Auctus+
Spring Budget 2023

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Guide to the Spring Budget 2023

Chancellor Jeremy Hunt delivered a ‘Budget for Growth’ after the Office for Budget Responsibility forecast a stronger than expected performance from the UK economy this year

Driving Business Investment

The Chancellor announced a £27 billion transformation of capital allowances from April this year, which will include the Full Expensing of investment in qualifying plant and machinery. There was also a £500 million package for research and development intensive businesses. In addition, Mr Hunt announced 12 Investment Zones across the UK with funding for skills and support.

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Personal Tax

The Personal Allowance

The income tax personal allowance was already taxed at the current level until April 2026 and will now be maintained for an additional two years until April 2028 at £12,570.

The government will uprate the married couple's allowance and blind person's allowance by in action for 2023/24.

There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000. The reduction is £1 for every £2 of income above £100,000. So there is no personal allowance where adjusted net income exceeds £125,140.

The marriage allowance.

The marriage allowance permits certain couples, where neither party pays tax in the tax year at a rate other than the basic rate (or intermediate rate in Scotland), to transfer £1,260 of their personal allowance to their spouse or civil partner.

The marriage allowance reduces the recipient's tax bill by up to approximately £250 a year. To benefit from the marriage allowance one spouse or civil partner must normally have no income or income below the personal allowance for the year. Since the marriage allowance was first introduced there are couples who are entitled to claim but have not yet done so. It is possible to claim for all years back to 2018/19 where the entitlement conditions are met. The total tax saving for all years up until 2022/23 could be over £1,000. A claim for 2018/19 will need to be made by 5 April 2023.

Tax bands and rates

The basic rate of tax is 20%. In 2023/24 the band of income taxable at this rate is £37,700 so that the threshold at which the 40% band applies is £50,270 for those who are entitled to the full personal allowance.

Once again, the basic rate band is frozen at £37,700 up until April 2028. The National Insurance contributions

upper earnings limit and upper profits limit will remain aligned to the higher rate threshold at £50,270 for these years.

From 6 April 2023, the point at which individuals pay the additional rate will be lowered from £150,000 to £125,140.

The additional rate for non-savings and non-dividend income will apply to taxpayers in England, Wales, and Northern Ireland. The additional rate for savings and dividend income will apply to the whole of the UK.

Scottish residents

The tax on income (other than savings and dividend income) is different for taxpayers who are resident in Scotland from that paid by taxpayers resident elsewhere in the UK. The Scottish income tax rates and bands apply to income such as employment income, self-employed trade profits and property income.

In 2023/24 there are five income tax rates which range between 19% and 47%. Scottish taxpayers are entitled to the same personal allowance as individuals in the rest of the UK. The two higher rates are 42% and 47% rather than the 40% and 45% rates that apply to such income for other UK residents. For 2023/24, the 42% band applies to income over £43,662 for those who are entitled to the full personal allowance. The 47% rate applies to income over £125,140.

Tax on savings income

Savings income is income such as bank and building society interest.

The Savings Allowance applies to savings income and the available allowance in a tax year depends on the individual's marginal rate of income tax. Broadly, individuals taxed at up to the basic rate of tax have an allowance of £1,000. For higher rate taxpayers the allowance is £500. No allowance is due to additional rate taxpayers.

Savings income within the allowance still counts towards an individual's basic or higher rate band and so may affect the rate of tax paid on savings above the Savings Allowance.

Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However, the rate is not available if taxable non-savings income (broadly earnings, pensions, trading profits and property income, less allocated allowances and reliefs) exceeds £5,000.

Tax on dividends

Currently, the first £2,000 of dividends is chargeable to tax at 0% (the Dividend Allowance). This will be reduced to £1,000 for 2023/24 and £500 for 2024/25.

These changes will apply to the whole of the UK.

Dividends received above the allowance are taxed at the following rates for 2023/24:

- 8.75% for basic rate taxpayers
- 33.75% for higher rate taxpayers • 39.35% for additional rate taxpayers.

