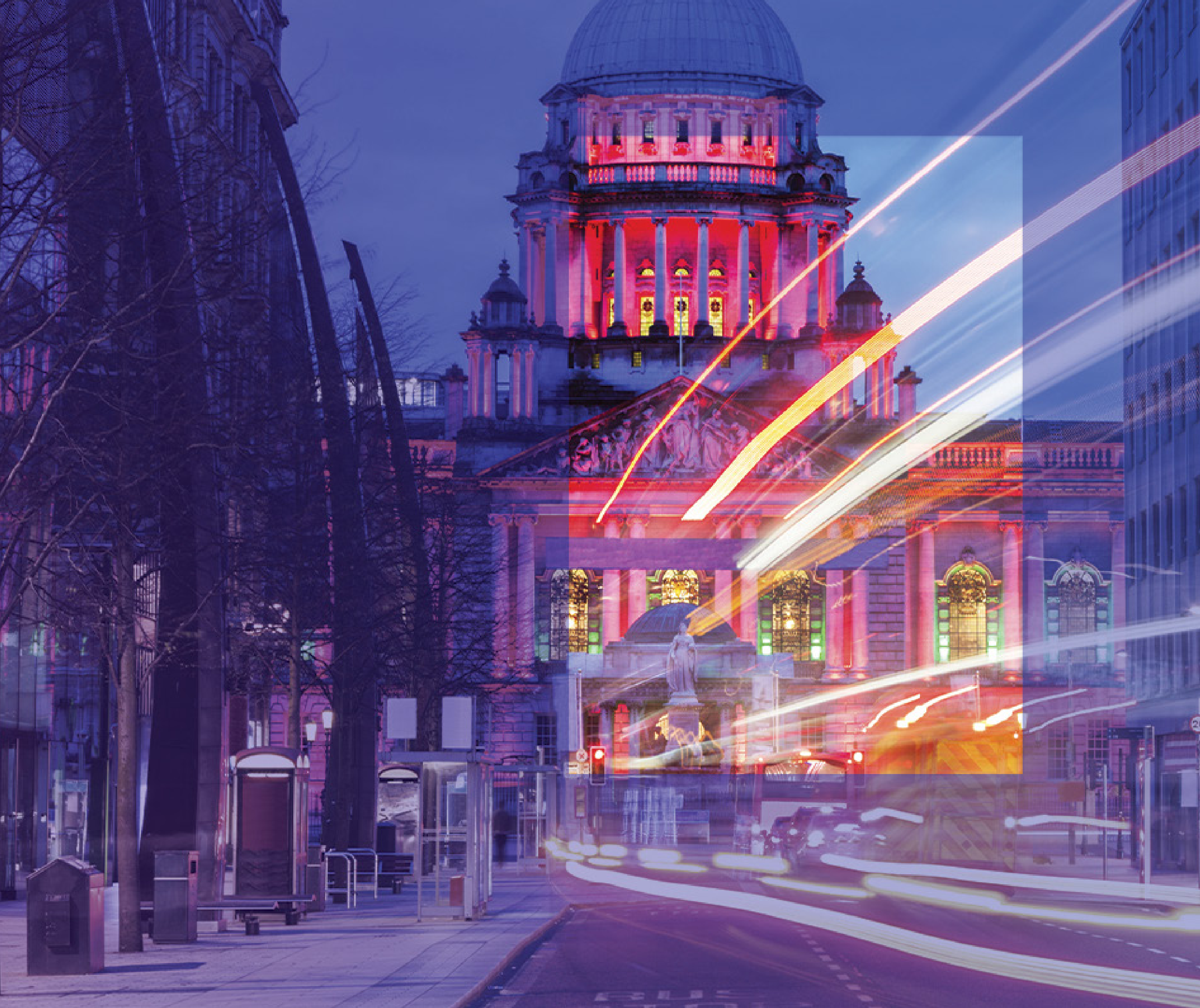
UK Autumn Statement 2023

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



KPMG

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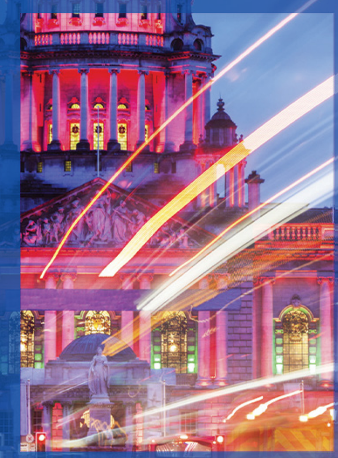


