LEGAL & BUSINESS GUIDANCE NOTE

Headlines of Autumn Statement 2022

What came out of the Autumn Statement 2022

The Chancellor of the Exchequer, Jeremy Hunt, delivered the government's Autumn Statement on Thursday, 17 November 2022.

The Autumn Statement reversed most of the former Chancellor Kwasi Kwarteng's Growth Plan which was delivered on 23 September 2022.

The Chancellor referenced the '*unprecedented global headwinds*' disrupting the UK economy identifying, the surge in energy prices and the conflict in Ukraine as two of a number of key challenges.

The Autumn Statement is designed to tackle; the cost-of-living crisis, reduced the level of public debt as a share of GDP over time and providing markets with the requisite confidence to ensure the cost of government borrowing remains low.

This was also an attempt to calm the relationship between the Treasury and the Bank of England in curbing inflation (41–year high @ 11.1% in October 2022).

The Chancellor also confirmed that there will be a full Budget in Spring 2023.

1. Tax

- **Business rates**

  The Chancellor set out £13.6bn of support that the government will provide to businesses and the high street in the next five years by reducing the burden of business rates. Business rate bills across England will be updated from 1 April 2023, to reflect changes in property values since the previous revaluation in 2017, and local authorities will be compensated fully for the loss of income from such measures, and receive new burdens funding for administrative and IT costs. The business rates measures outlined seek to build on the existing commitment to reform the business rates system by delivering revaluations more regularly to better reflect current market values, and will consist of freezing the multipliers, the transitional relief scheme, retail, hospitality and leisure relief, support small business scheme and improvement relief.

  - *Multiplier freeze*

    In 2023–2024, the business rates multipliers will be frozen at 49.9 pence and 51.2 pence, prevented from increasing to 52.9 pence and 54.2 pence, outlined as bringing a £9.3bn tax cut over the next five years to support all ratepayers and reducing bills by 6% compared to without the freeze.

  - *Transitional relief scheme*

The Upwards Transitional Relief aims to support properties by capping bill increases that result from changes in rateable values as based on the 2023 revaluation. £1.6bn of support will be funded by the Exchequer, and in 2023–2024, the ‘upward caps’ will be 5%, 15% and 30%, for small, medium, and large properties respectively, and this will be applied before any other reliefs or supplements. Hunt’s statement noted how these measures will deliver significant reform to the business rates system and respond to key stakeholder views.

- *Retail, hospitality and leisure relief*

  In 2023–2024, eligible retail, hospitality and leisure businesses will receive further support with business rates relief up to £110,000 per business. An estimated 230,000 eligible properties can receive this support worth £2.1bn.

- *Supporting small business scheme*

  From 1 April 2023, a cap of £600 per year will commence for bill increases faced by the smallest businesses losing eligibility or seeing reductions in Small Business Rate Relief (SBRR) or Rural Rate Relief (RRR), estimated to be worth over £500m over the next three years, supporting more than 80,000 businesses. Hunt’s statement outlined how no small business losing eligibility for SBRR or RRR will face a bill increase of greater than £50 per month in 2023–2024.

- *Improvement relief*

  The new improvement relief builds on the Autumn Budget 2021 and will be introduced from April 2024, available until 2028, where the government will further review this measure.

- **Adjusting super-deduction rules and corporation tax** — it was confirmed that, because the main rate of corporation tax will increase to 25% from April 2023, previously proposed technical changes to the related capital allowance super-deduction rules (for expenditure incurred prior to 1 April 2023 and which were announced in The Growth Plan 2022) are no longer required.

- **Increasing the rate of diverted profits tax** — it was confirmed that the rate of diverted profits tax (DPT) will increase by 6% to 31% with effect from April 2023 as originally announced at Spring Budget 2021 (para 5.28). The confirmation follows the measure’s proposed cancellation in the Growth Plan 2022 and the uncertainty created when it was not expressly referred to in the Chancellor’s emergency statement on 17 October 2022.

- **R&D SME scheme** — from 1 April 2023, the R&D SME scheme deduction rate will be cut to 86% (from 130%) and the R&D SME credit rate cut to 10% (from 14.5%) but the rate of the separate R&D expenditure credit (RDEC) increased from 13% to 20%. These changes, aimed at raising revenue and taking a step towards a simplified, RDEC-like scheme for all, will be legislated for in the AFB 2022 (paras 2.14, 3.30 and 5.52).

