2023.

The present lifetime allowance is being abolished.

Both of these changes are intended to incentivise older employees to continue in work whilst continuing to build additional pension savings.

In addition, the money purchase annual allowance will increase from £4,000 to £10,000 and the minimum tapered annual allowance will increase from £4,000 to £10,000 from 6 April 2023.

The adjusted income threshold for the tapered annual allowance will also be increased from £240,000 to £260,000 from 6 April 2023.

Childcare support increased
Childcare support in England is being expanded to include children over the age of 9 months. The announcement confirmed 30-hours of free childcare for every child over the age of 9 months, with support being phased in until every single eligible working parent of under 5s gets this support from September 2025.

The changes will be introduced in phases, with 15-hours of free childcare for working parents of 2-year-olds coming into effect in April 2024 and 15 hours of free childcare for working parents of children from 9 months from September 2024.

Parents receiving universal credit as well as being in employment will receive financial support to include upfront payment of childcare costs. The maximum they can claim will also be boosted to £951 for one child and £1,630 for two children – an increase of around 50%

Extension of energy price guarantee
It was announced that the energy price guarantee cap of £2,500 would be extended for the next three months until 30 June 2023. From 1 July 2023 (rather than 1 April 2023 as previously announced), this guarantee will change so that the typical household will pay on average £3,000 a year (an increase of £500).

Also, from 1 July 2023, the government will adjust the energy price guarantee premium that over 4 million households pay for their prepayment meter. This will bring their charges into line with comparable customers who pay by direct debit.

Duties on fuel frozen
The proposed 11p rise in fuel duty will be cancelled thus maintaining last year's 5p cut for another 12-months.

Draught relief
Draught relief has also been significantly extended from 5% to 9.2%, so that the duty on an average draught pint of beer served in a pub, from 1 August 2023, will be up to 11 pence lower than the duty in supermarkets. The commitment to duty on a pub pint being lower than the supermarket has been termed the "brexit pubs guarantee" by the Chancellor, and this change will also be enjoyed by every pub in Northern Ireland thanks to the Windsor Framework.

Access to employment reforms
Major set of reforms to support people into work, removing barriers that stop those on benefits, older workers, and those with health conditions who want to work.

Impact on UK businesses

Full expensing
The major announcement affecting business investment, and to reduce the impact of the forthcoming increase in corporation tax from April 2023, is the ability of large companies to "fully expense" the purchase of qualifying plant and other equipment.

This will include spending on, but is not limited to, warehousing equipment such as forklift trucks, tools such as ladders and drills, construction equipment such as bulldozers and excavators, machines such as computers and printers, vehicles such as tractors, lorries and vans, office equipment such as chairs and desks, and some fixtures such as kitchen and bathroom fittings and fire alarm systems.
Effectively, qualifying purchases can be written off completely against company taxable profits.

The 'full expensing' policy will be introduced from 1 April 2023 until 31 March 2026.

The 50% first year allowance (FYA)
This current allowance lets taxpayers deduct 50% of the cost of other plant and machinery, known as special rate assets, from their profits during the year of purchase. This includes long life assets such as solar panels and thermal insulation on buildings.

The 50% FYA was introduced alongside the super-deduction and was due to end on 31 March 2023. It will now be extended by three years to 31 March 2026. For each year following the first year, 6% of the remaining cost will be written off via writing down allowances (WDAs).

The 50% FYA allows for faster relief than under the default WDAs-only regime, which is worth 6% each year, including year one.

As part of his commitment to maintain a stable economy, the Chancellor's long-term ambition is to make the 50% FYA permanent.

Simplifying tax system
Changes to simplify the tax system of the UK were underlined by a number of changes to positively impact the lives of small business owners. They are:

- Changes to the enterprise management incentives (EMI) scheme from April 2023 to simplify the process to grant options and reduce the administrative burden on participating companies. This includes, from 6 April 2023, removing requirements to sign a working time declaration and setting out details of share restrictions in option agreements.
- Delivery of IT systems to enable tax agents to payroll benefits in kind on behalf of their clients – allowing agents to better support their clients and reducing burdens on employers.

- The government will extend the help to save scheme by 18-months, on its current terms, until April 2025. A consultation will also be launched on longer terms options for the scheme.
- Measures to simplify the customs import and export processes, including improvements to the simplified customs declaration process, and the modernising authorisations project.

