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LIFE INSURANCE SPECIALISTS

Autumn Statement Client Newsletter

Synopsis: In this Newsletter we look at the impact of the tax and spending proposals announced by Mr Hunt and offer a refresher of what remains from Mr Kwarteng's ill-fated 'fiscal event' and other relevant announcements made by his predecessors.

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The Background

The line between Statements and Budgets has blurred in recent years. Chancellor Jeremy Hunt's second major announcement was designated as an Autumn Statement, but it will have a greater financial impact than most Budgets. A broad range of tax increases and spending cuts ensures that will be the case, regardless of the Treasury branding.

As the past few weeks of leak-driven media coverage have made clear, the Autumn Statement had two primary purposes:

- to re-establish the UK as a fiscally responsible developed country after the ill-fated Truss premiership; and

- to fill a black hole in the public finances, that was variously estimated to be between £40bn and £60bn a year, by 2027/28. Not all the blame for that can be placed at the feet of Mr Hunt's short-lived predecessor, Kwasi Kwarteng. His self-destructive 'fiscal event' on 23 September included about £45bn of unfunded tax cuts.

By the time Mr Hunt came to the despatch box, just under eight weeks later, some £32.3bn of those cuts had already been reversed, including the planned reduction in the basic rate of tax and the freezing of corporation tax rates. The only major measures that outlived Mr Kwarteng are those that had entered the legislative process before his demise – the reduction in National Insurance Contributions (NICs), the abolition of the Health and Social Care Levy and the modest cuts to Stamp Duty Land Tax (in England and Northern Ireland).

When announcing the U-turns on the Trussonomics tax policy a month ago, Mr Hunt spoke of future 'decisions of eye-watering difficulty', but gave little explanation of why government finances had deteriorated seemingly so rapidly. In truth, the fiscal hole had been deepening for some while...

- The last official projections from the Office for Budget Responsibility (OBR) were carried out in mid-March 2022, three weeks after the invasion of Ukraine. The assumptions made back then now look rose-tinted. For example, the OBR thought that inflation would peak at 8.7% this year before dropping to 4% in 2023 and that the UK economy would grow by to 1.8% in

2023. The corresponding figures in the OBR's latest forecasts are inflation of 11% and 7.4% and, rather than growth in 2023, a 1.4% contraction.

- Two months after the OBR's Spring Statement calculations, the government announced an energy support package with an estimated cost of £15bn.

- In September Liz Truss announced a further utility price support package, including the £2,500 Energy Price Guarantee, initially set to run until October 2024. Its cost, for just the second half of 2022/23, was estimated at £60bn.

- The cost of servicing government debt has been ramped up by increasing interest rates and rapidly rising inflation – of which Wednesday's figures (11.1% CPI and 14.2% RPI to October 2022) were the latest example. The total interest bill for the current financial year will now exceed £120bn according to the OBR – more than twice the size of the black hole. The combination of quantitative easing (QE) and heavy reliance on index-linked debt that had helped lower the outlay on debt servicing in earlier years is now having a dramatically opposite effect.

If you need further information on how you will be affected personally, you are strongly recommended to consult your financial adviser.