Today's Autumn Statement was delivered alongside the revised forecasts from the Office for Budget Responsibility ("**OBR**") which presented a more positive outlook on the metrics of inflation, economic growth and borrowing as a proportion of GDP. This allowed the Chancellor Jeremy Hunt, adequate headroom to announce a number of significant measures aimed at encouraging business investment and growth while also helping to reduce the tax burden for workers.

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

Some tax related changes of note include:

- The previously announced temporary measure allowing businesses to fully expense expenditure on qualifying plant and machinery in the year of investment is to be made permanent from 2026. This will be a significant benefit for many businesses and makes the UK's capital allowances regime one of the most competitive internationally.

- Confirmation that the new merged R&D Tax credit scheme will apply from 1 April 2024.

- The Chancellor announced reductions in National Insurance Contributions for both the employed (with effect from 6 January 2024) and self-employed (with effect from 6 April 2024). This should provide a welcome boost to the take home pay for working families.

Despite a lot of speculation in the run up to today's Autumn Statement no changes of note were announced in relation to capital taxes (Inheritance Tax and Capital Gains Tax), or Income Tax.

With one eye firmly on an upcoming UK general election, the Autumn Statement was always going to be a balancing act between appealing to voters, avoiding any risk to the downward trajectory of inflation and stimulating a sluggish UK economy. Whether the package of measures announced will have the desired effect remains to be seen, however it is noteworthy that the OBR estimates that today's announcements could lead to an additional £14bn of business investment while creating c.80,000 new jobs by the end of their forecast period.

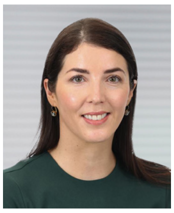
Turning our attention back locally, there is little doubt the Northern Ireland economy is poised for a period of growth with the opportunities currently at its disposal, namely the unique dual market access presented by the Windsor Framework, the potential to deliver corporation tax setting powers and the range of City Deals already in progress. By acting as a catalyst for investment and growth, it is hoped that today's Autumn Statement will boost our potential further.

Get in touch:

If you have any queries on today's Autumn Statement and its impact for your business, please contact myself or any of the KPMG Belfast tax team.

Johnny Hanna
Partner in Charge of KPMG
in Northern Ireland

1. Business Taxes



Sara Hamill
Partner

Roger Campbell
Director

Much as expected, the Chancellor was reluctant to consider any significant changes to the corporation tax regime, in particular the headline rate of corporation tax which is currently 25% for profits in excess of £250,000.

Instead, the Chancellor chose to focus much of his attention on the operation of existing tax incentives and reliefs, including the planned merger of the SME R&D and R&D Expenditure Credit regimes and making the capital allowances full expensing regime permanent. These changes are covered in further detail below.

The following are some noteworthy matters that may be applicable to certain businesses.

Construction Industry Scheme reform
The Construction Industry Scheme ("**CIS**") sets out the rules for how payments to subcontractors for construction work must be handled by contractors in the construction industry and other relevant entities, broadly requiring payments to be made net of 20% tax unless a contractor has gross payment status.

Legislation will be introduced to add compliance with VAT obligations to the CIS gross payment status compliance test (for those companies wishing to be granted gross payment status). The changes will also expand HMRC's powers to remove gross payment status immediately in cases of serious non-compliance involving VAT, Income Tax Self-Assessment, Corporation Tax Self-Assessment and PAYE.

These changes are set to apply from 6 April 2024 and will be important to any mainstream or deemed contractor that falls within the CIS.

