SRLV

AUTUMN STATEMENT 2023

HIGHLIGHTS FROM THE CHANCELLOR'S STATEMENT

November 2023

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INTRODUCTION

Jeremy Hunt rose to his feet to deliver his second Autumn Statement this week. With a general election now expected next year and inflation below target, there was hope of a mooted pre-election giveaway following several years of austerity (due to the COVID pandemic and energy crisis) and a high tax burden locked in for next year and beyond.

What followed, whilst welcome, felt somewhat underwhelming and I can't help but think this may just be a taster of perhaps more meaningful headlines to come in the Spring Budget in March 2024 when election campaigns could potentially be in full swing.

In an attempt to balance the books, the freezing of rate bands and allowances has boosted Treasury coffers. Indeed, the much-mooted cut in National Insurance for individuals is countered to a degree by the fact that the relevant bands are frozen for 2023/24 and 2024/25, so with wages (including the National minimum wage increase) raising above the current rate of inflation, more people will be paying National Insurance in any case.

As ever, we'll be keeping a close eye on the forthcoming election and will update you on all the relevant tax announcements. Please do get in touch with any questions.

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INDIVIDUALS

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INCOME TAX

INCOME TAX RATES

The government has stated that the basic rate will remain at 20%, the higher rate at 40% and the additional rate at 45% for 2024/25.

They also reduced the point at which individuals pay the additional rate of 45% from £150,000 to £125,140 for the current tax year and this will continue for 2024/25.

INCOME TAX ALLOWANCES

The income tax personal allowance and basic rate limit are fixed at their current levels until April 2028. They are £12,570 and £37,700 respectively. For those entitled to a full personal allowance, the point at which they will pay income tax at the higher rate will continue at £50,270.

DIVIDENDS

The government has also confirmed that, from 6 April 2024, the rates of taxation on dividend income will remain as follows:

- the dividend ordinary rate - 8.75%
- the dividend upper rate - 33.75%
- the dividend additional rate - 39.35%

As corporation tax due on directors' overdrawn loan accounts is paid at the dividend upper rate, this will also remain at 33.75%.

The government will reduce the Dividend Allowance from £1,000 to £500 from 6 April 2024.

The Scottish and Welsh governments will make their announcements on the devolved elements of taxation policy in due course.

NATIONAL INSURANCE CONTRIBUTIONS

The Chancellor announced major changes to the National Insurance contributions (NICs) system.

EMPLOYEES AND NICS

The government will cut the main rate of Class 1 employee NICs from 12% to 10% from 6 January 2024 so that employees can benefit as soon as possible.

THE SELF-EMPLOYED AND NICS

The self-employed generally have to pay two forms of NICs: Class 2 and Class 4.

Firstly, the government will abolish Class 2 self-employed NICs from 6 April 2024. This means that, from 6 April 2024:

- Self-employed people with profits above £12,570 will no longer be required to pay Class 2 NICs but will continue to receive access to contributory benefits, including the State Pension.
- Those with profits between £6,725 and £12,570 will continue to get access to contributory benefits, including the State Pension, through a National Insurance credit without paying NICs.
- Those with profits under £6,725 and others who pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension, will continue to be able to do so.

The government will set out the next steps on Class 2 reform next year.

Secondly, the government will cut the main rate of Class 4 self-employed NICs from 9% to 8% from 6 April 2024.

INDIVIDUAL SAVINGS ACCOUNTS

The government is freezing the limits on Individual Savings Accounts (ISAs) (£20,000), Junior Individual Savings Accounts (£9,000), Lifetime Individual Savings Accounts (£4,000 excluding government bonus) and Child Trust Funds (£9,000) for 2024/25.

However, a number of changes will be made to allow multiple subscriptions to ISAs of the same type every year and to enable partial transfers of ISA funds in-year between providers from April 2024.

PENSION TAX LIMITS

A number of changes were made to the tax regime for pensions for 2023/24 and these include the following, which will remain at their 2023/24 levels for 2024/25:

- The Annual Allowance (AA) is £60,000.
- Individuals who have 'threshold income' for a tax year of greater than £200,000 have their AA for that tax year restricted. It is reduced by £1 for every £2 of 'adjusted income' over £260,000, to a minimum AA of £10,000.
- No Lifetime Allowance (LA) charge.

In addition, as previously announced the LA of £1,073,100 will be abolished from 2024/25. Changes will be made to clarify the taxation of lump sums and lump sum death benefits, and the application of protections, as well as the tax treatment for overseas pensions, transitional arrangements, and reporting requirements.