As corporation tax due on directors' overdrawn loan accounts is paid at the dividend upper rate, this will also remain at 33.75%.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the Dividend Allowance.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

Pension tax limits

This measure supports the government's efforts to encourage inactive individuals to return to work, in particular those aged 50 and above, and it removes incentives to reduce hours or leave the labour market due to pension tax limits. Legislation will be introduced in Spring Finance Bill 2023 and will have effect from 6 April 2023. This will:

- Increase the Annual Allowance from £40,000 to £60,000.
- Increase the Money Purchase Annual Allowance from £4,000 to £10,000.
- Increase the income level for the tapered Annual Allowance from £240,000 to £260,000.
- Ensure that nobody will face a Lifetime Allowance charge.
- Limit the maximum an individual can claim as a Pension Commencement Lump Sum to 25% of the current Lifetime Allowance (£268,275), except where previous protections apply.
- Change the taxation of the Lifetime Allowance excess lump sum, serious ill-health lump sum, deafened benefits lump sum death benefit and uncrystallised funds lump sum death benefit, where they are currently subject to a 55% tax charge above the Lifetime Allowance, to taxation at an individual's marginal rate.

Legislation will be introduced in a future Finance Bill to remove the Lifetime Allowance from pensions tax legislation.

Employment

National Insurance Contributions (NICs)

A similar principle to that outlined above for income tax thresholds will be followed in respect of many of the NICs thresholds, namely that they are frozen at the limits for the preceding year and will remain at those levels until 2028.

Full details are laid out at the end of this publication.

However, the government will uprate the Class 2 and Class 3 NICs rates for 2023/24 to £3.45 per week and £17.45 respectively.

National Living Wage (NLW) and National Minimum Wage (NMW)

The government will increase the hourly NLW and NMW from 1 April 2023 as follows:

- £10.42 for those 23 years old and over
- £10.18 for 21-22 year olds
- £7.49 for 18-20 year olds
- £5.28 for 16-17 year olds
- £5.28 apprentice rate for apprentices under 19, and those 19 and over in their first year of apprenticeship

Taxable benefits for company cars for 2023/24

The rates of tax for company cars remain frozen until 2024/25. Future car benefit rates have been announced for 2025/26 to 2027/28:

- For 2025/26, the rates for emissions under 75gm/km increase by 1%.
- For 2026/27, the rates for emissions under 75gm/km increase by a further 1%.
- For 2027/28, the rates for emissions under 75gm/km increase by a further 1%.

The charge for electric cars will rise from 2% to 5% over that period.

For cars with emissions of 75gm/km and above, there will be a 1% rise in 2025/26 only, subject to a maximum of 37%.

From 6 April 2023 the figure used as the basis for calculating the benefit for employees who receive free private fuel from their employers for company cars is increased to £27,800.

Company vans

For 2023/24 the benefit increases to £3,960 per van and the van fuel benefit charge where fuel is provided for private use increases to £757. If a van cannot in any circumstances emit CO2 by being driven, the cash equivalent is nil.

Business

Corporation tax rates

The expected increase in the rate of corporation tax for many companies from April 2023 to 25% will go ahead. This means that, from April 2023, the rate will increase to 25% for companies with profits over £250,000. The 19% rate will become a small profits rate payable by companies with profits of £50,000 or less. Companies with profits between £50,001 and £250,000 will pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective corporation tax rate.

Capital Allowances

The super-deduction regime, which gives a 130% enhanced first year allowance (FYA) to companies on the purchase of qualifying plant and machinery, comes to an end on 31 March 2023. Instead, the government has announced Full Expensing, a 100% FYA, which allows companies to deduct the cost of qualifying plant and machinery from their profits straight away with no expenditure limit. Qualifying expenditure will include most plant and machinery, as long as it is unused and not second-hand, but will not include cars. Full Expensing will be e active for acquisitions on or after 1 April 2023 but before 1 April 2026.

A 50% FYA for other plant and machinery including long life assets and integral features (known as special rate assets) will operate along similar lines.

Full Expensing and the 50% FYA are only available for companies and not for unincorporated businesses.

