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# UK Autumn Statement 2022

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## What does the Autumn Statement mean for you and your business?

Today's Autumn Statement was delivered amidst a significant deterioration in the UK's economic and fiscal outlook (due to the cost of living crisis and various global challenges, including the impact of the illegal war in Ukraine) with most forecasters predicting the economy moving into a recession.

The Chancellor's primary focus was to deliver a balanced package of measures aimed at fiscal stability, while helping to tackle the cost of living crisis and preserving the necessary conditions for economic growth.

While there had been lots of speculation leading up to today about possible radical tax changes for example to the non-domicile regime, with the exception of a temporary windfall levy on large electricity generators, the revenue raising measures came largely through 'stealth taxes' due to a freezing of allowances and bands.

Our KPMG in Northern Ireland team have prepared an overview of the main tax items in today's statement affecting businesses and individuals, all of which have application to Northern Ireland unless indicated otherwise.

**Some changes of note are:**

- A reduction of the threshold at which income is taxed at 45% from £150,000 to £125,140, a gradual reduction in the dividend allowance from £2,000 to £500, a further freezing of the inheritance tax exempt amount at £325,000 and a gradual reduction in the annual CGT exemption from £12,300 to £3,000.
- A freezing of the personal allowance, basic and higher rate bands and national insurance threshold for a further two years to 2028. This will affect all taxpayers as incomes rise over that time. For some this may be partly offset by planned increases in the National Minimum Wage and National Living Wage.
- Changes to the SME and RDEC schemes for R&D tax credits are outlined on the following pages.
- A reconfirmation of the increase in the corporation tax rate from 19% to 25% (for profits over £250,000) from April 2023.
- Confirmation that the Pillar 2 rules to tax multinationals, proposed by the OECD, will be implemented in the UK.

There are substantial Business Rate reliefs but these are not applicable to Northern Ireland which will instead receive an additional contribution under the Barnett formula.

Overall, the Chancellor has announced significant tax increases without significant changes to the design of the tax system. Whilst this may have been an opportunity missed to simplify the tax system, businesses in particular will be pleased there are no new taxes or significant changes to get to grips with (for now at least).

**Johnny Hanna**
Partner in Charge and Head of Tax
KPMG in Northern Ireland

# Personal Taxes

**Kevin Bell**
*Partner*

No significant changes. Despite significant speculation of changes in personal and capital taxes, the Chancellor has refrained from introducing any material changes in these areas.

**Income tax additional rate threshold**
The income tax additional rate threshold (ART) will be lowered from £150,000 to £125,140 from 6 April 2023. The ART for non-savings and non-dividend income will apply to taxpayers in England, Wales, and Northern Ireland. The ART for savings and dividend income will apply UK-wide.

**Dividend Allowance**
Despite speculation of a possible increase in dividend tax rates to align more closely with income tax rates, the only change announced is the reduction in the dividend allowance from £2,000 to £1,000 with effect from April 2023, and to £500 from April 2024.

**Inheritance tax (IHT) nil-rate band and residence nil-rate band**
The inheritance tax nil-rate bands were previously set at current levels until April 2026 (£325,000 nil-rate band and £175,000 residence nil-rate band). These will now stay fixed for a further two years until April 2028. The residence nil-rate band taper will continue to start at £2 million. Qualifying estates can pass on up to £500,000 of unutilised nil-rate band value on death to a surviving spouse. The qualifying estate of the surviving spouse can avail of up to £1 million of aggregate nil-rate bands before incurring an inheritance tax liability.

Despite concerns of restrictions to IHT reliefs (and in particular the Business Property Relief regime), no changes were announced to existing IHT reliefs or rates.

**Capital Gains Tax Annual Exempt Amount**
The capital gains tax annual exempt amount will be reduced from £12,300 to £6,000 from April 2023 and to £3,000 from April 2024. There are no other material changes to the current CGT regime and all current rates and reliefs remain unchanged.

**Share for Share Exchange**
The Chancellor has introduced a new piece of anti-avoidance legislation for UK resident non-domiciled individuals. The new provision restricts access to the remittance basis of taxation on future CGT disposals and income distributions where a share exchange has taken place under which shares or securities in a UK close company are exchanged for an equivalent holding of securities in a non-UK company. The measure will have effect for share exchanges which take place on or after 17 November 2022. The restriction to the remittance basis will be achieved by treating the new holding of securities in the non-UK company as UK situs property.