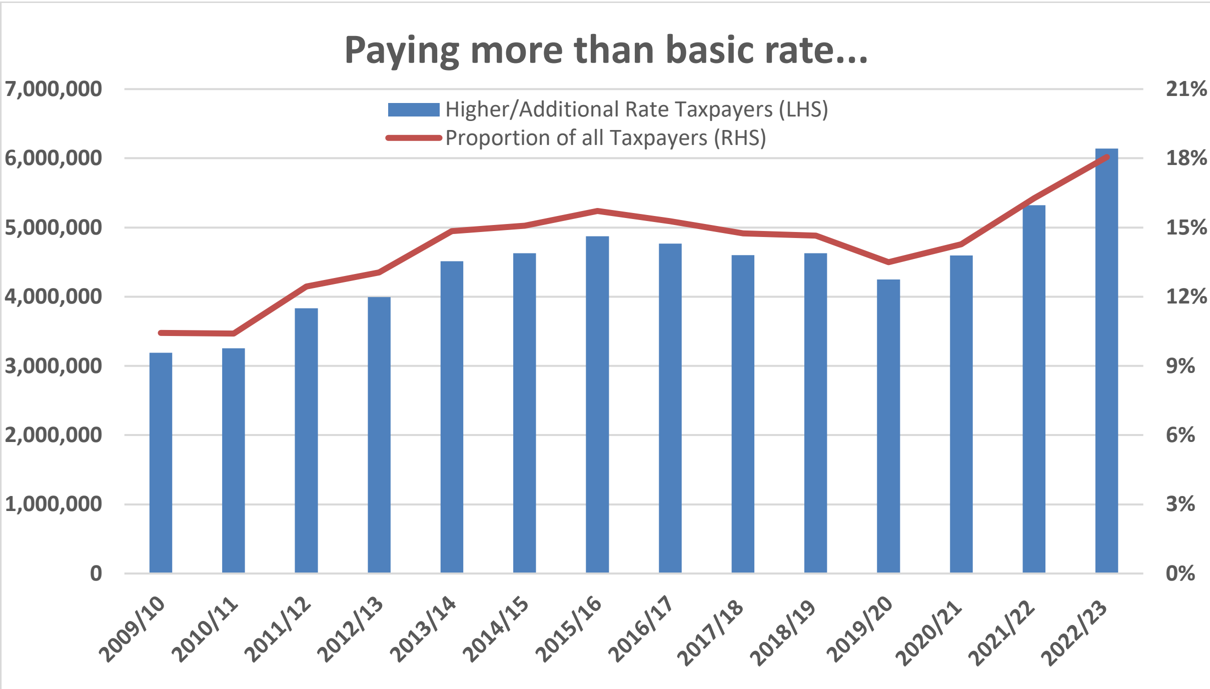
The main measures

The Chancellor revealed a wide range of measures, raising an overall £55bn a year by 2027/28, with slightly under half coming from tax increases and the balance from spending cuts. Mr Hunt had said a few days ago that everyone would pay more tax. As the details below show, he was not joking.

Income tax

Personal allowance and tax band freezes

As was widely rumoured, the freeze on the personal allowance and higher rate threshold which had been due to end after 2025/26 will now be extended for another two years. The result will be more taxpayers and still more higher rate taxpayers. If you do not already pay more than basic rate tax, you may do soon.



Source: HMRC

Additional rate tax

Additional rate tax (initially at 50%) was introduced in 2010/11 on income of over £150,000. The rate was reduced to 45% in 2013/14 (46% in Scotland where it is called the top rate), but the threshold was never changed (until now). Unsurprisingly, the freeze means that the number of additional rate taxpayers has surged from 236,000 in 2010/11 to 629,000 in 2021/22.

In pursuit of the broadest shoulders on which to levy extra tax, Mr Hunt has reduced the additional rate threshold for 2023/24 onwards to £125,140. The figure is set at £140 more than the pre-Statement rumours to avoid creating a £140 band in which both the personal allowance taper *and* additional rate tax operated. As a result, the maximum marginal income tax rate in the personal allowance taper band between £100,000 and £125,140 remains at 60%.

Dividend tax

The dividend allowance will be halved to £1,000 in 2023/24 and halved again in 2024/25 to just £500 – one tenth of its original level in 2016/17.

Previous announcements remaining in force

The list, which dates back as far as the time when Mr Sunak was Chancellor, includes:

- A four-year freeze on the personal allowance (£12,570) and higher rate threshold (£50,270 outside Scotland) until 5 April 2026. This is already biting significantly more than was originally forecast because of soaring inflation. Had CPI indexation continued to apply, in the coming tax year the personal allowance would be £14,280 (+£1,710) and the higher rate threshold £57,180 (+£6,910).
- Basic rate tax (outside Scotland) will remain at 20% 'indefinitely'.
- Dividend tax will remain at the rates introduced in 2022/23 of 8.75% (basic/ordinary), 33.75% (higher/upper) and 39.35% (additional), despite the abolition of the Health and Social Care Levy.