The Annual Investment Allowance (AIA) is available to both incorporated and unincorporated businesses. It gives a 100% write-off on certain types of plant and machinery up to certain financial limits per 12-month period. The limit has been £1 million for some time but was scheduled to reduce to £200,000 from April 2023. The government has announced that the temporary £1 million level of the AIA will become permanent, and the proposed reduction will not occur.

The government will also extend the 100% FYA for electric vehicle charge points to 31 March 2025 for corporation tax purposes and 5 April 2025 for income tax purposes. Comment

The AIA amounts to full expensing for 99% of businesses. The long-term ambition is to make Full Expensing and the 50% FYA permanent

Research and Development (R&D) relief

For expenditure on or after 1 April 2023, the Research and Development Expenditure Credit (RDEC) rate will increase from 13% to 20% but 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%. A higher rate of SME payable credit of 14.5% will apply to loss-making SMEs which are R&D intensive. To be R&D intensive the ratio of the company's qualifying R&D expenditure must be 40% or above the company's 'total expenditure' for the period. This equates to a receipt of £27 for every £100 of R&D expenditure.

Other announced changes to the R&D regime include expanding qualifying expenditure to include the costs of datasets and of cloud computing. All claims for R&D reliefs will have to be made digitally and be accompanied by a compulsory additional information form. Companies will also need to notify HMRC that they intend to make a claim within six months of the end of the period of account to which the claim relates, generally if they have not made an R&D claim in the previous three years. These changes apply to claims in respect of accounting periods which begin on or after 1 April 2023 apart from the additional information form, which will be required for claims made on or after 1 August 2023.

The restriction to relief on overseas expenditure, designed to refocus support towards UK innovation, will now come into effect from 1 April 2024 instead of

1 April 2023.

The increase in the RDEC rate means the UK now has the joint highest uncapped headline rate of tax relief in the G7 for large companies. The government is currently considering responses to a consultation on merging the RDEC and SME schemes and expects to publish draft legislation for technical consultation in the summer

Making Tax Digital (MTD) for income tax

The MTD regime is based on businesses being required to maintain their accounting records in a specified digital format and submit extracts from those records regularly to HMRC. In what appears to be a never-ending story, the government has announced a further delay in MTD for income tax self assessment (ITSA).

The mandation of MTD for ITSA will now be introduced from April 2026, with businesses, self-employed individuals and landlords with income over £50,000 mandated to join first, a change from the original £10,000 limit.

Those with income over £30,000 will be mandated from April 2027.

The government will also review the needs of smaller businesses and look in detail at whether the MTD for ITSA service can be shaped to meet the needs of smaller businesses.

Following the new approach, the government will not extend MTD for ITSA to general partnerships in 2025.

HMRC has previously announced that MTD for corporation tax will not be mandated before 2026. This now looks even further away.

Accounting periods that are not aligned to tax years

As part of the MTD project, changes have been made to alter the rules under which trading profits made by self-employed individuals and partnerships are allocated to tax years.

The changes mainly affect unincorporated businesses that do not draw up annual accounts to 31 March or 5 April. The transition to the new rules will take place in the 2023/24 tax year and the new rules will come into force from 6 April 2024.

Affected self-employed individuals and partnerships may retain their existing accounting period but the trade profit or loss that they report to HMRC for a tax year will become the pro t or loss arising in the tax year itself, regardless of the chosen accounting date. Broadly, this will require apportionment of accounting profits into the tax years in which they arise.

Example

A business draws up accounts to 30 June every year. Currently, income tax calculations for 2024/25 would be based on the profits in the business' accounts for the year ended 30 June 2024. The change will mean that the income tax calculations for 2024/25 will be based on 3/12 of the profits for the year ended 30 June 2024 and 9/12 of the profits for the year ended 30 June 2025.

This change will potentially accelerate when business profits are taxed but transitional adjustments in 2023/24 are designed to ease any cash ow impact of the change.

An estimated 93% of sole traders and 67% of trading partnerships draw up their accounts to 31 March or 5 April and the proposed changes will not affect them. Those with a different year end might wish to consider changing their accounting year end to simplify compliance with the tax rules.

