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Mini-Budget U-turns

New Chancellor scraps most mini-Budget measures

We always try to keep our clients updated about tax changes that will impact on them. Of late this has been very difficult due to the current state of the UK government and the negative impact that they have had on the economy. We are preparing for the new budget that is due to be made on the 31st of October assuming that this goes ahead and will keep you updated about any changes that may happen in the meantime.

On 23 September 2022, former Chancellor, Kwasi Kwarteng, announced a number tax and National Insurance cuts and policy changes as part of his Growth Plan. Some of the measures have already been scrapped. Now new Chancellor, Jeremy Hunt, has made further U-turns, reversing most of the remaining `mini-Budget' measures ahead of his Medium Term Fiscal Event (now a Budget) on 31 October 2022. The changes announced by the Chancellor are estimated to be a cost to the taxpayer worth around £32 billion a year.

Key dates

The planned National Insurance cuts will go ahead as planned from 6 November 2022 and the increases in the residential stamp duty thresholds will remain.

However, planned cuts in the basic rate of tax and in the dividend tax rates and the repeal of the off-payroll working rules, due to take effect from 6 April 2023, will no longer take effect.

This note explains what key mini-Budget measures are staying and what has been scrapped.

National Insurance

The National Insurance cuts promised by Prime Minister Liz Truss will go ahead.

Consequently, from 6 November 2022, the main primary Class 1 rate will fall from 13.25% to 12% and the additional primary rate will fall from 3.25% to 2%. From the same date, the secondary Class 1 rate will fall from 15.05% to 13.8%.

Directors have an annual earnings period regardless of their actual pay interval. For 2022/23 they will pay primary Class 1 National Insurance at a main rate of 12.73% and an additional rate of 2.73%. Secondary contributions on their earnings are payable at an annual rate of 14.53%.

The Class 1A rate on benefits-in-kind and the Class 1B rate are revised to 14.53% for 2022/23. Class 1A contributions on taxable termination payments and sporting testimonials are payable at the prevailing secondary Class 1 rate at the time that the payment is made.

Class 4 contributions are payable by the self-employed on their profits. For 2022/23, the main Class 4 rate is revised to 9.73% and the additional Class 4 rate to 2.73%.

Health and Social Care Levy

The cancellation of the planned Health and Social Care Levy was announced ahead of the mini-Budget. The cancellation will go ahead.

Income tax rates

At the time of the mini-Budget the then Chancellor announced that the additional rate of tax would be scrapped from 6 April 2023, and the basic rate of tax would fall from 20% to 19% from the same date. Shortly after the mini-Budget, the plan to abolish the additional rate of tax was scrapped.

The new Chancellor has announced that the cut in the basic rate of tax will be delayed ‘until economic conditions allow for it to be cut’. Under former Chancellor Rishi Sunak’s plans, the basic rate of income tax was scheduled to fall to 19% from April 2024.

The 20% rate will remain for the foreseeable future.

Dividend tax rates

As part of the package of Health and Social Care measures comprising National Insurance increases and the introduction of the now-cancelled Health and Social Care Levy, the dividend tax rates were increased by 1.25% from 6 April 2022. As these measures are now not going ahead and the National Insurance rises are being reversed from 6 November 2022, the dividend tax increases were due to be reversed from 6 April 2022, taking the dividend tax rates back to their 2021/22 levels. This measure has now been cancelled.

Consequently, dividends will continue to be taxed from April 2023 at 8.25% where they fall in the basic rate band, at 33.75% where they fall in the additional rate band, and at 39.35% where they fall in the additional rate band.

This will affect personal and family companies extracting profits as dividends.

Corporation tax reforms

At the time of the mini-Budget, it was announced that the planned corporation tax reforms would not go ahead, and the corporation tax rate would remain at 19% from 1 April 2023. In another U-turn, the Prime minister announced last week that the reforms were back on, and that the cancellation of the reforms had been cancelled.

Under the reforms, from 1 April 2023, corporation tax will be payable at the small profits rate of 19% where profits are below the lower profits limit and at 25% where profits exceed the upper profits limit. Between these limits, a company pays corporation tax at 25%, as reduced by marginal relief, giving and effective rate of between 19% and 25% depending where in the band the profits fall.

For a stand-alone company, the lower profits limits is £50,000 and the upper profits limit is £250,000. Where a company has associated companies, these limits are divided by the number of associated companies plus 1. The limits are also proportionately reduced where the accounting period is less than 12 months.

Corporation tax rates will rise to 25%

Off-payroll working rules

To reduce burdens on business, the off-payroll working rules were due to be scrapped from 6 April 2023. The reforms have now been cancelled and the existing rules will remain in place.

Consequently, the off-payroll working rules will still need to be considered by public sector bodies and medium and large private sector organisation who engage workers providing their services through an intermediary, such as a personal service company. As now, the IR35 rules will apply where a worker provides his or her services through an intermediary to a small private sector end client and, but for the intermediary, the worker would be an employee of the end client.

Stamp duty land tax

The increase in the residential stamp duty threshold to £250,000 and the corresponding increase in the first-time buyer threshold to £425,000, which took effect from 23 September, will remain in place.

Energy support

The Energy Price Guarantee was due to be in place for two years from 1 October 2022. The Chancellor has now announced that this measure will remain in place until April 2023, at which time a Treasury-led review will be launched to consider how to support households with energy bills after that date.

VAT-free shopping

The proposed VAT-free shopping scheme for non-UK visitors to Great Britain will not now go ahead.

Alcohol duty freeze

Alcohol duty rates will not now been frozen from February 2023, as previously announced.

Please call if you need help with any of the issues raised in this alert.