Planning point

The combination of high inflation and frozen allowances and tax bands makes independent tax planning increasingly important for married couples and civil partners. Rearranging who holds which income-producing investments could save both of you tax.

National Insurance Contributions

The following NIC thresholds/limits will be frozen until 5 April 2028:

- The Class 1 Primary Threshold (employee), Upper Earnings Limit (employee), Secondary Threshold (employer) and Upper Secondary Threshold (Employer).
- Class 2 Lower Profits Threshold (self-employed).
- The Class 4 Lower and Upper Profits Limits (self-employed).

The Lower Earnings Limit (£6,396 for employees) and small profits threshold (£6,725 for the self-employed) will be unchanged in 2023/24.

For 2023/24, the Class 2 rate (self-employed) will rise to £3.45 per week and the Class 3 (Voluntary) rate will increase to £17.45 per week.

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Previous announcements remaining in force

The NICs changes announced by Mr Kwarteng on 23 September were rapidly converted into legislation and have now become law. These are...

	6/7/22-5/11/22	6/11/22-5/4/23
Class 1		
Employee - Primary	£242 - £967pw: 13.25% Over £967 pw: 3.25%	£242 - £967pw: 12.00% Over £967 pw: 2.00%
Employer - Secondary	Over £175 pw: 15.05%	Over £175 pw: 13.80%
	2022/23	
Directors: Primary	£11,908 - £50,270 pa: 12.73% Over £50,270 pa: 2.73%	
Secondary	Over £9,100 pa: 14.53%	
Class 4	**2022/23**	
Self-employed On profits	£11,908 – £50,270 pa: 9.73% Over £50,270 pa: 2.73%	

Planning point

Lower NIC rates reduce the overall gain from using salary sacrifice to make pension contributions. However, substantial benefits remain, as the table below shows:

	Personal contribution		**Salary sacrifice employer contribution (sacrificed amount + NIC saving)**	
Tax rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross salary	1,000	1,000	Nil	Nil
Employer pension contribution	Nil	Nil	1,138	1,138
Employer NIC (13.8%)	138	138	Nil	Nil
Total employer outlay	1,138	1,138	1,138	1,138
Employee salary	1,000	1,000	Nil	Nil
Less: income tax	(200)	(400)		
NICs (12.00%/2.00%)	(120)	(20)		
Net pay = net pension contribution	680	580		
Tax relief	170	386.67		

Total pension contribution	**850**	**966.67**	**1,138**	**1,138**
Gain			***33.9%***	***17.7%***

Jeremy Hunt also confirmed that the Government would retain the Employment Allowance at its new, higher level of £5,000. Employment Allowance is an entitlement for businesses, charities, and amateur sports clubs towards their employer (secondary) Class 1 NICs liability. (It's not available if a director is the sole employee or if the previous tax year's secondary NICs were £100,000 or more.)

Employment Allowance		
	2022/23	**2023/24**
Per business	£5,000	£5,000

Company cars and vans

The appropriate percentages used in benefit-in-kind calculations for electric and ultra-low emission cars will increase by one percentage point each year from 2025/26 to 2027/28, to a maximum of 5% for electric cars and 21% for ultra-low emission cars

Benefit-in-kind rates for other vehicles will be increased by one percentage point for 2025/26 up to a maximum of 37% and will then be fixed in both 2026/27 and 2027/28.

For 2023/24, car and van fuel benefit charges and the van benefit charge will increase in line with CPI.

Capital gains tax

The annual exempt amount for individuals and personal representatives will be cut from £12,300 to £6,000 for 2023/24 and in the following tax year cut again to just £3,000.
The annual exempt amount for most trusts will be cut to £3,000 (minimum £600) in 2023/24 and then cut again in 2024/25 to £1,500 (minimum £300).

Planning point

The 75% plus reduction in the capital gains tax (CGT) annual exempt amount by 2024/25 makes it important to consider whether the exemption can be used before the end of this tax year and again, at its reduced £6,000 level in 2023/24.

The lower CGT allowance also increases the importance of maximising ISA contributions, as ISAs remain free of CGT as well as UK income tax.