OUR VIEW

After the rumours and speculation in the media over the last few days, I think Mr Hunt's 2023 Autumn Statement was a bit of a disappointment. No changes to the main rates of Income Tax were announced, nor were there any increases to the basic and higher rate thresholds - and there was no mention of Inheritance Tax at all. Perhaps the Chancellor is keeping these back for a more dramatic announcement in the spring, or as part of the Conservative Party's manifesto ahead of the next General Election.

The main headline here was the National Insurance Contribution (NIC) cuts for both employees and self-employed taxpayers, but I feel the impact of these would have been more keenly felt if the personal allowance and income tax thresholds were also increased.

The National Living Wage was increased to £11.44 per hour. This rise will generally benefit individuals on lower incomes, though there will be an impact on certain employers, including our clients in the hospitality and retail sectors.

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BUSINESS & CORPORATE

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NATIONAL LIVING WAGE AND NATIONAL MINIMUM WAGE

The government has accepted in full the recommendations of the Low Pay Commission and announced increased rates of the National Living Wage (NLW) and National Minimum Wage (NMW) which will come into force from April 2024. In addition, from April 2024 the NLW will be extended to 21 and 22 year olds. The rates, which will apply from 1 April 2024, are as follows:

AGE	NLW	18-20	16-17	APPRENTICES
From 1 April 2024	£11.44	£8.60	£6.40	£6.40

The apprenticeship rate applies to apprentices under 19 or 19 and over in the first year of apprenticeship. The NLW applies to those aged 21 and over.

COMMENT

“The Department for Business and Trade estimates 2.7 million workers will directly benefit from the 2024 National Living Wage increase. However, this will impact certain employers, such as those in the hospitality and retail sectors.”

BUSINESS RATES

The small business multiplier will be frozen for another year, while the 75% Retail, Hospitality and Leisure relief will be extended for 2024/25. The standard multiplier will be uprated in line with September’s Consumer Prices Index. These changes will take effect from 1 April 2024 in England.

CAPITAL ALLOWANCES

The new Full Expensing rules for companies allow a 100% write-off on qualifying expenditure on most plant and machinery (excluding cars) as long as it is unused and not second-hand. The rules were originally designed to be effective for expenditure incurred on or after 1 April 2023 but before 1 April 2026. Similar rules apply to integral features and long life assets at a rate of 50%. The government has announced that both allowances will now be made permanent.

The Annual Investment Allowance, which gives a 100% write-off on certain types of plant and machinery, remains at £1 million per 12-month period.

RESEARCH AND DEVELOPMENT (R&D)

The existing Research and Development Expenditure Credit (RDEC) and SME schemes will be merged, with expenditure incurred in accounting periods beginning on or after 1 April 2024 being claimed in the merged scheme. The rate under the merged scheme will be set at the current RDEC rate of 20%. The notional tax rate applied to loss-makers in the merged scheme will be lowered from 25% to 19%.

A number of other changes will apply to the new regime from April 2024, including that R&D claimants will no longer be able to nominate a third-party payee for R&D tax credit payments, subject to limited exceptions. In addition, no new assignments of R&D tax credits will be possible from 22 November 2023, meaning that, in most circumstances, payments of R&D tax reliefs will be paid directly to the company that claims for the R&D.

CORPORATION TAX RATES

The government has confirmed that the rates of corporation tax will remain unchanged which means that, from April 2024, the rate will stay at 25% for companies with profits over £250,000.

The 19% small profits rate will be payable by companies with profits of £50,000 or less. Companies with profits between £50,001 and £250,000 will pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective corporation tax rate.

VAT

The VAT registration and deregistration thresholds will not change for a further period of two years from 1 April 2024, staying at £85,000 and £83,000 respectively.

OTHER BUSINESS MEASURES

A number of other measures have been announced:

- Making the cash basis of accounting the default position for the self-employed from 2024/25, with an alternative to opt for the accruals basis, together with technical changes to the regime.
- A number of changes to strengthen the Construction Industry Scheme from April 2024.

OUR VIEW

The abolition of Class 2 NIC and reduction of the Class 4 rate for the self-employed will be a welcome reduction and simplification, however it is noticeable that with only a 1% reduction in class 4 NIC it is perhaps less generous than for employees. With wages increasing above the current rate of inflation and bandings frozen, employers NIC will continue to rise for hard pressed employers looking to retain and attract staff.