**Stamp Duty Land Tax cuts**
On 23 September 2022, the government increased the nil-rate threshold of Stamp Duty Land Tax (SDLT) from £125,000 to £250,000 for all purchasers of residential property in England and Northern Ireland. The nil-rate threshold available to first-time buyers was increased from £300,000 to £425,000 at the same time. These increased SDLT thresholds will now remain in place until 31 March 2025.

# Employment Taxes

Eunan Ferguson
*Director*

**Approved share schemes**
The Chancellor reaffirmed the Government's commitment, originally announced in the 'Growth Plan', to enhance the existing Company Share Option Plan (CSOP) rules. Changes will be introduced from 6 April 2023 to more closely align CSOPs with the more generous and flexible tax-advantaged Enterprise Management Incentives (EMI) scheme available to qualifying growth companies. By easing the qualifying conditions and increasing the limit on the value of shares that can be under option, CSOPs will become available to more companies and a more attractive incentive. This is likely to be of particular interest to independent companies that do not meet the requirements to grant EMI options, and those that do not currently qualify for CSOP due to their multi-class shareholding structure

**Company vehicles**
Less welcome was the announcement that electric car owners will have to pay vehicle excise duty (VED), better known as road tax, from 2025. Rates of VED vary largely according to emissions and the age of the car, with all zero-emission vehicles currently exempt. From April 2025, electric cars, vans and motorcycles will begin to pay VED in the same way as petrol and diesel vehicles.

New zero emission cars registered on or after 1 April 2025 will be liable to pay the lowest first year rate of VED (which applies to vehicles with CO2 emissions 1 to 50g/km) currently £10 a year. From the second year of registration onwards, they will move to the standard rate, currently £165 a year. Zero emission cars first registered between 1 April 2017 and 31 March 2025 will also pay the standard rate. Zero emission vans will move to the rate for petrol and diesel light goods vehicles, currently £290 a year for most vans

The £355 annual 'Expensive Car Supplement', which applies to cars that cost £40,000 or more from new, will also be applied to electric vehicles (EVs) from April 2025, although this only applies to EVs sold from that date. The Expensive Car Supplement runs for five years, from the second to the sixth year of a car's life.

However, in an effort to continue to incentivise the take up of EVs the Chancellor did provide some long-term certainty for taxpayers and industry with respect to the company car tax rates to be included within the Autumn Finance Bill 2022. The appropriate benefit-in-kind percentages for electric and ultra-low emission cars emitting less than 75g of CO2 per kilometre will increase by 1 percentage point in 2025-26; a further 1% in 2026-27 and a further 1% in 2027-28 up to a maximum appropriate percentage of 5% for electric cars and 21% for ultra-low emission cars.

Petrol and diesel cars will also see a rise in the amount of company car tax they attract, with a 1% increase for the 2025/26 financial year, but no further rises thereafter. The maximum tax threshold of 37% will also be maintained. From 6 April 2023, Car and Van Fuel Benefit Charges and van benefit charge will increase in line with the Consumer Price Index.

**Employer national insurance**
The Chancellor has announced that the Government will fix the level at which employers start to pay Class 1 Secondary NICs for their employees (the Secondary Threshold) at £9,100 from April 2023 until April 2028. Whilst this freeze may represent a real term increase in employer liability, the decision to retain the employment allowance at a new higher level of £5,000 means up to 40% of all businesses, which do not pay NICs, will be unaffected by this change.

# Business Taxes

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Roger Campbell
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**Corporation Tax**
The Autumn Statement 2022 contained limited announcements regarding the UK corporation tax regime, with the exception of changes to the R&D tax incentives regime discussed later. This is welcomed given the quick U-turn by the new Chancellor in October 2022 to reverse a number of tax cuts previously announced in the September 'mini-budget', including retention of the planned increased in the corporation tax rate to 25% from 1 April 2023 for profits in excess of £250,000.

**Diverted Tax Profits (DPT)**
Following the planned increase in the corporation tax rate from 1 April 2023, a 6% increase in the rate of DPT to 31% was confirmed in order to maintain the 6% differential above the headline corporation tax rate. This acts as an incentive to bring profits into the corporation tax charge rather than as Diverted Profits.

**OECD Pillar 2**
Pillar 2 is the OECD's recommendation that large multinational businesses (global revenues in excess of €750m) pay a minimum 15% rate of tax on profits in each country in which they operate. Draft legislation has already been issued and it is unsurprising that the UK government will continue its intention to implement the rules.