Inheritance tax

The inheritance tax nil rate band and residence nil rate band (RNRB) will remain at their current levels (£325,000 and £175,000 respectively) until April 2028. The estate threshold at which RNRB starts to be tapered will also be unchanged at £2m.

Previous announcements remaining in force

Both nil rate bands were frozen in 2021/22 and were due to remain frozen until the end of 2025/26. The main nil rate band has been subject to repeated freezes – it was set at £325,000 in April 2009 and would be over £460,000 in 2023/24, had it been index-linked.

Planning point

2022 has not been the best of years for many investments, with values falling in the wake of surging inflation and rapidly increasing interest rates. However, there is an upside to the bad news for inheritance tax (IHT) planning. Now could be a good time for making lifetime gifts of some of your investments because:

- The depressed values mean more can be gifted without creating a capital gains tax liability.
- The beneficiary of your gift will gain from any recovery in value, but only the original gift will count for IHT purposes.
- If the gift is outright, there is no immediate IHT and none at all if you survive for the following seven years.
- In many instances, gifts that are not outright – for example using trusts – can also escape immediate or future IHT.

The current IHT rules for lifetime gifts are not well understood and are surprisingly generous. How long they will last after the next election is open to speculation.

Stamp Duty Land Tax

No further immediate changes were made to Stamp Duty Land Tax (SDLT) which applies only in England and Northern Ireland. However, the Chancellor did announce that the reductions made in the September 'mini-Budget' would be reversed from 1 April 2025.

Previous announcements remaining in force

The revised residential SDLT rates introduced by Kwasi Kwarteng remain in force:

Slice of value		Rate %
First-time buyers*	**Other buyers⁺**	
Up to £425,000	Up to £250,000	0
£425,001-£625,000	£250,001-£925,000	5
	£925,001-£1,500,000	10
	Over £1,500,000	12

*Maximum property value £625,000
+ Additional residential and all corporate residential purchases of £40,000 and more – add 3% to rates

Wales subsequently revised its Land Transaction Tax from 10 October 2022, raising the threshold for residential buyers of its 0% band to £225,000 and increasing the tax rate in the following band up to £400,000 to 6%. The higher bands remain unchanged, as do all higher residential rate bands for non-residential buyers (e.g. buy to let investors). Any changes to Scotland's Land and Buildings Transaction Tax will be announced in the Scottish Budget, to be published on 15 December.

Planning point

The increase in mortgage rates prompted by Mr Kwarteng's fiscal event has brought home the impact of earlier changes to the treatment of mortgage interest relief for individual buy-to-let investors. Take, for example, a higher rate taxpaying buy-to-let investor with a property producing £8,400 a year after expenses and a £200,000 mortgage originally fixed at 2% and due to reach the end of its term imminently. At present, a new fixed rate mortgage for two years would cost about 5.0%.

	Mortgage interest rate	
	2.00%	**5.25%**
Rental income after expenses	£8,400	£8,400
Tax @ 40%	-£3,360	-£3,360
Post-tax pre-interest income	£5,040	£5,040
Interest	-£4,000	-£10,000
Tax credit on interest @ 20%	£800	£2,000
Post-tax post-interest net income	£1,840	-£2,960

Landlords also face possible reforms to security of tenure rules in England, new minimum energy standards and, according to the OBR, falling property values. As a result, despite the lower SDLT cost, some are considering alternative investments rather than expanding their portfolios.

Energy Price Guarantee and Energy Bill Support Scheme

The £2,500 energy price guarantee (EPG) for domestic users will end on 31 March 2023 rather than run to 30 September 2024. In its place there will be a new EPG of £3,000 until 1 April 2024. As now, the EPG will not represent a cap on total cost, but a ceiling on the daily standing charge and per kWh cost. The government has reserved the right to amend the scheme before the end of twelve months if, for example, it becomes overly expensive.

The promised review of the Energy Bill Support Scheme, which until 31 March 2023 provides support to non-domestic energy users, will be published by the end of the year. From April 2023, the replacement support is set to be much reduced and narrowly targeted.