  This is disappointing as the engineering sector is overwhelming populated with SMEs and the scheme can be an invaluable source of funding for growth and innovation.

- **RDEC (R&D Expenditure Credit) scheme** — the government will consult on the design of a single RDEC scheme, and ahead of the Budget work with industry to understand whether further support is necessary for R&D intensive SMEs, without significant change to the overall cost for supporting R&D.

- **R&D tax credits** — it was confirmed that plans already announced at Autumn Budget 2021 to extend the scope of qualifying expenditure for R&D tax credits to include expenditure on data and cloud computing, refocusing support towards innovation in the UK and targeting abuse and improving compliance will be legislated for in SFB 2023 (para 5.52).
- **Online sales tax (OST)** — it was confirmed that an OST will not be introduced..
- **Investment zones** — investment zones will be centred on universities in 'left-behind' areas. The government will work with mayors, devolved administrations, local authorities, businesses and other partners to identify and support these areas.
- **First Year Allowance for electric vehicle chargepoints** — the Chancellor announced that SFB 2023 will extend, by two years, the 100% first year allowance for electric vehicle chargepoints from 31 March 2023 (for corporation tax) or 5 April 2023 (for income tax) to 31 March 2025 and 5 April 2025 respectively.
- **Stamp Duty Land Tax cuts** — the increase to the residential nil-rate thresholds for stamp duty land tax (SDLT) from £125,000 to £250,000 and the increase to the nil-rate threshold for SDLT for eligible first-time buyers from £300,000 to £425,000 (with corresponding increase to the maximum transaction value to £625,000) announced in the Growth Plan 2022 which took effect for transactions with an effective date on or after 23 September 2022 will be retained, in order to support the housing market (and associated businesses), albeit it will be placed on a temporary footing and, by amendment to the Stamp Duty Land Tax (Reduction) Bill, will cease to apply after 31 March 2025.
- **VAT registration and deregistration thresholds** — following the announcement at Spring Budget 2021 that there would be no change in the VAT registration or deregistration thresholds for a further two years from 1 April 2022), it was announced that the VAT registration and deregistration thresholds will be further maintained at £85,000 and £83,000 respectively for an additional two-year period to 31 March 2026.
- **National Insurance contributions (NICs) secondary threshold** — the level at which employers start to pay Class 1 Secondary NICs for their employees will be fixed at £9,100 from April 2023 until April 2028. This is the level that was introduced in April 2022 (having been at £8,840 for tax year 2021–22). The government will legislate for this measure in affirmative secondary legislation in early 2023.
- **Employment allowance —** in his speech, the Chancellor said that the employment allowance would be 'retained' at £5,000, which was the amount introduced for the current tax year (having been £4,000 from 2020–21). It was not confirmed for how long this level would be retained. See: The Autumn Statement 2022 speech.
- **Company Car Tax (CCT) rates** — AFB 2022 will set CCT rates until April 2028 in order to provide long term certainty for taxpayers and industry.
- **Energy profits levy** — the energy profits levy is to be increased from 25% to 35% from 1 January 2023 and extended until the end of March 2028. The investment allowance will be reduced to 29% for all investment expenditure (other than decarbonisation expenditure, which will continue to qualify for the current investment allowance rate of 80%) broadly maintaining its existing cash value. The measures will be legislated for in AFB 2022, except the changes related to decarbonisation expenditure which will be legislated for in SFB 2023.