R&D tax credits
A £500 million per year package of support for 20,000 research and development (R&D) intensive businesses through changes to R&D tax credits was announced. In full, the Chancellor's announced changes in this important area are:

- The scheme is targeted specifically at loss making R&D intensive SMEs. Focusing support towards those most impacted by the rate changes introduced at Autumn Statement 2022.
- A company is considered R&D intensive where its qualifying R&D expenditure is worth 40% or more of its total expenditure.
- Eligible loss-making companies will be able to claim £27 from HMRC for every £100 of R&D investment, instead of £18.60 for non-R&D intensive loss makers.
- Around 1,000 claiming companies will come from the pharmaceutical and life sciences industry. This will support the development of life saving medicines.
- Around 4,000 digital SMEs will be from the computer programming, consultancy, and related activities sector. This will support the development of AI, machine learning and other digital based technologies.
- Around 3,000 other manufacturing firms, and another 3,000 professional, scientific, and technical activities firms will also qualify for the enhanced support.
- This builds on previously announced changes to support modern research methods by expanding the scope of qualifying expenditure for R&D reliefs to include data & cloud computing costs.
- The permanent increase from 13% to 20% for the R&D expenditure credit rate announced at autumn statement 2022 also means the UK now has the joint highest uncapped headline rate of tax relief in the G7 for large companies.

Creative sector tax concessions
Newly announced reforms to tax reliefs for the creative sectors will ensure theatres, orchestras, museums and galleries are protected against ongoing economic pressures and will continue to guarantee that more world-class productions are made in the UK.

UK AI research support
£900 million of funding was committed for an AI research resource and an exascale computer – making the UK one of only a handful of countries to have one – and a commitment to £2.5 billion ten-year quantum research and innovation programme through the government's new quantum strategy.

Levelling up
The following measures were announced to help level-up growth across the UK:

- Greater responsibility for local leaders to grow their local economy.
- Over £200 million for high quality local regeneration projects in areas of need, from the transformation of Ashington Town Centre to a skills and education campus in Blackburn.
- Over £400 million for new Levelling Up Partnerships for twenty areas in England, such as Rochdale and Mansfield.
- Business rates retention expanded to more areas in the next Parliament.

- Delivering trailblazer devolution deals for the West Midlands and Greater Manchester Combined Authorities that include single multi-year settlements for the next Spending Review, alongside a commitment to negotiate further devolution deals in England.
- 12 investment zones across the UK including 4 across Scotland, Wales and Northern Ireland.
- £8.8 billion over the next five-year funding period for a second round of the City Region Sustainable Transport Settlements.

Many of the Budget decisions on tax and spending apply in Scotland, Wales and Northern Ireland. As a result of decisions that do not apply UK-wide, the Scottish Government will receive around an additional £320 million over 2023-24 and 2024-25, the Welsh Government will receive £180 million, and the Northern Ireland Executive will receive £130 million.

Previously agreed changes effective from April 2023
Changes to personal or business finances (from April 2023) that were agreed or announced prior to the Budget presentation by Jeremy Hunt on 15 March are listed below:

- £900 cost of living payment for households on means-tested benefits in 2023-24
- £300 pensioner cost of living payment in 2023-24
- £150 disability cost of living payment in 2023-24
- Business rates: freezing the multiplier in 2023-24
- Business rates: 75% relief for retail, hospitality and leisure sectors in 2023-24, up to £110,000 cash cap
- Business rates: three-year transitional relief to limit bill increases at the revaluation
- Business rates: three-year supporting small businesses scheme for properties losing small business rates relief or rural rates relief
- Business rates: delay improvement relief by one year to April 2024
- Business rates: relief for property improvements from 2024-25
- Income tax and national insurance: maintain thresholds at 2023-24 levels until April 2028
- Inheritance tax: maintain thresholds at current level until April 2028
- Income tax: reduce the dividend allowance from £2,000 to £1,000 from April 2023 and then £500 from April 2024
- Income tax: reduce the additional rate threshold from £150,000 to £125,140 from April 2023
- Capital gains tax: reduce the annual exempt amount from £12,300 to £6,000 from April 2023 then £3,000 from April 2024
- Vehicle excise duty: equalise treatment of electric and internal combustion engine vehicles from April 2025
- National Insurance: maintain the secondary threshold for employer contributions at current level from April 2023 until April 2028
- R&D tax reliefs: rebalance generosity of reliefs from 1 April 2023
- VAT: maintain registration threshold at current level, £85,000 to 31 March 2026
- Van benefit charge: uprate with CPI in 2023-24
- Car fuel benefit charge: uprate with CPI in 2023-24
- First year allowance for electric vehicle charge points: extend for a further two years until April 2025
- Pension credit: uprate standard minimum guarantee by CPI in 2023-24

- Benefit cap levels: uprate by CPI in 2023-24
- Capital gains tax: extend the period for no gain/no loss transfers to three years for couples that separate or divorce
- Annual investment allowance: permanently set at £1m from April 2023
- Income tax: basis periods reform for the self-employed from April 2024 with transition year in 2023-24
- Corporation tax: 19% rate for profits up to £50,000, tapering to main rate of 25% for profits over £250,000, from April 2023

OUR SUMMARY

One thing is for sure, our tax code and the supporting business regulations are becoming more complex in spite of the promoted changes towards simplifying matters.

If you are concerned or interested in more information on any of the announcements described in this short update, please call us on 02028 502 0411 to discuss how you may be affected.