Electric vehicles

Electric cars and vans will become subject to vehicle excise duty from 1 April 2025.

Fuel duty

It has become a tradition for Chancellors to announce a freeze on fuel duty, but Mr Hunt made no comment on the subject in his speech. However, the OBR highlighted that, if there is no freeze from next March and the one-year temporary 5p a litre reduction in duty due to end in March is not repeated, the price at the pump could rise by 12p a litre. The OBR's financial projections assumed that this increase would go ahead, but also labelled it as a 'fiscal risk'.

Council tax in England

The current rules require councils in England to hold a referendum on any increase to Council Tax of more than 2.99% (including a 1% social care precept). For 2023/24, the referendum threshold will be increased to 5% (including a 2% social care precept).

Social security benefits

The rumours about what increases would apply to benefits, especially the 'triple locked' state pension, were many and various in the run up to the Autumn Statement. In the event, the Chancellor decided that, from next April, all benefits that apply throughout the UK, including state pensions and the standard minimum income guarantee in Pension Credit, will increase by 10.1%. The benefit cap will also rise by 10.1%.

In 2023/24, households on means-tested benefits will receive an additional £900 Cost of Living payment, pensioner households an additional £300 and disability benefits claimants an additional £150. These payments are cumulative, so the maximum overall payment would be £1,350.

Universal Credit (UC) claimants will be able to apply for a loan under the Support for Mortgage Interest provisions after three months, rather than the current nine. The zero earnings rule will also be abolished, allowing UC claimants in work to continue receiving support. These changes will take effect in Spring 2023.

Planning point

The increase in state pensions is welcome, particularly after last year's decision to ignore the Triple Lock in favour of a 3.1% increase (in line with CPI inflation to September 2021). Nevertheless, the state pension alone remains too low to provide a comfortable retirement. In 2021 the Pensions and Lifetime Saving Association (PLSA) calculated that to achieve a 'moderate living standard' in retirement would require the yearly levels of *net* income set out below:

	Single person	**Couple**
UK excluding London	£20,800	£30,600
London	£24,500	£36,200

The PLSA should be updating their figures soon, but as an approximation, you could now add about 16% to the above numbers - inflation over the last two years to October 2022.

Social Care Funding in England

In 2022, the Health and Care Act introduced a framework for the funding of social care with the following key features...

- The upper capital limit above which an individual is responsible for all their care costs would rise from £23,250 to £100,000.
- The lower capital limit at which all costs are met by the state would also rise, from £14,250 to £20,000.
- For those with capital between the two limits, 'tariff income' would apply as currently, i.e. a contribution of £1 per week for each £250 of capital.
- Crucially there would be an index-linked cap, initially set at £86,000, above which an individual would not have to meet their *personal care* costs. So called 'hotel costs', covering food and accommodation, would remain the individual's responsibility and would initially be set at a notional £200 a week.

The Act was passed in April of this year, but none of the all-important commencement regulations have emerged. In September Mr Kwarteng scrapped the Health & Social Care Levy which was to fund the new scheme, but gave no indication of any replacement funding. Meanwhile English local authorities, which will continue to have a key role in administering social care, have been asking for a delay of one or two years to prepare for the new regime. The Chancellor has decided to move out the implementation from the originally announced date of October 2023 by two years. Although much of the media coverage has been on the £86,000 cap, in the short term, the main savings the Treasury will make stem from maintaining the current restrictive means testing rules.

Corporation tax

After a variety of changes and reversals in recent times, no new changes to the main rates of corporation tax were announced.

