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GMS Flash Alert

2023-058 | March 16, 2023

United Kingdom - Spring Budget 2023: a Budget for Growth?

The Chancellor of the Exchequer, Jeremy Hunt, delivered the Spring Budget to the U.K. Parliament on 15 March 2023.[1] This Budget was focussed on providing help with the increased cost of living and increasing economic growth, and was light on tax measures for employers and employees.

The main themes of the Budget were increasing productivity, supporting parents with child-care costs and incentivising people over 50 to return to work where they are currently out of the labour market. From a global-mobility perspective, the most important announcements were the changes to the pension annual allowance and the lifetime allowance.

WHY THIS MATTERS

For employers of globally-mobile employees there is always a great deal of interest in the U.K.'s fiscal events as they can have a direct impact on the cost of assignments.

The increase in the pension annual allowance and the abolition of the pension lifetime allowance will be welcomed by high earners, who will be able to contribute more into their pension, tax-efficiently.

The specific impact of the Budget's measures will depend on each taxpayer's particular set of circumstances. However, in most instances, we expect that an employee's U.K. tax burden for 2023/2024 should remain relatively stable; although for higher-income earners, and those with capital gains, there could be an increase in their tax burdens due to lowering of the threshold at which additional rate of income tax (at a rate of 45 percent) becomes payable and to the reduction in the capital gains tax annual exempt amount as announced in the Autumn Statement in November 2022.

Prior to the Budget, there was speculation that changes may be announced regarding the U.K.'s non-domicile rules and the remittance basis regime, but ultimately there were no further developments in this area.[2]

It is essential to get in front of the changes described in this newsletter and to communicate quickly and clearly with key stakeholders, so that they can properly plan, budget, and make any necessary adjustments.

Overview of Main Measures

Pension Annual Allowance and Lifetime Allowance

As part of the Chancellor's drive to encourage over 50s to re-enter the workforce, from 6 April 2023, the annual limit on U.K. tax-relieved pension savings called the 'annual allowance' will increase from £40,000 to £60,000. However, tapering down will still affect higher earners with 'adjusted income' over £260,000, though the maximum taper will result in a £10,000 annual allowance (rather than £4,000 as at present).

The lifetime allowance, being the overall limit on pension savings (currently £1,073,000), is changing too. The lifetime allowance charge will be removed from 6 April 2023 with the lifetime allowance itself to be abolished in a future Finance Bill.

Additionally, the maximum amount that can be drawn down by those without relevant protections as a tax-free lump sum on commencement of a pension, which is currently capped at 25 percent of the lifetime allowance, will be retained at £268,275 and frozen.

Other Measures

— As announced in the Autumn Statement on 17 November 2022, the threshold for the additional income tax rate of 45 percent will be reduced from £150,000 to £125,140 with effect from 6 April 2023. Similarly, the Capital Gains Tax Annual Exemption will be reduced from £12,300 to £6,000 with effect from 6 April 2023, and then reduced further to £3,000 from 6 April 2024. [3]

— The government had announced in December 2022 that the introduction of Making Tax Digital for Income Tax would be postponed from April 2024 to April 2026, and the gross income threshold increased from £10,000 to £50,000, which will then be reduced to £30,000 from April 2027.[4]

KPMG LLP (U.K.) INSIGHTS

Employers may be disappointed that no announcements were made in line with the recommendations set out in the Office of Tax Simplification's review into cross-border hybrid and remote working.[5] However, the government will launch a call for evidence this summer focussed on better understanding the range of informal flexible working arrangements between employers and employees, which could lead to further developments in the longer term.

Employers may be relieved that no changes were made to the non-domicile and remittance basis rules, and so non-U.K.-domiciled taxpayers will continue to be able to benefit from the tax-advantaged remittance basis regime. However, this remains a topic of media attention and so with a general election expected before summer 2024, non-U.K.-domiciled taxpayers should remain aware that this may be reformed by a future government.

Next Steps

The government announced that there will be a tax administration and maintenance day in April, when we are anticipating that further consultations will be issued, which may impact the globally-mobile population.

KPMG LLP (U.K.) will continue to keep readers informed of any further developments that concern individuals, including those on international assignments, and their multinational employers.

FOOTNOTES:

1 For the U.K. government's Spring Budget 2023, click here. For coverage and analysis of the Spring Budget 2023 by KPMG LLP in the U.K., click here.

2 For KPMG LLP in the U.K.'s Budget Prediction, published prior to the Budget, click here.

3 For coverage by KPMG LLP in the U.K. of the Autumn Statement 2022, see *GMS Flash Alert* 2022-208 (18 November 2022)

4 For the announcement of the postponement of Making Tax Digital for Income Tax, click here. For coverage by KPMG LLP in the U.K. of this announcement, click here.

5 For the Office of Tax Simplification's report of Hybrid and Distance working, click here. For coverage by KPMG LLP in the U.K. of this report, click here .

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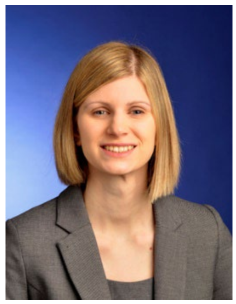
Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in the United Kingdom:



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