UK Spring Budget 2023

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In his Spring Budget 2023 the UK Chancellor has sought to deliver on three key priorities of the Government: grow the economy, reduce inflation and ensure that government debt falls. In addition, today's Budget statement was aimed at tweaking policy to answer some of the business community's main challenges. It seeks to address the current tight labour market by encouraging more people to stay in and return to the workforce through the increase in tax-free pension contributions and by providing various childcare supports (though applicable in England only).

The Budget also encourages corporate investment through a new full expensing regime for plant and machinery and an enhanced credit system for R&D focussed SME's.

However, confirmation of the hike in the main rate of corporation tax to 25% (for taxable profits above £250,000) from 1st April 2023 means that many Northern Ireland businesses will be at a significant disadvantage to competitors based in the Republic of Ireland, the majority of whom will be subject to a tax rate of only 12.5%. For those businesses operating on an all-island basis and considering whether and where to re-invest and grow, the case for NI relative to ROI will now be more challenging.

Nevertheless, given the opportunities that NI can now offer in terms of its unique dual access to the UK and EU markets there is surely merit in revisiting the case for a reduction in NI's corporation tax through the powers devolved to Stormont back in 2015.

However, the realisation of the economic opportunity for NI and any potential reassessment of the cost-benefit of a lower corporation tax rate would require the restoration of the NI Executive.

In terms of the main tax items in today's Budget, there were a number of other positive measures:

- The new full expensing regime will go some way to negating the impact of the end of the super-deduction scheme and the increase in the main rate of corporation tax
- The new credit scheme for R&D focussed SME's
- The increase in the cap on tax-free annual pension contributions to £60,000 a year from £40,000 a year and the tandem abolition of the tax-free lifetime allowance.

The details of these and other tax measures (including a number previously announced in the Autumn Statement 2022) are contained over the following pages.

Get in touch:
If you have any queries on today's Spring Budget 2023 and its impact for your business, please contact myself or any of the KPMG Belfast tax team.

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Personal Taxes

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Reform to Pension Tax Thresholds
The decision by the Chancellor to remove the Lifetime Allowance ('LTA') is the most radical reform to the system since it was first introduced in 2006 and is a welcome simplification. In particular, individuals considering draw down of their pensions previously had to consider whether they had made elections for LTA protection in order to avoid an LTA charge on draw down. This will no longer be necessary.

The LTA is the maximum amount of tax relievable pension savings an individual can benefit from over the course of their lifetime. Individuals may contribute to their pension over these limits, but they will be subject to a tax charge on the amount above the allowance. The Chancellor was expected to increase the level of LTA, however, he announced that it would be abolished with effect from 6 April 2023.

The Annual Allowance (AA) is the maximum amount of pensions savings an individual can make each year with tax relief without incurring a tax charge which aims to effectively recoup some of the tax relief given.

The Chancellor has announced that the AA will be increased from £40,000 to £60,000, and the tapered AA increased from £4,000 to £10,000. The tapered AA is a reduction to the AA for individuals with income above set levels. The adjusted income level required for the tapered AA to apply to an individual has also been increased from £240,000 to £260,000.

When the pension AA was first introduced it was £215,000 (with no concept of taper) and has consistently been eroded, down to the most recent figure of £40,000 (where tapering did not apply) and £4,000 where maximum tapering applied. The move to a minimum taper of £10,000 and the increase of the standard AA from £40,000 to £60,000 has been widely welcomed.

A condition of applying for LTA protection above the statutory minimum level was that you were no longer permitted to contribute to your pension. Today's changes mean that such individuals may wish to recommence funding their pensions again. Pension contributions will attract tax relief up to the level of the AA and in certain circumstances an individual may consider contributing more than the AA in order to transfer their wealth to a tax efficient pension vehicle.

Rates and Allowances
The Chancellor did not make any revisions in relation to previously stated rates and allowances in his speech. However, it is worth noting that a number of the previously announced changes will apply from 6 April 2023:

- The income tax additional rate threshold ('ART') will be lowered from £150,000 to £125,140. 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

- The dividend allowance will be reduced from £2,000 to £1,000 with effect from April 2023, and to £500 from April 2024

- 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.