Reform of creative industries tax reliefs
As previously announced at the Spring Budget 2023, legislation will be introduced in the Autumn Finance Bill 2023 to reform the existing film, TV and video games tax reliefs, which currently operate via an additional deduction from taxable profits to refundable expenditure credits.

Under the new expenditure credit regimes, film, high-end TV and video games will be eligible for a credit rate of 34% and animation and children's TV will be eligible for a rate of 39% from 1 January 2024.

Pillar two - multinational top-up tax
Further to the publication of draft legislation on 18 July and 27 September 2023, the government will introduce legislation in Autumn Finance Bill 2023 to amend the Multinational Top-up Tax and Domestic Top-up Tax which were introduced in Spring Finance Act 2023.

These taxes represent the UK's adoption of the OECD's pillar two rules, an international agreement to help tackle profit shifting and aggressive tax planning by multinationals. The amendments reflect recent internationally agreed guidance and clarify areas identified from stakeholder consultation. These changes will take effect for accounting periods beginning on or after 31 December 2023.

Real Estate Investment Trusts
Real Estate Investment Trusts play an important part in attracting investment to the UK, providing an exemption from UK tax on income and gains of a property investment business and allowing investors to obtain broadly similar returns from their investment as they would have had had they invested directly in property.

Further to draft legislation published on 18 July 2023, the Government will introduce legislation to make amendments to enhance the overall competitiveness of the regime and ensure that the rules keep pace with commercial practice.

2. Tax Incentives

Mat Scott
Partner

Paul Eastham
Associate Director

Over the past number of years there have been several changes to the R&D schemes covering the rates of relief, qualifying expenditure and compliance measures. However, in today's Autumn Statement the introduction of a merged R&D scheme was announced. The merged R&D scheme is to be in operation for accounting periods beginning on or after 1 April 2024.

Merged R&D scheme

The mechanics of how the merged scheme will operate, both in terms of how relief is obtained and the accounting treatment of the scheme, is based on the current RDEC scheme with the credit being recognised "above the line" and a headline credit rate of 20%.

The credit available to loss making companies will result in a net cash benefit of 16.2%, whilst tax paying companies will generally realise a net cash benefit of 15%.

Companies carrying out R&D activities subcontracted to them by other companies will no longer be able to include the costs of these activities if they form part of a wider R&D project being carried out by the company that has contracted them to carry out the activities.

Where a company is carrying out R&D activities under a contract that does not form part of a wider R&D project for another company, the company carrying out the R&D activities will still be able to include the costs of these activities in their R&D claim.

The rules around subcontracting are therefore expected to be more beneficial to larger companies, with smaller companies carrying out subcontracted R&D set to lose out.

The other major change from the existing R&D schemes sees the introduction of a restriction of qualifying expenditure on subcontractors and externally provided workers to R&D activities performed within the UK, with limited exceptions for "qualifying overseas expenditure".

R&D activities that are subsidised (e.g. by grants) were expected to be excluded from the merged scheme but this exclusion has been dropped. This will be welcome news for businesses in receipt of grant funding to support their R&D.

The existing SME scheme will continue in operation for loss making R&D intensive SMEs, providing an enhanced rate of relief of 27% to eligible businesses. The "intensity threshold" will be reduced from 40% to 30% for accounting periods beginning on or after 1 April 2024. Further provisions will be introduced to prevent such companies changing between the RDEC and R&D intensive SME schemes on a yearly basis.

Capital Allowances

The government announced that full expensing, which provides 100% relief in the year of expenditure for qualifying main rate pool expenditure, and 50% First Year Allowances, which provides 50% relief in the year of expenditure for qualifying special rate pool expenditure, will be made permanent instead of ending on 31 March 2026 as originally planned.

This move is aimed at encouraging ongoing investment by large companies in new plant and machinery.

Smaller businesses are unlikely to be affected by the measure due to the availability of the Annual Investment Allowance, which gives 100% upfront relief on qualifying expenditure in both the special rate and main rate pools and was permanently set at £1m per annum in the Spring Finance Act 2023.