- **Electricity generator levy** — a new temporary 45% levy on extraordinary returns from low-carbon UK electricity generation will be introduced from 1 January 2023. The levy will be legislated for in SFB 2023, which will define extraordinary returns as the aggregate revenue that generators make in a period from in-scope generation at an average output price above £75/MWh. The tax will be limited to generators whose in-scope generation output exceeds 100GWh across a period and will only then apply to extraordinary returns exceeding £10m.
- **CGT annual exempt amount** — the CGT annual exempt amount for individuals, which was frozen at £12,300 for tax year 2021–2022 to and including tax year 2025–2026 by Finance Act 2021, s 40, will be reduced to £6,000 with effect from April 2023 and will be further reduced to £3,000 with effect from April 2024 (paras 2.8 and 5.21). The reductions will be legislated for in the AFB 2022.
- **Dividend allowance** — the Chancellor announced that the dividend allowance for income tax will be reduced from £2,000 to £1,000 with effect from 6 April 2023 and then reduced again to £500 for the tax year 2024–25. This follows the previous reduction in the dividend allowance from £5,000 to £2,000 with effect from tax year 2018–19. The government will legislate for this measure in AFB 2022.
- **Income tax thresholds** — the income tax basic rate band (income between £12,571 and £50,270) was already fixed at its current level until 6 April 2026, but the Chancellor announced that those levels will be extended and remain until 6 April 2028. The starting level of income for the higher rate tax band will therefore continue to be £50,271, but the upper limit is reduced from £150,000 to £125,140 from 6 April 2023. The changes will be legislated for in AFB 2022.
- **NICs threshold and contribution rates** — several NICs limits and thresholds, including the upper earnings limit (UEL), the upper profits limit (UPL), the primary threshold (PT) and the lower profits limit (LPL), will be frozen until April 2028. The government will use the September CPI figure of 10.1% to uprate the Class 2 and Class 3 NICs contribution rates for 2023-24, such that the Class 2 rate will be £3.45 per week, and the Class 3 rate will be £17.45 per week. The government will legislate for these measures in secondary legislation in early 2023.
- **Inheritance tax nil-rate band and residence nil-rate band** — the government confirmed that the IHT nil-rate bands, which had already been set at their current levels until April 2026, will now stay fixed at these levels for a further two years until April 2028. This means that the nil-rate band will continue at £325,000 (where it has been since 2009–10), the residence nil-rate band will continue at £175,000, and the residence nil-rate band taper will continue to start at £2m. The government will legislate for these measures in AFB 2022.

In energy, most providers will be unsurprised to see the energy profits levy increased by 10 percentage points to 35% and then extended to the end of March 2028, although electricity generators might well fear the brand new 45% electricity generator levy will be not as temporary as advertised today.

Electric car manufacturers and dealers can’t be happy that vehicle excise duty will be introduced on electric cars, vans and motorcycles from April 2025 (it had to happen eventually).

We welcome the commitment to; Sizewell C,, wind and solar branch of renewables.

The R&D tax credit for SMEs will be cut from 14.5% to 10% from 1 April 2023, and the additional tax deduction for R&D costs for SMEs is also being cut from 130% to 86%— a huge disappointment and frustration for innovative start-ups who rely on the relief to keep going. Larger businesses get an increased rate of the R&D expenditure credit (RDEC) from 13% to 20% (a policy easier to pay for, as it's not cash in hand for the businesses claiming). Further reform in this area is expected.

2. Construction

- **Investments in plant machinery**

  To support businesses to invest and grow, the government is setting the Annual Investment Allowance at its highest ever permanent level of £1m from 1 April 2023. This amounts to full expensing for an estimated 99% of UK businesses, which means that those businesses can write off the cost of qualifying plant machinery investment in one go.

  From a construction industry perspective, this could potentially be applied to plant machinery used by contractors including in off site manufacturing plants where contractors are using modern methods of construction (MMC)—though this will become more clear when the definition of 'qualifying plant machinery' is clearly established.

- **Infrastructure projects**

  During this Parliament there has been a step change in public investment in infrastructure. This Autumn Statement therefore protects the public capital budget at record levels allowing the government to invest over £600bn over the next five years.

  The government will seek to accelerate delivery of projects across its existing infrastructure portfolio.

  It was announced that the UK Infrastructure Bank will be put on a statutory footing, cementing its status as a key institution that will facilitate long-term investment in infrastructure to tackle climate change and support regional and local growth.

  The government also recommitted to the East West Rail, core Northern Powerhouse Rail and High Speed 2 rail projects and the Sizewell C nuclear plant project, as well as rolling out other cheap, clean renewables including wind and solar.

  Finally, the government recommitted to levelling up by confirming that the second round of the Levelling Up Fund will allocate at least £1.7bn to priority local infrastructure projects, for which successful bids will be announced before the end of 2022.

- **Energy Efficiency Taskforce (EETF)**

  A new long-term commitment to drive improvements in energy efficiency to bring down bills for households, businesses and the public sector with an ambition to reduce the UK's final energy consumption from buildings and industry by 15% by 2030 against 2021 levels was announced.

  To achieve this target, the new EETF will be charged with delivering energy efficiency across the economy, supported by £6bn worth of funding, between 2025 and 2028, in addition to the £6.6bn provided in this Parliament.

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