TAX BRIEFING

WINTER 2022

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DIVIDEND TAX

Dividends are taxed at much lower rates than other forms of income and they are not subject to national insurance contributions (NIC).

The Chancellor has decided to cut the dividend allowance to £1,000

This can make taking income from your own company in the form of dividends far more attractive than paying yourself a bonus.

All taxpayers are currently entitled to a dividend allowance of £2,000 in addition to the personal allowance which is gradually withdrawn where annual income exceeds £100,000.

The dividend allowance effectively applies a zero rate of tax to the first slice of dividends received in the tax year. The Chancellor has decided to cut the dividend allowance to £1,000 per year for the tax year 2023-24 and then to £500 from 6 April 2024.

The rates of tax applicable to dividend income have not been changed for 2023-24.

Tax year:	2022-23	2023-24
Dividend allowance	£2,000	£1,000
Basic rate band	8.75%	8.75%
Higher rate band	33.75%	33.75%
Additional rate band	39.35%	39.35%

In 2023-24 the cut in the dividend allowance will cost a basic rate taxpayer £87.50; a higher rate taxpayer £337.50; and an additional rate taxpayer £393.50 assuming that these individuals would use the full allowance.

INCOME TAX

The main income tax thresholds and allowances had already been frozen at the 2021-22 levels until 2026 and that has been extended to 6 April 2028.

The main income tax rates are unchanged for 2023-24 at: 20%, 40% and 45%.

Individuals in England, Wales and Northern Ireland will start to pay 40% tax on income above £50,270. The 45% tax rate currently applies to income above £150,000 but that threshold will be cut to £125,140 (the level at which a taxpayer's personal allowance will have reduced to zero) from 6 April 2023.

The freeze or reduction of income tax thresholds and allowances coupled with inflation of over 11% will drag many more people into higher rates of tax every year. Once a taxpayer's income strays into the 40% band their personal savings allowance (the amount of interest that is tax free) drops from £1,000 to £500 per year. Taxpayers who pay tax at 45% have no personal savings allowance.

Taxpayers who are resident in Scotland pay income tax on their earnings, profits and rental income at different rates and from different thresholds to people in the rest of the UK. However capital gains, savings and dividends are taxed at the same rates across the UK. The Scottish income tax rates for 2023-24 are due to be announced by the Scottish Government on 15 December 2022.

The high income child benefit charge threshold remains unchanged at £50,000 and families where the higher earner has total relevant income over £50,000 have some of their child benefit clawed back. This catches some people whose highest marginal rate is only 20%.

CAPITAL GAINS AND INHERITANCE TAX

Capital gains made by individuals are generally taxed at lower rates to income and taxpayers benefit from a separate annual exemption that covers the first £12,300 of gains made per year.

This exemption will be reduced to £6,000 for the tax year 2023-24

This exemption will be reduced to £6,000 for the tax year 2023-24 and then to £3,000 for 2024-25. Any annual exemption unused in a tax year cannot be carried over to the next year.

The lowering of the annual exemption will mean that many more individuals will have to report capital gains on a self assessment tax return.

When the gain arises from the disposal of a residential property in the UK it must be reported using the UK property service within 60 days of completion of the sale and the tax paid by the same deadline. This 60-day report is required in addition to the annual tax return.

The main rates of capital gains tax (CGT) remain at 10% for gains within the basic rate band and those subject to business asset disposal relief and 20% for other gains. However gains made from residential property are taxed at 18% within the basic rate band and 28% at higher rates.

The inheritance tax threshold (nil-rate band) has been fixed at £325,000 per person since 2009 and it will now be kept at that level until at least April 2028.

Where an individual leaves an interest in their main home to one or more children or other direct descendants they can also benefit from the residential nil-rate band worth a further £175,000 per person. That amount is also frozen until April 2028 although the value of residential properties has increased significantly since 2020-21 when it was introduced.

HOME BUYERS PAY LESS STAMP DUTY

When buying a residential property in England or Northern Ireland you must pay stamp duty land tax (SDLT) if the purchase price exceeds a minimum threshold set at £125,000 since 2006.