3. Employment Taxes

Eunan Ferguson
Director

Sinead McCavera
Associate Director

National Insurance Contributions
From 6 January 2024, the Government will introduce legislation to reduce the main rate of Class 1 Primary National Insurance Contributions from 12% to 10%. For workers earning £35,000 per year, this will result in a saving of £450, for someone earning over £50,270 a year, they stand to save £754 per annum.

This is a welcome boost to the take home pay for working families in Northern Ireland who have been dealing with inflationary pressure for some time but may not make up for the additional tax expected to be collected through fiscal drag as a result of the Government's decision not to increase the tax thresholds in line with inflation.

National Minimum Wage / National Living Wage
The National Minimum Wage / National Living Wage will increase from April 2024 to £11.44 for those aged 21 and over; similar increases will also be made for those aged 18-20 (£8.60) and 16-17 (£6.40). The increase for a 21 year-old working full-time will be worth almost £2,300 a year.

The minimum wage increase will be welcomed by lower earners but could add further strain on businesses that may currently be struggling with inflationary pressures.

There is often a misconception that compliance with the regulations is as simple as paying the correct rate per hour. However, there are many potentially difficult interactions with minimum wage requirements which may stem from seemingly simple processes involving agreed deductions from salary.

Pensions
The Chancellor has proposed a consultation on the reform of workplace pensions, with the aim of allowing workers to set up a "pot for life" with a pension fund of their choice as opposed to a workplace pension chosen by their employer.

This proposal is intended to address the issue of workers who change jobs and often end up with multiple small pots in different schemes.

Off-payroll working
In a bid to address a number of known issues, legislation will be introduced in Autumn Finance Bill 2023 to allow a set-off for taxes already paid by a worker/intermediary against taxes due from a deemed employer in off-payroll working compliance settlement cases.

This is a welcome change to the existing rules and aims to reduce the complexities and administrative burden. The proposed changes will be effective from 6 April 2024.

Van benefit charge and the car and van fuel benefit charges
The Government announced that the van benefit charge and the car and van fuel benefit charges will be maintained at 2023/24 levels.

The flat-rate van benefit charge is to remain unchanged at £3,960 whilst the corresponding multiplier for the car fuel benefit will remain at £27,800 and the flat-rate van fuel benefit charge will be assessed at £757.

4. Personal Taxes

Kevin Bell
Partner

Susan Smyth
Director

National Insurance Contributions
For the self-employed the main rate of Class 4 National Insurance Contributions will be reduced by 1 percentage point from 9% to 8% from 6 April 2024.

From 6 April 2024, self-employed people will no longer be required to pay Class 2 National Insurance Contributions. This will result in a saving of £179.40 per annum.

Enterprise Investment Scheme and Venture Capital Trust schemes
The Autumn Finance Bill 2023 will extend the existing the Enterprise Investment Scheme and Venture Capital Trust schemes from 6 April 2025 to 6 April 2035. This ensures possible access to Income and Capital Gains Tax reliefs for investors in shares issued before this date by qualifying companies. The key tax reliefs include an Income Tax reduction of 30% on the qualifying investment amount and Capital Gains Tax exemption where the investment is held for the required minimum period.

Capital Gains Tax
As previously announced, the Capital Gains Tax annual exempt amount will be reduced from £6,000 to £3,000 from 6 April 2024. This represents a further significant reduction in the annual exempt amount which formerly stood at £12,300 before 6 April 2023.

There are no other material changes to the current Capital Gains Tax regime and all current rates and reliefs remain unchanged.

Pensions
As announced during Spring Budget 2023, the Government will introduce legislation in Autumn Finance Bill 2023 to remove the Lifetime Allowance.

Labour have already indicated that they will reinstate the Lifetime Allowance if they are elected so it may be prudent to contemplate appropriate planning measures in advance of any election.

The annual contribution allowance for pension contributions is currently £60,000 per annum but can be tapered down to £10,000 for those with income over £200,000.

Inheritance Tax
Despite significant press speculation of a reduction in the current 40% rate of Inheritance Tax, the Chancellor has refrained from introducing any Inheritance Tax changes.