The income tax personal allowance and higher rate thresholds and main national insurance thresholds will be frozen at current rates until April 2028. This will mean at least six years where personal tax thresholds have remained at the same level and with inflation levels having increased individuals will therefore have suffered what has been termed a 'stealth tax'. The inheritance tax nil-rate bands are also fixed until April 2028 (£325,000 nil-rate band and £175,000 residence nil-rate band).

Business Taxes

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The Spring Budget 2023 contained limited announcements in respect of UK corporation tax. However the Chancellor confirmed that the planned increase to 25% in the headline corporation tax rate for profits in excess of £250,000 from 1 April 2023 will go ahead as previously announced. While this is unsurprising, the Chancellor did emphasise that even after the corporation tax rise, the UK will have the lowest headline rate in the G7 and only 10% of companies are expected to pay the full 25% rate.

The Chancellor stated that having a lower corporation tax rate has historically done little to encourage investment by business and so has instead chosen to *"foster the right conditions for enterprise"* through a welcome replacement to the capital allowances super deduction regime.

Further matters in relation to corporation tax referenced in the Spring Budget 2023 are summarised below, the first two having been announced previously.

Top-up Tax
As announced in the Autumn Statement 2022, the Government confirmed it will legislate to implement the globally agreed G20-OECD Pillar 2 framework. The legislation is intended to apply to large multinational businesses with global revenue over €750 million for accounting periods beginning on or after 31 December 2023.

The legislation will introduce the following measures:

- A multinational top-up tax requiring large UK headquartered multinational groups to pay a top-up tax where their foreign operations have an effective tax rate of less than 15%; and

- A supplementary domestic top-up tax which will require large groups, including those operating exclusively in the UK, to pay a top-up tax where broadly their UK operations have an effective tax rate of less than 15%.

Transfer Pricing Documentation
Following announcements in July 2022, legislation will be introduced in the Spring Finance Bill 2023 for 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.

The requirement will again apply to large multinational businesses with global revenue over €750 million for accounting periods beginning on or after 1 April 2023.

Corporate Interest Restriction
The corporate interest restriction ('CIR') legislation has been in place since 1 April 2017. It seeks to restrict UK corporation tax relief for companies/groups which have net finance costs above a £2m threshold. Legislation will be introduced in the Spring Finance Bill 2023 to address numerous issues that currently result in unfair outcomes or high administrative burdens, while also seeking to protect the Exchequer. In total, over twenty amendments have been announced to the CIR regime, to include the following:

- Ensure that groups can carry forward interest allowances where a new holding company is inserted in the group (previously such allowances were lost)

- Ensure capitalised finance charges on assets that are appropriated from trading stock is treated appropriately where the 'alternative calculation' election applies

- Remove a mismatch between tax-interest and group-interest where finance costs are brought into account by a company on the commencement of a business

- Ensure a building under construction for use in a UK property business is not precluded from being a qualifying asset for the public infrastructure rules

- Revise the definition of a CIR group where assets are held for sale or distribution to shareholders

- Extend the time limit by 12 months for HMRC to appoint a reporting company.

Tax Incentives

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Research and Development
The Government has made several changes to the R&D schemes over the past year, more changes have been announced with more to come.

One of the recent changes, as a result of perceived fraud and abuse of the SME R&D scheme, was to reduce the cash credits available to loss making SMEs on expenditure incurred on or after 1 April 2023 from a maximum of 33.35% of qualifying expenditure to a maximum of 18.6%.

For R&D focussed SMEs this has been partially reversed. Changes announced in the Spring Budget 2023 will increase the maximum cash credit to 27% for R&D intensive SMEs that spend at least 40% of their total expenditure on R&D. This will be a welcome boost for companies in the early development stage.

Other recent changes included the introduction of rules that limit expenditure on subcontractors and externally provided workers to activities undertaken in the UK. These rules have now been delayed by a year and will take effect for accounting periods beginning on or after 1 April 2024.

