KPMG

UK Spring Statement 2022

What does the Spring Statement mean for you and your business?

The Spring Statement was intended to be an economic update with major policy announcements typically taking place in the Autumn. However, the cost-of-living crisis, exacerbated by the terrible events in Ukraine, has meant that the Chancellor has had to act now. Public sector borrowing has been lower than expected and that has given the Chancellor more opportunity to help those most affected. However, he was clear that economic strength and security was a priority to ensure the UK economy can cope with global events and, with uncertainty over the effect of the Ukraine war, some headroom was retained. Fundamental to this economic security is the reduction in borrowing costs which are set to peak next year.

The Chancellor announced short term measures targeted at lower income earners to help deal with the cost-of-living crisis. With inflation expected to be 7.4% on average for the year and with further increases in interest rates on the cards, the cost of living is a very significant challenge. While there had been calls for the NHS and Care Levy due to be introduced in April 2022 to be postponed or abolished the Chancellor has taken a different approach. The announcements today include:

- An immediate temporary 5p cut in fuel duty;
- An increase in the threshold at which NIC becomes payable to £12,750 to align it with income tax – effective from July 2022; and
- Doubling the Household Support Fund to £1bn.

The Chancellor also announced a three-part Tax Plan to take the government through to the end of the current parliament. The first part primarily included the measures above, but the second part was to encourage growth and productivity. R&D reform was already on the agenda and the Chancellor emphasised the desire to make the relief more effective as the UK lags behind other major economies on innovation. There is also a desire to increase private sector capital investment. The current generous super-deduction regime will end in April 2023 and the Chancellor is looking at ways to enhance reliefs for capital expenditure after this date. This should be welcomed by businesses as it coincides with the increase in the rate of corporation tax to 25% making the reliefs even more valuable. Finally, the UK also falls behind the major European economies when it comes to vocational qualifications and the effectiveness of the apprenticeship levy to reverse this position is to be reviewed. More details can be found on the following pages.

The final part of the Tax Plan was to ensure the proceeds from growth are shared more fairly. To this end, the Chancellor announced a 1% drop in the basic rate of income tax to 19% from April 2024. He also signalled further reform of reliefs and allowances ahead of April 2024 to make the tax system simpler, fairer and more efficient.

Two environmental measures were also announced: the acceleration of the implementation of green reliefs for business rates and the temporary removal of VAT on energy saving materials. Neither of these will be immediately applicable within Northern Ireland so the equivalent relief is being provided via additional funding through the Barnett formula.

Overall, the Chancellor has sought to address some of the immediate concerns for individuals and families but, for many businesses, they will have to wait until the Autumn Budget to find out about the changes to the R&D and capital allowance regimes. This all takes place in an economy finding its place post Brexit, recovering from the pandemic, facing an unprecedented cost of living crisis and shocked by the fallout from the Ukraine war. It will be refreshing, and indeed surprising, if the Tax Plan can be implemented without the Chancellor having to deal with new external shocks to the UK economy.

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Tax Incentives for Business

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A new Tax Plan was delivered by the Chancellor with an ambition to drive growth in the UK. With the Corporation Tax rate increasing to 25% from 1 April 2023 both the existing Research and Development (R&D) schemes and Capital Allowance regimes are being targeted to ensure they are as attractive as possible. Further details on the measures are expected later in the year but we have set out below what is already known:

Research and Development

The measures announced were in addition to those in the Autumn Budget and include increasing the rates of the existing R&D schemes as well as broadening the scope of the schemes to include the costs of pure mathematics research and data storage as qualifying expenditure.

In the Autumn Budget it was announced that there would be a greater focus on UK activities, and that activities carried out by subcontractors or externally provided workers outside the UK would no longer be qualifying. The government has reacted to feedback and will now legislate for expenditure on overseas activities to qualify in cases where geographical or regulatory requirements make it necessary for these activities to be carried on overseas.

Draft legislation covering changes to the R&D scheme is expected over the summer and will take effect from April 2023.