In September's mini-Budget the then Chancellor announced that the entry threshold for SDLT payable on residential properties would double to £250,000 for deals completed on or after 23 September 2022. This higher threshold will apply until April 2025.

Where all the purchasers of the property have never owned a property they can take advantage of a first-time buyer minimum SDLT threshold of £425,000, increased from £300,000. If the property costs more than £625,000 (previously £500,000) the first-time buyer threshold does not apply.

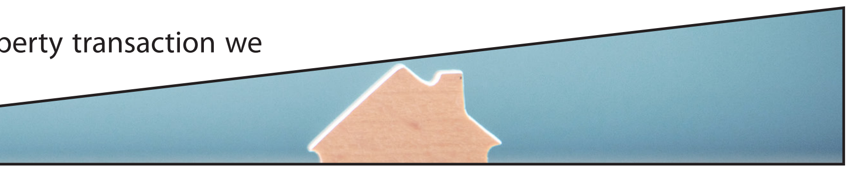
The rates of SDLT were not changed in the Budget other than removing the lowest rate. The tax is due at the following rates:

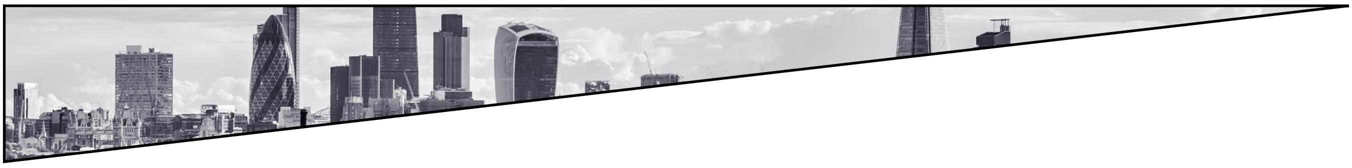
Property value	Only home	Second home or corporate buyer
Entry threshold - £925,000	5%	8%
£925,000 - £1,500,000	10%	13%
£1,500,000 +	12%	15%

Non-resident buyers have an additional 2% surcharge applied to the figures above.

When buying in Scotland or Wales you will pay the appropriate land taxes for those countries which have different rates and thresholds.

If you are planning to enter into a property transaction we can help you determine which SDLT rate will apply.





TAX ON DWELLINGS HELD BY COMPANIES

The annual tax on enveloped dwellings (ATED) applies where a residential property worth over £500,000 is held by a company and is not commercially let out or used for some other qualifying purpose. This tax currently starts at £3,800 per year but that starting rate will rise to £4,150 from April 2023.

Be aware that the ATED charge for 2023-24 to 2027-28 must be based on the property's open market value on 1 April 2022 and it is up to the property owner to provide that valuation.

BUSINESS RATES

Properties subject to business rates will be revalued in 2023. Where the value has reduced compared to the last valuation point in 2017 that will translate to a rates reduction from April 2023. Where the rateable value has risen the increase in rates bill will be capped at 5% for small; 10% for medium; and 15% for large properties.

CORPORATION TAX UP

When the current Prime Minister was Chancellor he announced an increase in the main rate of corporation tax to 25% to apply to profits above £250,000 from 1 April 2023.

We can help you decide whether the IR35 rules apply to your contracts

Under the previous administration this decision was reversed but the 25% rate will now apply next year.

Companies with profits up to £50,000 per year will continue to pay corporation tax at the small profits rate of 19%. A company with total profits between £50,000 and £250,000 will pay 19% on the first £50,000 and a marginal rate of 26.5% on the rest.

Contractors who work through their own personal service companies will not be happy that the off-payroll working rules - which the previous administration vowed to repeal - are staying in place. These rules require large private sector businesses and all public sector bodies to decide whether the contractors they engage should be taxed as employees under the IR35 rules. Any agencies or intermediaries in the hiring chain are ignored for this decision.

Contractors can ask their ultimate customers whether they are categorised as a large company. Contractors working for a small or medium sized business must make their own decisions about whether the IR35 rules apply to the contract.