For Companies, the permanence of the full expensing relief for new equipment was widely anticipated and trumpeted by the Chancellor but, in reality, is only relevant for 2026/27 onwards. It does, however, allow corporate businesses to plan for significant future expenditure projects with some confidence in relation to the tax outcome.

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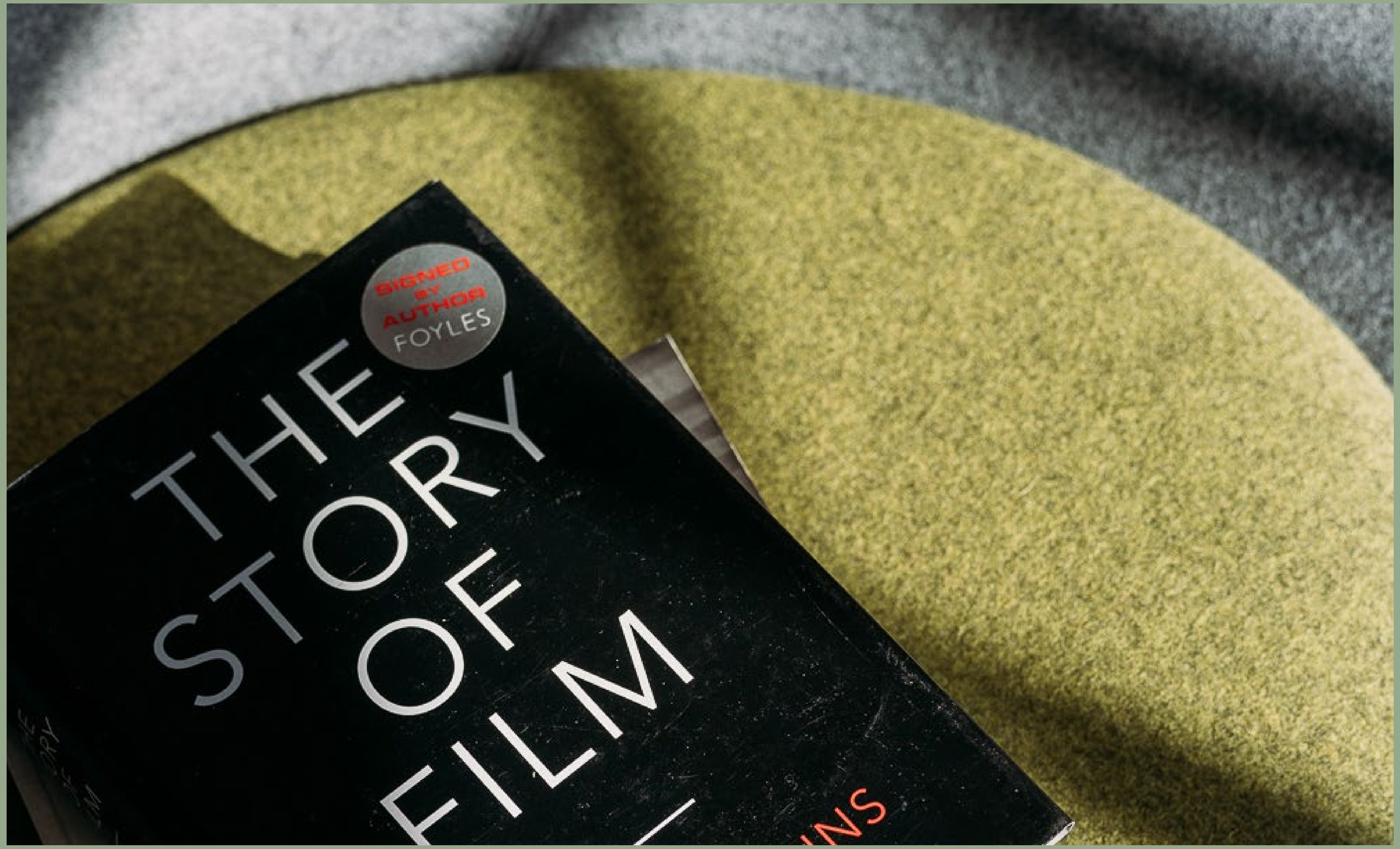
CREATIVE INDUSTRY TAX RELIEFS (CITR)



WHILE THE MENTION WAS FLEETING IN THE CHANCELLOR'S ADDRESS, THE FINAL DETAILS OF THE REFORMS TO CREATIVE INDUSTRY TAX RELIEFS AND AUDIO-VISUAL TAX RELIEFS HAVE NOW BEEN CONFIRMED. AFTER LOBBYING HARD, ALONG WITH FELLOW ADVISORS, IT SEEMS THAT THE GOVERNMENT HAS LISTENED AND INCLUDED SOME OF THE KEY AMENDMENTS THAT WE HAD ALL BEEN HOPING FOR. HOWEVER, THERE IS MUCH TO BE ANALYSED AND FURTHER DETAILS WILL FOLLOW OVER THE COMING WEEKS.