The current Inheritance Tax nil-rate band of £325,000 (and £175,000 residence nil-rate band) is scheduled to remain fixed until April 2028.

5. Indirect Taxes

David Reaney
Partner

Caitlin McKinney
Manager

With speculation before today's announcement focusing on Inheritance Tax and latterly National Insurance Contributions, this was expected to be a quiet statement for VAT and other indirect taxes. In this context, the Chancellor didn't spring any surprises.

Much was made of the Chancellor having 110 measures to announce; of this total only two were on VAT, and these relate to existing reliefs, specifically reforms to the reduced rate for energy saving materials and an extension of the zero-rate on women's sanitary products.

We've seen a number of developments in recent years on VAT on energy saving materials, including the confirmation that the relief also applies to Northern Ireland from 1 May 2023. The Government announced today that it will expand the VAT relief available on the installation of energy-saving materials by extending the relief to additional technologies – such as water-source heat pumps. In addition, it will bring buildings used solely for a relevant charitable purpose within the scope of the relief.

The Windsor Framework means that the reforms announced today will be implemented UK-wide in February 2024.

Other Indirect Tax Measures

Alcohol Duty
In the case of Alcohol Duty the freeze until August 2024 was deemed important enough to make it into the Chancellor's speech.

Climate Change Levy
The Government will freeze the main and reduced rates of Climate Change Levy in the UK in 2025-26.

Levy and Vehicle Excise Duty
Whilst Vehicle Excise Duty ("**VED**") rates for cars, vans and motorcycles will increase in line with RPI from 1 April 2024, the Government has confirmed a freeze for the haulage sector in respect of Heavy Goods Vehicle ("**HGV**") VED and the HGV levy, with both remaining at 2023-24 rates for the year 2024-25.

Plastic Packaging Tax
The Government will legislate in the Autumn Finance Bill 2023 to increase the Plastic Packaging Tax rate in line with CPI to £217.85 per tonne from 1 April 2024. Interestingly, the Government will publish an evaluation plan by the end of the year and gather further evidence to inform the future of the tax, specifically on the rate and recycled plastic content. This appears to be in response to some concerns that the tax is expensive to administer and doesn't necessarily drive the behaviours it was intended to.

6. Energy Taxes

David Nelson
Partner

Harriet Porter
Director

Electricity Generator Levy
In support of the Government's ongoing commitment to the UK's renewable electricity generation capacity and to encourage investment in the sector, the Chancellor announced a new 'investment exemption' to the Electricity Generator Levy for receipts from 'new' electricity generating stations – the definition of 'new' is to include new standalone stations as well as substantial expansions (such that there is an increase in the generating capacity thereon) and the repowering of existing stations. The intention of this exemption is to incentivise investment in renewable projects which may have stalled or been put on hold following recent cost increases which impacted project viability.

The Government intends to legislate for this in the upcoming Finance Bill although it is expected to be effective from 22 November 2023 where the substantive decision (i.e. the 'final investment decision') to proceed with a project is made on or after 22 November 2023.

In addition, the Government has confirmed that the Electricity Generator Levy itself, introduced as a temporary measure from 1 January 2023, will end on 31 March 2028 as planned and as originally legislated.

Green Industries Growth Accelerator
In a further measure to boost investment, and to ensure the Government can deliver the clean energy transition and boost green investment, the Government is announcing a £960 million Green Industries Growth Accelerator fund to support investments in manufacturing capabilities for clean energy sectors e.g. carbon capture utilisation and storage, hydrogen offshore wind and electricity networks. This measure should enable the UK to continue to build strong supply chains and seize growth opportunities through the transition to net zero.

Energy Profits Levy
The Energy Profits Levy ("**EPL**") was introduced in 2022 to tax the exceptional profits of oil and gas companies arising from unexpectedly high oil and gas prices as part of the response to tackling the cost of living crisis. The EPL is currently due to end on 31 March 2028. The EPL will remain in place until 31 March 2028 unless oil and gas prices fall to historically normal levels for a sustained period.

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