We can help you decide whether the IR35 rules apply to your contracts.

VAT CHANGES

The VAT registration threshold has already been frozen at £85,000 since April 2017 and it will now be fixed at that level until April 2026.

The Chancellor made the point that the UK's VAT registration threshold is more than twice as high as the average in OECD and EU countries so be prepared for this threshold to be cut in the future.

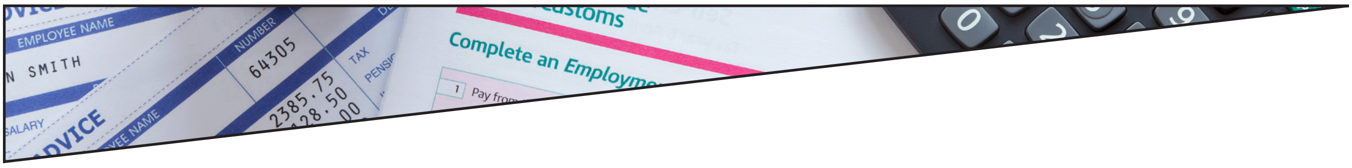
We can help you with VAT registration and to comply with MTD

The VAT threshold freeze will drag many more businesses into compulsory VAT registration if they increase their prices with inflation which is now running at over 11%.

Once a business is registered for VAT it must keep digital records and submit VAT returns using making tax digital (MTD) compatible software unless the business owner can show that they are digitally excluded.

There have been some teething problems with the new VAT registration process and it can take many weeks to receive a new VAT number. You need to act quickly to register for VAT once your turnover for the previous 12 months exceeds £85,000 or it is expected to exceed that level in the next 30 days. There are significant penalties for late registration.

We can help you with VAT registration and to comply with MTD.



PAYROLL MATTERS

The Chancellor has decided to freeze the Class 1 NIC thresholds and rates for 2023-24 at the amounts that have applied since 6 November 2022 - the date of the latest rate changes.

The health and social care levy which was due to take effect from 6 April 2023 will not be introduced.

The rates of statutory sick pay; maternity; paternity; and adoption pay have not yet been announced. As state benefits and pensions have been uprated by 10.1% in general it is reasonable to assume that statutory payments will be similarly uprated.

The national minimum wage rates are increased in line with the rate of inflation for pay periods starting on and after 1 April 2023. The new hourly rates will be:

Pay periods from	Living wage: age 23	Adult: age 21-22	Youth: age 18-20	Under 18	Apprentice	Accommodation daily off-set
	£/hr	£/hr	£/hr	£/hr	£/hr	£/hr
1 April 2023	10.42	10.18	7.49	5.28	5.28	9.10
1 April 2022	9.50	9.18	6.83	4.81	4.81	8.70

From 2024 the living wage age threshold of 23 will be reduced to 21 meaning that there will be only one adult rate.

INVESTMENT INCENTIVES

Companies can currently claim super-deduction allowances set at 130% of the cost of new plant and machinery or 50% of the purchase cost of certain fixtures and fittings for buildings.

These super-deductions will expire on 31 March 2023.

The annual investment allowance (AIA) cap was due to be reduced from £1m to £200,000 on 1 April 2023 but will now be fixed at £1m permanently. The AIA can be claimed by any form of business and can apply to second hand equipment as well as items purchased brand new. Some 99% of businesses will be able to claim a full deduction for the cost of plant and machinery using the AIA.

The rates of deduction available under the R&D schemes for SMEs are being reduced partly to take into account the changes in corporation tax rates from 1 April 2023 but also because of perceived widespread abuse of the schemes.

Companies using the SME scheme will see the allowable deduction reduced from 130% to 86% and the payable tax credit reduced from 14.5% to 10%.

Large companies that use the R&D expenditure credit scheme will be able to deduct an increased credit of 20% instead of 13%.

The investment zones proposed by the previous administration will go ahead in a limited number of areas but they will not attract tax reliefs such as reductions in business rates or employers' NIC.