Seed Enterprise Investment Scheme

From April 2023, companies will be able to raise up to £250,000 of Seed Enterprise Investment Scheme (SEIS) investment, a two-thirds increase. To enable more companies to use SEIS, the gross asset limit will be increased to £350,000 and the age limit from two to three years. To support these increases, the annual investor limit will be doubled to £200,000.

Capital Taxes

Capital gains tax (CGT) rates

No changes to the current rates of CGT have been announced. This means that the rate remains at 10%, to the extent that any income tax basic rate band is available, and 20% thereafter. Higher rates of 18% and

28% apply for certain gains, mainly chargeable gains on residential properties, with the exception of any element that qualifies for Private Residence Relief.

There is still potential to qualify for a 10% rate, regardless of any available income tax basic rate band, up to a lifetime limit for each individual. This is where specific types of disposals qualify for:

- Business Asset Disposal Relief (BADR). This is targeted at directors and employees who own at least 5% of the ordinary share capital in the company, provided other minimum criteria are also met. It can also apply to owners of unincorporated businesses.
- Investors' Relief. The main beneficiaries of this relief are investors in unquoted trading companies who have newly-subscribed shares but are not employees.

Current lifetime limits are £1 million for BADR and £10 million for Investors' Relief.

CGT annual exemption

The government has announced that the capital gains tax annual exempt amount will be reduced from £12,300 to £6,000 from 6 April 2023 and to £3,000 from 6 April 2024.

Chargeable gains: separated spouses and civil partnerships

The current legislation applying to the transfer of assets between an individual and their spouse or civil partner provides that such transfers made in any tax year in which they are living together are on a no gain/ no loss basis. Where spouses or civil partners separate, no gain/no loss treatment is currently only available in relation to disposals made in the remainder of the tax year in which they cease to live together. After that, transfers are treated as normal disposals for CGT purposes.

A number of changes are proposed to the rules that apply to transfers of assets between spouses and civil partners who are in the process of separating and no longer living together. These include the following:

- Separating spouses or civil partners will be given up to three years after the year they cease to live together in which to make no gain/no loss transfers.
- No gain/no loss treatment will also apply to assets that separating spouses or civil partners transfer between themselves as part of a formal divorce agreement.
- A spouse or civil partner who retains an interest in the former matrimonial home will be given an option to claim Private Residence Relief when it is sold.
- Individuals who have transferred their interest in the former matrimonial home to their ex-spouse or civil partner and are entitled to receive a percentage of the proceeds when that home is eventually sold will be able to apply the same tax treatment to those proceeds when received that applied when they transferred their original interest in the home to their ex-spouse or civil partner.

The changes are expected to apply in relation to a disposal made on or after 6 April 2023.

Other CGT changes

A number of other technical changes to CGT legislation have been announced from April 2023:

- Changes to ensure that Roll-Over Relief and Private Residence Relief are available for LLPs and Scottish partnerships when an exchange of interest in land or private residences held by the LLP or partnership occurs.
- Changes to prevent UK resident non-domiciled individuals who exchange securities in a UK close company for securities in a similar non-UK company from accessing the remittance basis of taxation on gains realised on the disposal of those non-UK securities.

Inheritance tax (IHT) nil rate bands

The nil rate band has been frozen at £325,000 since 2009 and this will now continue up to 5 April 2028. An additional nil rate band, called the ‘residence nil rate band’ (RNRB) is also frozen at the current £175,000 level until 5 April 2028. A taper reduces the amount of the RNRB by £1 for every £2 that the ‘net’ value of the death estate is more than £2 million. Net value is after deducting permitted liabilities but before exemptions and reliefs. This taper will also be maintained at the current level.

Other Matters

VAT

The VAT registration and deregistration thresholds will not change for a further period of two years from 1 April 2024, staying at £85,000 and £83,000 respectively.