As expected, there was also confirmation that "Additional Information" forms containing details of R&D claims will be required to support all claims made on or after 1 August 2023. The forms will require technical and financial information supporting the claim to be submitted and will also require information about agents that have supported the claim, named senior officers of the claimant company endorsing the claim as well as information such as VAT registration numbers. This reporting process has been introduced to help HMRC prevent fraud and carry out compliance checks on the R&D claims.

A consultation was recently held regarding the merging of the SME and the RDEC schemes into a single scheme. No decision has been made at this stage, but we expect draft legislation to be published in Summer 2023.

Capital Allowances
Following the end of the super-deduction on 31 March 2023, the Government is introducing "full expensing" for qualifying expenditure on plant and machinery for three years beginning on 1 April 2023, with the intention to make this permanent in the future. The introduction of this enhanced relief will be welcomed by companies facing the increase in the main rate of corporation tax to 25%.

The relief available under full expensing is designed to give the same amount of relief in cash tax terms that would have been available under the super-deduction and the rules covering which assets are eligible for the relief mirror the super-deduction rules.

For accounting periods that straddle 31 March 2023, both the super-deduction and full expensing will be applicable so the calculations will be more complicated.

A three year extension was also announced to the 50% First Year Allowance for expenditure on assets that qualify for the special rate pool, including long life assets.

The permanent increase to the Annual Investment Allowance announced in the Autumn Statement 2022 to £1 million per annum will mean most small businesses are already entitled to 100% relief for expenditure on qualifying plant and machinery, including expenditure on assets that qualify for the special rate pool. The new measures therefore target large businesses spending in excess of £1 million per annum on plant and machinery.

Energy Taxes

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Electricity Generator Levy
The new Electricity Generator Levy that was announced in the Autumn Statement 2022, is to be legislated for in the Spring Finance Bill 2023.

This new levy, a temporary measure applying to corporate groups or single companies generating more than 50GWh (originally 100GWh in the Autumn Statement) of electricity per annum in the UK from 1 January 2023, is in addition to a company's normal corporation tax charge.

Where applicable, the 45% charge applies to 'exceptional receipts' arising to electricity generating companies selling electricity at a price above a benchmark threshold of £75 per MWh, throughout a qualifying period.

Whilst the majority of the detail announced in the Autumn Statement remains the same, it should be noted that the benchmark threshold will be adjusted in line with CPI from April 2024. The £10 million tax free allowance against such chargeable receipts applies on a group basis per annum and remains unchanged.

Energy Profits Levy - decarbonisation investment allowance
As announced at Autumn Statement 2022, the introduction of an 80% decarbonisation investment allowance, to incentivise oil and gas companies to invest in the decarbonisation of upstream oil and gas production in support of the sector's ambition to reduce greenhouse gas emissions, is to be legislated for in the Spring Finance Bill 2023.

The new allowance applies to 'decarbonisation expenditure' broadly covering capital expenditure on assets relating to (i) powering oil and gas production facilities using non-fossil fuel sources and (ii) reducing or eliminating flaring and venting of greenhouse gases.

Indirect Taxes

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As expected, the Spring Budget 2023 was relatively quiet from an indirect tax perspective, with no significant measures announced on VAT.

As part of his 'Brexit pubs guarantee', the Chancellor has announced that the duty on draught beer in pubs will remain frozen from 1 August this year. This will result in the duty on draught products in pubs being up to 11p lower than the duty on beers sold in supermarkets. This change will also apply to 'every pub in Northern Ireland' due to the provisions of the Windsor Framework.

With effect from 1 August 2023, the Government will increase the duty rates on all other alcoholic products in line with the Retail Price Index ('RPI'). Also with effect from 1 August 2023, the previously announced changes to the duty structure for alcohol products will take effect.

There is also an extension to the cut in the rate of fuel duty for a further 12 months until March 2024. This maintains the cut in fuel duty rates by 5 pence per litre, which will be welcomed by all motorists.

In addition, the planned increase in the energy price guarantee has been delayed for three months from April to July 2023 and will remain at £2,500, which is another welcome move for households.