Previous announcements remaining in force

The corporation tax increases announced and legislated for in 2021 by Rishi Sunak, reversed by Mr Kwarteng and then reinstated by Liz Truss will now come into force as originally planned from 1 April 2023:

Total profits	To 31 March 2023	From 1 April 2023
Up to £50,000	19%	19%
£50,001 - £250,000	19%	19% on first £50,000 +26.5% on excess
Over £250,000	19%	25%

Planning point

From 2023/24 the changes (and non-changes) to corporation tax rates, income tax, NICs, and dividend tax have once again altered the calculations on whether to draw a bonus or dividend. For example, for a higher rate taxpaying director of a company the mathematics will favour a bonus (assuming the Employment Allowance is not available and the shrinking dividend allowance is ignored) unless the company's profits are under £50,000 and are thus taxed at the small companies' rate of 19%:

	Bonus £	**Dividend £**		
Marginal corporation tax rate	N/A	**26.5%**	**25%**	**19%**
Gross profit	1,000.00	1,000.00	1,000.00	1,000.00
Corporation tax	N/A	(265.00)	(250.00)	(190.00)
Dividend payable	N/A	735.00	750.00	810.00
Employer's NIC @ 13.8%	(121.27)	N/A	N/A	N/A
Bonus	878.73	N/A	N/A	N/A
Director's NIC @ 2%	(17.57)	N/A	N/A	N/A
Income tax @40%/33.75%	(351.49)	(248.06)	(253.13)	(273.38)

Net receipt	**<u>509.67</u>**	**<u>486.94</u>**	**<u>496.87</u>**	**<u>536.62</u>**

Energy taxes

In May 2022, Rishi Sunak introduced an Energy Profits Levy on North Sea oil and gas companies adding another 25 percentage points to their existing special 40% corporation tax rate. The Levy – a windfall tax in all but name – was due to end in December 2025 and was accompanied by a new scheme offering 91.25% tax relief on investment in UK oil and gas extraction. Mr Hunt announced an increase in the levy rate to 35% from 1 January 2023 and an extension of the tax regime from 31 December 2025 to 31 March 2028.

In addition, Mr Hunt revealed a new temporary levy on the 'extraordinary returns' of low-carbon electricity generators from 1 January 2023 at a rate of 45%.

Capital allowances

The government will legislate, in the Spring Finance Bill 2023, to extend the 100% First Year Allowance for electric vehicle charge points to 31 March 2025 for corporation tax purposes and 5 April 2025 for income tax purposes. This will ensure that the tax system continues to incentivise business investment in charging infrastructure.

Other than that, there were no changes to capital allowances, although Mr Sunak, as Chancellor, had consulted on a range of potential reforms in summer 2022 ahead of the end of the 130% super-deduction on 31 March 2023.

Previous announcements remaining in force

The Annual Investment Allowance, which has long oscillated at the whim of Chancellors, was fixed permanently at its current £1 million level by Mr Kwarteng. It had been due to fall to £200,000 from 1 April 2023.

Research & Development (R&D) tax reliefs

A radical overhaul R&D tax reliefs will take effect from 1 April 2023. The Research and Development Expenditure Credit (RDEC) rate will increase from 13% to 20%, the small and medium-sized enterprises (SME) additional deduction will decrease from 130% to 86%, and the SME credit rate will decrease from 14.5% to 10%.

Value Added Tax

The threshold for value added tax registration, which was fixed at £85,000 in April 2017 and was due to rise in April 2024 will now remain frozen for another two years, until April 2026.

Business rates

1 April 2023 will mark a rates revaluation for business properties in England and Wales, based on values on 1 April 2021. A range of measures were announced to ease the impact of this revaluation, including:

- A freeze on the business rates multipliers in 2023/24 at 49.9pand 51.2p.
- A transitional relief scheme, capping bill increases caused by changes in rateable values, funded by the government rather than, as in the past, limiting decreases.
- 75% business rates relief for eligible retail, hospitality and leisure businesses, up to £110,000 per business in 2023/24.
- Bill increases for the smallest businesses losing eligibility for the Supporting Small Business Scheme or Rural Rate Relief will be capped at £600 per year from April 2023.

National Living/Minimum Wage

The new National Living Wage and National Minimum Wage hourly rates for 2023/24 will be:

	Current rate	**Rate from April 2023**
National Living Wage	£9.50	£10.42
21-22 year olds	£9.18	£10.18
18-20 year olds	£6.83	£7.48
16-17 year olds	£4.81	£5.28
Apprentice	£4.81	£5.28
Accommodation Offset	£8.70	£9.10