> *According to the government, at £85,000, the UK's VAT registration threshold is more than twice as high as the EU and OECD averages.*

Changes to VAT penalties and interest

The government announced pre-pandemic that it intended to change the way interest and penalties applied for VAT purposes. After a number of delays the new rules were implemented for VAT periods starting on or after 1 January 2023. The default surcharge was replaced by new penalties if a VAT return is submitted late or VAT is paid late. There are also changes to how VAT interest is calculated. The changes are as follows:

- **VAT returns submitted late** - late submission penalties will work on a points-based system. For each VAT return submitted late one penalty point will be imposed. Once a penalty threshold is reached, a £200 penalty will apply, with a further £200 penalty for each subsequent late submission.
- **Late payment of VAT** - the rate of penalty will depend on how late the payment is. However, to give businesses time to get used to the changes,

HMRC will not be charging at first late payment penalty for the first year from 1 January 2023 until 31 December 2023, if the VAT is paid in full within 30 days of the payment due date.

- **How late payment interest will be charged -** for VAT periods starting on or after 1 January 2023, HMRC will charge late payment interest from the day the payment is overdue to the day the payment is made in full.
- **Introduction of repayment interest** - the repayment supplement was withdrawn from 1 January 2023. For VAT accounting periods starting on or after 1 January 2023, HMRC will pay repayment interest if they are late in making a refund.

Income Tax

Rates and bands (other than savings and dividend income)

2023/24		2022/23	
Band £	**Rate %**	**Band £**	**Rate %**
0 - 37,700	20	0 - 37,700	20
37,701 - 125,140	40	37,701 - 150,000	40
Over 125,140	45	Over 150,000	45

Savings Income	**2023/24 and 2022/23**
Savings allowance basic rate	£1,000
Savings allowance higher rate	£500

A starting rate of 0% may be available unless taxable non-savings income exceeds £5,000.

Dividend Income	**2023/24**	**2022/23**
Dividend allowance	£1,000	£1,000
Dividend ordinary rate	8.75%	8.75%
Dividend upper rate	33.75%	33.75%
Dividend additional rate	39.35%	39.35%

Income Tax Reliefs

	2023/24	**2022/23**
Personal allowance	£12,570	£12,570
Personal allowance income limit	£100,000	£100,000
Marriage allowance	£1,260	£1,260
Married couple's allowance	£10,375	£9,415
- minimum amount	£4,010	£3,640
- income limit	£34,600	£31,400
Blind person's allowance	£2,870	£2,600

Pensions

	2023/24	**2022/23**
Lifetime Allowance (LA) limit	No LA charge	£1,073,100
Annual Allowance limit	£60,000	£40,000
Money Purchase Annual Allowance	£10,000	£4,000

Corporation Tax

Year to 31.3.24	Proits band £	Rate %
Small profits rate	0 - 50,000	19
Marginal rate	50,001 - 250,000	26.5
Main rate	Over 250,000	25
Marginal relief fraction	3/200	

For the year to 31.3.23 the main rate of corporation tax was 19%. Special rules apply to accounting periods straddling 1 April 2023. For the year to 31.3.24 the profits limits are reduced for a company with associated companies. Different rates apply for ring-fenced (broadly oil industry) profit.

Inheritance Tax

Death Rate	Lifetime Rate	Chargeable Transfers 2023/24 and 2022/23
Nil	Nil	0 - £325,000 (nil rate band)
40%	20%	Over £325,000

A further nil rate band of £175,000 may be available in relation to current or former residences.

Devolved Income Tax

Scotland rates and bands

2023/24		2022/23	
Band £	**Rate %**	**Band £**	**Rate %**
0 - 2,162	19	0 - 2,162	19
2,163 - 13,118	20	2,163 - 13,118	20
13,119 - 31,092	21	13,119 - 31,092	21
31,093 - 125,140	42	31,093 - 150,000	41
Over 125,140	47	Over 150,000	46

Wales rates and bands

2023/24		2022/23	
Band £	**Rate %**	**Band £**	**Rate %**
0 - 37,700	20	0 - 37,700	20
37,701 - 125,140	40	37,701 - 150,000	40
Over 125,140	45	Over 150,000	45

National Insurance

2023/24 Class 1 (employed) rates

Employee		Employer	
Earnings per week	**%**	**Earnings per week**	**%**
Up to £242	Nil	Up to £175	Nil
£242.01 - £967	12	Over £175	13.8
Over £967	2		

Entitlement to contribution-based benefits for employees retained for earnings between £123 and £242 per week. The employer rate is 0% for certain military veterans, employees under 21 and apprentices under 25 on earnings up to £967 per week.