The Chancellor also announced a range of duty increases in a number of areas, as follows:

- The duty rates are being increased on tobacco products to 2% above RPI inflation, which takes effect from 6pm on 15 March 2023
- Changes are also being introduced to air passenger duty with effect from 1 April 2023, with banding reforms introducing new domestic bands and a new ultra-long-haul band to align this duty more closely with the government's environmental objectives
- Vehicle excise duty is also increasing with effect from 1 April 2023 in line with RPI for cars, vans and motorcycles, but is being frozen for heavy goods vehicles to support the haulage sector
- A reformed heavy goods vehicles levy is being introduced from August 2023, in a step to reflect the environmental performance of the vehicle subject to the levy
- To give affected businesses time to prepare, proposed changes to the aggregates levy, which will tax previously untaxed aggregates extracted for use on construction sites will take effect from 1 October 2023
- The standard and lower rates of landfill tax will increase in line with RPI with effect from 1 April and the main rates of climate change levy will also increase for gas and solid fuel from 1 April 2024
- With effect from 1 April 2023, the rate of plastic packaging tax will increase in line with consumer price index.

The Windsor Framework

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Partner

Although the Chancellor referred to the Windsor Framework a number of times in his Budget statement, we did not get any update on when there will be a parliamentary vote or the sequencing of its implementation. However, although there are a few political hurdles still to overcome, it is now generally expected that the new framework will become operational over the course of 2023. So, what will this mean for businesses and the potential for investment opportunities for Northern Ireland?

What is the Windsor Framework?
We set out *our detailed analysis on the Windsor Framework* in our communication on 1 March 2023. Essentially, the new framework amends some areas of the original Protocol relating to VAT and customs on moving goods into Northern Ireland from Great Britain. The Windsor Framework should address many, if not all, of the issues that businesses were highlighting and should re-balance the Protocol to enable Northern Ireland to continue to have unfettered access within the UK internal market which is critical for many businesses. This **"green lane" model** which focuses on UK internal market movements, will be underpinned by an enhanced **trusted trader scheme**. This will seek to ensure that goods moving through this channel are destined for Northern Ireland and this will benefit a whole range of goods movements including medicines and parcels.

Importantly, the new framework also acknowledges that there will be a continuing role for some EU laws and that the island of Ireland as a single phytosanitary region will continue to require checks and controls and alignment with EU rules for agri-products. It has been recognised that this is needed to facilitate the extensive cross border supply chains and for Northern Ireland's continued unique access to the EU single market as a non-EU member.

For those goods that are "at risk" of moving into the EU, there will be a **"red lane" model**. Whilst this will operate in a broadly similar way to the current "at risk" tests, there are a number of simplifications which will help some businesses. However, as full EU customs and regulatory requirements will apply, many of the same complexities and challenges of the 'at risk' rules will remain. Nevertheless, it is hoped that the UK Government's commitment to the Windsor Framework to introducing a comprehensive tariff reimbursement scheme in the coming months will greatly help businesses that by default have to use the red lane where it is not known where the goods will ultimately end up.

Although the Windsor Framework was never going to be able to resolve all of the unintended consequences of the Protocol, it should provide much needed simplifications and stability.

Investment and growth
Most businesses are very adaptable to change, even changes as big as Brexit. However, they do not like uncertainty as it makes it very difficult to make plans relating to investment if it is unclear what the trading rules are going to be in the medium to long term. It can only be hoped that with a settled position on the Protocol with this new framework, this will now help to stabilise the economic landscape and help our existing businesses with their investment and growth plans. Trade data for 2022 shows that NI businesses have increased their sales into the rest of the UK, the EU and rest of the world. There must surely be optimism that this can be improved further.

There are also potential investors considering Northern Ireland as a good place to do business and to benefit from the unique dual access to the UK and EU markets. A planned visit by President Biden and a strong US delegation to celebrate 25 years of the Good Friday Agreement will again put Northern Ireland in the headlines for the right reasons and this will also have the full support of the UK Government and Prime Minister Sunak as well as leaders from across the EU.

We are sensing a general mood of optimism amongst the business community that the Windsor Framework will help provide both local businesses and potential overseas investors with the required certainty and stability they need to make investment decisions and to create great new jobs for people across Northern Ireland. The window to grasp this opportunity will be narrow and it is incumbent on all business leaders and political leaders to grasp this opportunity.

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