Jai Vora
Partner

CREATIVE INDUSTRY TAX RELIEFS (CITR)

OUR VIEW

Since the Spring Budget, we've been eagerly awaiting the Autumn Statement and further details of the government's Creative Industry Tax Relief (CITR) reforms and, in particular, the amendments for the new Audio-Visual Expenditure Credit (AVEC) for film and television programmes, and the Video Games Expenditure Credit (VGEC) for video games.

Whilst the mention was fleeting in the Chancellor's address, following the government's consultation on reforms to Creative Industry Tax Reliefs (CITR), the final amendments to the draft legislation for the Audio-Visual Expenditure Credit (AVEC) and Video Games Expenditure Credit (VGEC) have now been confirmed. There is much detail to be analysed, but it appears that the government has listened to claims of the suggested unfairness in the proposals as laid out originally. Further updates will follow in the coming weeks.

CONNECTED PERSON RULE

This is the published position from HMRC on the connected person rule, which is one of many areas we had been seeking clarification on:

The connected party rule published in the draft legislation on 18 July 2023 now stipulates that the cost of goods or services provided between connected parties must be at an arm's length price. This will be introduced to the AVEC, VGEC, and the cultural reliefs.

Companies will be required to disclose connected party transactions.

Source: www.gov.uk

OTHER KEY DETAILS

The Chancellor announced further tax relief for visual effects (VFX) to help support the UK to become the first-choice destination for VFX production for international film and TV. This follows a recent consultation which concluded that VFX work has been going to other countries as the UK's tax system wasn't as attractive. The government said it would aim to implement the additional tax relief for UK VFX from April 2025 and called for the industry to input on the new measures, which will stimulate future investment.

Unfortunately, the Chancellor didn't respond to calls for a higher 40% AVEC rate for indie productions. This is something we'd been calling for and lobbying on, along with other industry advisors.

The legislation for AVEC, VGEC and the administrative changes to Theatre Tax Relief, Museums and Galleries Exhibition Tax Reliefs and Orchestra Tax Reliefs will be published as part of the Finance Bill 2023. As specialists in this area, we are best placed to interpret these reforms to ensure that you both benefit and manage any effects arising from the changes. Now we have confirmation of the final amendments, we will review everything and provide you with a full update over the coming weeks.

Overall though, it is very encouraging.

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OTHER TAX MATTERS

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CAPITAL GAINS

The capital gains tax annual exempt amount will be reduced from £6,000 to £3,000 from April 2024.

INHERITANCE TAX

The inheritance tax nil-rate bands will stay fixed at their current levels until April 2028: the nil-rate band will continue at £325,000, the residence nil-rate band will continue at £175,000 and the residence nil-rate band taper will continue to start at £2 million.