Capital Allowances

The Super Deduction, which has been in place since April 2021, will end in 2023 and the government has suggested new measures that are being considered to ensure future investment in capital expenditure is further encouraged. These include:

- The Annual Investment Allowance (AIA), which provides 100% relief on qualifying capital expenditure in the year of acquisition will remain at the temporary level of £1m per year until 2023. The suggestion is that this could be permanently set at £500k (previously £200k) per year from April 2023.
- Writing Down Allowances on main and special rate assets are currently 18% and 6% respectively. It has been proposed that these could be increased to 20% and 8%.
- First Year Allowances have been suggested on expenditure in excess of the AIA to allow a deduction for 40% and 13% on qualifying expenditure on main and special rate assets respectively.
- First year allowances for enhanced capital allowances of 20% in the year of expenditure followed by further capital allowances for 100% of the cost of an asset over the first and subsequent years are also being considered. The total allowances would be in excess of the cost of the assets over their useful economic life.
- A relatively simple change to expense the cost of qualifying investment as they are incurred has also been mentioned.

Business groups are expected to be consulted over the coming months, with the new measures selected to be announced in the Autumn Budget.

Indirect Taxes

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Given the current pressures being placed on household budgets, the Chancellor used indirect taxes to assist with the challenges being faced. Both measures announced relate to energy, given the greater proportion of expenditure that households are having to make in relation to electricity, gas and other fuels. As with the rest of the Spring Statement, the changes announced are limited and no other VAT announcements were made.

Fuel duty cut by 5p per litre

As widely expected, the Chancellor announced a fuel duty cut of 5p per litre with effect from 6pm on Wednesday, 23 March. The rate had been frozen at 57.95p per litre since 2011 and this new cut will last for 12 months. As VAT is calculated on top of the duty, this should see a reduction of pump prices of 6p, assuming the cut is fully passed on to consumers.

Energy Saving Materials (ESMs) – 5% rate lowered to 0% (and the 2019 narrowing of scope of the relief reversed)

VAT on energy saving materials such as solar panels, heating pumps and roof insulation has been cut from 5% to 0% for five years to help people to become more energy efficient. The government will also reverse a Court of Justice of the European Union ruling that restricted the application of VAT relief on the installation of ESMs. This will mean wind and water turbines will be added to the list of ESMs and the complex eligibility conditions will be removed.

Due to the terms of the Northern Ireland Protocol, which means that EU VAT rules apply to supplies of goods in Northern Ireland, these VAT changes cannot specifically be applied to legislation in Northern Ireland. However, the Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide. Therefore, Northern Ireland households and consumers should ultimately be able to benefit from this reduction in the VAT rate.

These changes will take effect from April 2022.

Personal Taxation

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National Insurance Contribution (NIC) measures

Whilst the Chancellor acknowledged that the introduction of the Health and Social Care Levy had been unpopular at a time when the cost of living has accelerated, he confirmed that the planned 1.25 percentage point increase in national insurance for both employers and employees will go ahead in April to raise funds for the NHS. From April 2023 the levy will appear as a separate deduction on employees' payslips.

In order to mitigate the expected cost increases for low and middle income workers, and to help insulate small employers from these higher rates, two new changes to the national insurance system have been announced.

The first of these changes is an increase in the NIC threshold, the income level at which employees begin to pay national insurance, by £3,000 to £12,570. This is a significant increase and should help both reduce costs as well as simplifying the tax system, as it equalises the income tax and NIC thresholds. The Chancellor said that 70% of workers would pay less NIC when the levy and this change are taken into account. It is intended to take effect from July 2022 to allow all payroll software developers and employers the time to update their systems and implement this change. There will also be a reduction in Class 2 NIC payments to support approximately 500,000 self-employed people.

In his second NIC related proposal the Chancellor announced that the employment allowance will increase further from April 2022, meaning eligible employers will be able to reduce their employer NIC bills by up to £5,000 per year, representing an increase in the allowance of £1,000 from the previous year.

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