As announced previously an Income Inclusion Rule (IIR) will broadly require large UK headquartered multinational groups to pay a top-up tax where their foreign operations have an effective tax rate of less than 15% for accounting periods beginning on or after 31 December 2023. It has now also been confirmed that for accounting periods beginning on or after 31 December 2023 the Government will introduce a supplementary Qualified Domestic Minimum Top-up (QDMTT) tax rule which will require large groups, including those operating exclusively in the UK, to pay a top-up tax, broadly where their UK operations have an effective tax rate of less than 15%. The Government also confirmed its intention to implement the backstop Undertaxed Profits Rule in the UK, but with effect no earlier than accounting periods beginning on or after 31 December 2024.

**Transfer Pricing Documentation**
Continuing the trend of international tax governance, and following the publishing of draft legislation in July 2022, the UK government will implement transfer pricing documentation rules to require large multinational businesses operating in the UK to keep and retain transfer pricing documentation in a prescribed and standardized format, as set out in the OECD's Transfer Pricing Guidelines i.e. a Master File and Local File.

The requirement will apply for accounting periods commencing on or after 1 April 2023 but again will only apply to those large multinational groups with global revenue in excess of €750m.

**Online Sales Tax**
Following consultation, the UK government will no longer proceed with plans to introduce an online sales tax. The decision reflects concerns raised over the complexity of the rules and the risk of creating unintended distortion or unfair outcomes between those online retailers and high street shops.

This is another welcome announcement to those businesses that are already facing uncertain times given significant increases in the cost of living, and doing business, in recent months.

# Tax Incentives

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*Partner*

Paul Eastham
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**Research and Development (R&D)**
The government set out its strategy to continue to encourage R&D in the UK, with public funding for R&D set to increase to £20bn by 2024/25 to help make Britain the "next Silicon Valley".

As part of the ongoing review of R&D tax reliefs, the government has identified significant error and fraud in the SME scheme for small and medium sized enterprises, which is seen as an easy target for fraud due to its generosity.

The RDEC scheme (for larger businesses and small and medium sized enterprises undertaking R&D that is subsidised) is viewed by the government as offering better value than the SME scheme but has been uncompetitive internationally. The government will consult on moving to one unified scheme.

The government has previously announced measures to expand the scope of R&D under both schemes, refocus the schemes on UK based R&D and improve compliance, which will take effect for accounting periods beginning on or after 1 April 2023.

In order to address the issues outlined above, the following measures are being introduced in respect of expenditure incurred on or after 1 April 2023, in addition to the previously announced measures:

**SME Scheme**
The enhancement credit in the SME R&D scheme will be cut to 86% from 130%. In addition, the credit rate (the rate at which losses can be surrendered to HMRC for a cash credit) will be cut from 14.5% to 10%.

As a result of the above, the maximum cash credit available to loss making companies making claims under the SME scheme will be reduced from 33.35% to 18.6% of their qualifying expenditure. Businesses need to be aware that the available credit can be reduced to 8.6% depending on the level of losses and R&D tax relief.

For tax paying companies making R&D claims under the SME scheme, the maximum potential reduction in their corporation tax liability will be 21.5% (assuming a corporation tax rate of 25%) of qualifying expenditure.

**RDEC Scheme**
The credit rate under the RDEC scheme (for larger companies or SME companies with R&D expenditure that is subsidised) will be increased from 13% to 20%.

Companies making claims under the RDEC scheme will be entitled to receive a credit after tax, either as a reduction of their tax liabilities or as a payable cash credit, equivalent to 15% of qualifying R&D expenditure assuming a 25% corporation tax rate.

**Capital Allowances**
The previously announced permanent change to maintain the Annual Investment Allowance ("AIA") at £1m was reiterated in today's Statement. The AIA has been £1m since January 2019 due to a series of temporary increases from the permanent level of £200k.

While this is no substitute for the capital allowances 'super deduction' or 'special rate allowance', which both come to an end from 1 April 2023, it will continue to be a significant benefit for those smaller companies and groups with annual expenditure under £1m.

In addition to the AIA, an extension of the 100% First Year Allowance for electric vehicle charge-points from 31 March 2023 to 31 March 2025 was announced.

# Indirect Taxes

Frankie Devlin
*Partner*

Unsurprisingly, there were no significant measures announced on VAT. The Conservative's manifesto pledge not to raise VAT rates limited the scope to use this as a tax raising measure and to do so at this time would also not help to ease inflationary pressures. A VAT rate cut was never on the cards as it would be too costly and unlikely to be viewed currently as fiscally prudent.