Class 1A (employers)	13.8% on employee taxable benefits
Class 1B (employers)	13.8% on PAYE Settlement Agreements
Class 2 (self-employed)	nil on profits between £6,725 and £12,570 plus £3.45 per week where profits over £12,570
Class 3 (voluntary)	flat rate per week £17.45
Class 4 (self-employed)	9% on profits between £12,570 and £50,270 plus 2% on profits over £50,270

Car, Van and Fuel Benefits

2023/24		
CO2 emissions g/km		**% of list price taxed**
0		2
1-50		
Elecrtic Range	130 or more	2
	70 - 129	5
	40 - 69	8
	30 - 39	12
	Under 30	14
51-54		15
For every extra 5		+1
160 and above		37

For fully diesel cars generally add a 4% supplement (unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard) but the maximum is still 37%. For emissions of 75g/km or more if the CO2gure does not end in a 5 or 0 round down to the nearest 5 or 0.

	2023/24
Car fuel benefit	£27,800
Van benefit	£3,960
Van fuel benefit	£757

Capital Allowances

First Year Allowance (FYA) on certain plant, machinery and cars of 0g/km **100%**

Corporation tax FYA ('full expensing') on certain new, unused plant and machinery from 1 April 2023 **100%**

Corporation tax FYA on new, unused long-life assets, integral features of buildings, etc. from 1 April 2023 **50%**

Annual Investment Allowance £1,000,000 excluding cars
Writing Down Allowance

Long-life assets, integral features of buildings, cars over 50g/km **6%**

Other plant and machinery **18%**

Structures and Buildings Allowance **3%**

Value Added Tax (VAT)

	From 1.4.23	From 1.4.22
Standard rate	20%	20%
Reduced rate	5%	5%
Annual Registration Limit	£85,000	£85,000
Annual Deregistration Limit	£83,000	£83,000

Capital Gains Tax

Individuals	**2023/24**	**2022/23**
Exemption	£6,000	£12,300
Standard rate	10%	10%
Higher/additional rate	20%	20%
Trusts		
Exemption	£3,000	£6,150
Rate	20%	20%

Higher rates (18/28%) may apply to the disposal of certain residential property and carried interest.

Business Asset Disposal Relief

The first £1m of qualifying gains are charged at 10%.

Property Taxes

Across the whole of the UK, residential rates may be increased by 3% (4% in Wales and 6% in Scotland) where further residential properties are acquired.

Stamp Duty Land Tax Land and buildings in England and N. Ireland

Residential Band £	Rate %	Non-Residential Band £	Rate %
0 - 250,000	0	0 - 150,000	0
250,001 - 925,000	5	150,001 - 250,000	2
925,001 - 1,500,000	10	Over 250,000	5
Over 1,500,000	12		

First-Time Buyer relief may apply to residential purchases up to £625,000

Land and Buildings Transaction Tax Land and buildings in Scotland

Residential Band £	Rate %	Non-Residential Band £	Rate %
0 - 145,000	0	0 - 150,000	0
145,001 - 250,000	2	150,001 - 250,000	1
250,001 - 325,000	5	Over 250,000	5
325,001 - 750,000	10		
Over 750,000	12		

First-Time Buyer relief may apply on the rst£175,000 of residentia purchases.

Land Transaction Tax Land and buildings in Wales

Residential Band £	Rate %	Non-Residential Band £	Rate %
0 - 225,000	0	0 - 225,000	0
225,001 - 400,000	6	225,001 - 250,000	1
400,001 - 750,000	7.5	250,001 - 1,000,000	5
750,001 - 1,500,000	10	Over 1,000,000	6
Over 1,500,000	12		

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