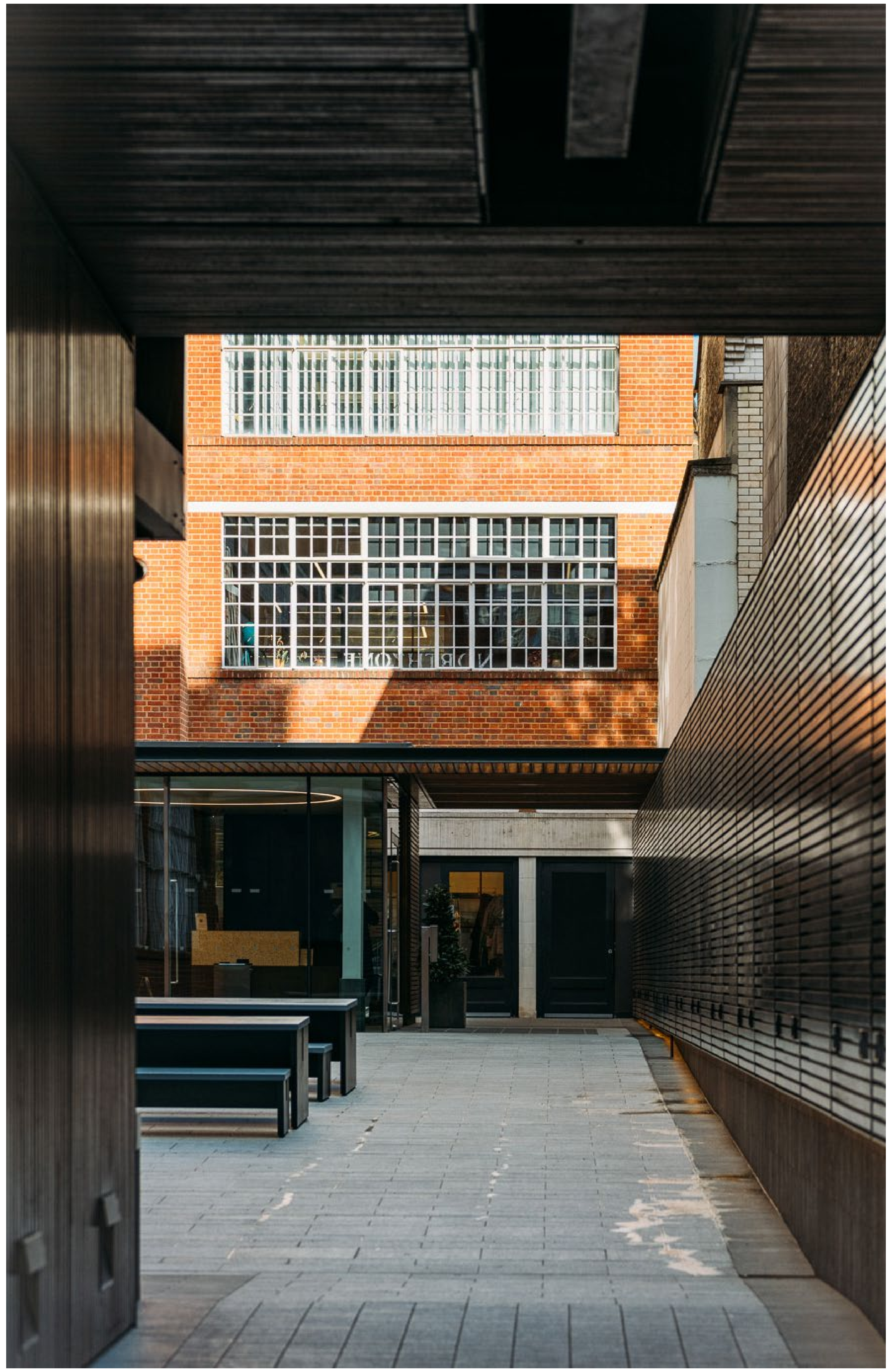
MAKING TAX DIGITAL

The government has announced the outcome of the review of the impact of Making Tax Digital (MTD) for Income Tax Self-Assessment (ITSA) on small businesses, which includes maintaining the current MTD threshold at £30,000 and design changes to simplify and improve the system. These changes will take effect from April 2026. The government will also ensure taxpayers who join MTD from 6 April 2024 are subject to the government's new penalty regime for the late filing of tax returns and late payment of tax.

COMMENT

"It is worth noting that Lord Harrington's Policy Paper on Foreign Direct Investment was also published on the day of the Autumn Statement. In Jeremy Hunt's announcement to the yesterday, he stated: 'I am extremely grateful to Lord Harrington for his excellent report on how to increase foreign direct investment. We accept all his headline recommendations.'

These recommendations included working to improve the UK business environment by taking steps to make it easier and quicker for non-UK residents to open a UK business bank account, as well as taking action to simplify and speed up the process of applying for government grants and better communicate the grants available."



WITH A TINGE OF DISAPPOINTMENT THIS YEAR'S STATEMENT WASN'T THE HEADLINE GRABBER WE THOUGHT IT WOULD BE, BUT WITH AN ELECTION LOOMING, REDUCING INFLATION AND IMPROVING PUBLIC FINANCES WE MAY GET OUR WISH COME MARCH. INCOME TAX, INHERITANCE TAX, BANDINGS AND ALLOWANCES MUST ALL BE HIGH ON THE AGENDA OF A CHANCELLOR LOOKING TO EXTEND HIS MANDATE FOR A FURTHER FIVE YEARS."

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