It was announced that the VAT registration and deregistration thresholds will not change for a further period of 2 years from 1 April 2024 up to 31 March 2026. At £85,000, the UK's VAT registration threshold is more than twice as high as the EU and OECD averages.

An announcement had been made earlier in the year to cancel the proposed reintroduction of the VAT free scheme for shopping (retail exporters scheme), for overseas visitors to Great Britain. This decision has been maintained due to costs of implementing. However, it does still apply in Northern Ireland due to the Northern Ireland Protocol.

## Other Indirect Tax Measures:

**Customs Tariff Suspensions**
Following applications from business stakeholders, this measure will remove tariffs on over 100 goods for two years to help put downward pressure on costs for UK producers.

The measure will remove tariffs as high as 18% on goods ranging from aluminium frames used by UK bicycle manufacturers to ingredients used by UK food producers. Further details are awaited on this measure, however, it should be noted that the implications for Northern Ireland businesses may be different as it operates under the Northern Ireland Protocol and therefore subject to EU tariff rules on goods imported into Northern Ireland that are "at risk" of moving into the EU.

**Northern Ireland Trade & Investment Event**
Northern Ireland business groups have since Brexit been pushing for a major investment event to promote doing business in Northern Ireland and to highlight the benefits of its unique access to trade into both the EU and the UK markets under the terms of the Northern Ireland Protocol. It is therefore welcome that the Government have announced in the Autumn Statement that they are providing up to £2 million for the Department for International Trade to work with local partners including Invest NI to host a trade and investment event in Northern Ireland in 2023.

This will showcase Northern Ireland as an attractive and vibrant place to do business and help drive new mobile investment into its economy. An agreement between the UK and EU on the workings of the Northern Ireland Protocol in the early part of 2023 would therefore be very welcome by businesses and the investment event could be very timely in promoting Northern Ireland as an excellent place to invest if agreement could be reached.

**Alcohol Duties**
The freeze to rates has been cancelled in today's announcement.

# Energy Taxes

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*Partner*

Michelle McKinley
*Director*

The recent increases in gas and electricity prices have been a significant factor contributing to the UK's spiralling rate of inflation and cost of living crisis. However, since the price of electricity is inextricably linked to the price of wholesale gas on global markets, the last year has witnessed some electricity generating companies reporting extraordinary revenues with minimal impact on their cost base. Given the ongoing public discussion around excess profits in the corporate sector versus the cost-of-living issues facing households, the Chancellor made a number of further 'windfall tax' announcements which will impact the electricity market as explained below.

**Energy Profits Levy**
In May 2022, as part of the response to tackling the cost-of-living crisis, the UK Government introduced the Energy Profits Levy which placed an additional 25% tax on the profits of oil and gas producers. Note this levy did not apply to electricity generators. Today, the Chancellor announced the Energy Profits Levy will increase by a further 10% to 35% from 1 January 2023 taking the effective tax rate for oil and gas producers from 65% to 75%.

**Electricity Generator Levy**
In addition, from 1 January 2023, the Chancellor has announced a new Electricity Generator Levy will apply to electricity generators who were previously outside the scope of the Energy Profits Levy. This new levy applies in addition to a company's normal corporation tax charge and will impact corporate groups or single companies generating more than 100GWh of electricity per annum in the UK. Where applicable, electricity generating companies selling electricity at a price above a benchmark £75 per MWh will be subject to a 45% charge on excess receipts above this threshold throughout a qualifying period. A £10m tax free allowance against chargeable receipts applies on a group basis per annum. For these purposes the qualifying period is the accounting period of the reporting company.

Guidance notes published today make clear that the levy will apply to companies generating electricity from nuclear, renewable (wind & solar) and biomass sources with a few exceptions, notably:

- Generation from gas, coal or oil,
- Generation under a Contract for Differences,
- Pumped storage hydroelectricity or battery storage.

The levy will apply to revenue from electricity generated in the UK both sold in the UK and exported. It will not apply to electricity generated outside the UK and imported. The levy is not deductible in calculating corporation tax, however, taxpayers will welcome the news that the levy will be reported as part of the corporation tax self-assessment regime and payments will follow the existing corporation tax payment rules.

The Government has confirmed both the Energy Profits Levy and the Electricity Generation Levy are to be temporary measures and will end on 31 March 2028. As ever, the devil will be in the detail and draft legislation is expected to be published in December 2022.

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Produced by: KPMG's Creative Services. Publication Date: November 2022. (8825)