Broadstone

Individuals & Businesses

Autumn Statement

November 2022

Introduction

This briefing note focusses on the aspects of the Autumn Statement that impact individuals and businesses. For our take on the wider impact on pension schemes please refer to our separate note An Overview.

While not an exhaustive summary of all the announcements, this note intends to provide our initial take on the implications of some of the key changes announced in this 4th Budget Statement of 2022.

Significant Cuts (to Allowances)

The theme of the Chancellor's announcements for Individuals and businesses can be summarised along the lines of:

- No increases to headline rates of tax
- Material threshold freezes and cuts to tax free allowances

This means that individuals and businesses will suffer the effects of fiscal drag, paying more tax than before in monetary terms. High Inflation rates will exacerbate the impact of this over the coming years.

Recession

The OBR has confirmed that the UK is now officially in recession, which provides context for the changes announced within the Autumn Statement.

"Difficult decisions" – there was much talk of rebuilding both confidence in the public finances, and an air of 'facing the storm' marked a notable contrast to the doomed "growth plan" of only 2 months ago. The result of the decisions taken is that almost all individuals and businesses will pay more in tax over the coming years - though with some of the heavier lifting postponed until after the next General Election, due within the next 2 years.

Individuals - Taxes

The Chancellor explained that he would "ask those with more to contribute more".

Income Tax Thresholds – Personal Allowance, Basic Rate and Higher Rate thresholds all frozen until April 2028. Additional Rate threshold substantially reduced:

	6 April 2022	6 April 2023
Additional Rate Threshold (45%)	£150,000	£125,140

National Insurance Thresholds – Frozen until April 2028 (2 years longer than previously planned).

Inheritance Tax Threshold – Frozen until April 2028 (again 2 years longer than previously planned).

Dividend Allowance – Reduced over the next 2 years:

	6 April 2022	6 April 2023	6 April 2024
Dividend Allowance	£2,000	£1,000	£500

Capital Gains Tax Annual Exempt Amount – Reduced over the next 2 years:

	6 April 2022	6 April 2023	6 April 2024
CGT Annual Exempt Amount	£12,300	£6,000	£3,000

Minimum Wage – Up 9.7%. From April 2023 the rate will be £10.42 per hour (up from £9.50 currently).

Working Age Benefits – Increased in line with inflation from April 2023 (10.1%).

Electric Vehicles – There will be no Vehicle Excise Duty exemption for electric vehicles with effect from April 2025. This is in an attempt to make the system "fairer".

Stamp Duty – While not an immediate reversal, the Chancellor signalled that the cuts to stamp duty introduced by his short-serving predecessor will be abolished from 2025. That will mean:

	6 April 2022	6 April 2025
Stamp Duty	£250,000	£125,000
Stamp Duty (First Time Buyers)	£450,000	£300,000

Social Care – Reforms delayed by 2 years.

Energy Bills Support – From next April the package of support measures to assist with energy bills will be more tightly focussed upon lowest-earning households. Currently the energy price guarantee caps energy bills for the average home at £2,500 per year; from April 2023 this cap will increase to £3,000 per year, remaining at that level for 12 months. The universal £400 support package applied to UK households this autumn will not be repeated, but households on means tested benefits will receive a cost of living payment of £900, pensioner households £300, and those with disabilities £150. These measures will be partly funded by higher windfall taxes on energy companies.

Broadstone Comment:

As earnings rise with inflation, everyone will pay more in tax over the coming years. Notably, the threshold freezes will pull more low earners into paying income tax; and will increase the number of workers pulled into the higher and additional rate categories. From a planning perspective, this will increase the incentive to use Salary Exchange where possible for pension contributions or other permitted benefits.

Those earning between £125,140 and £150,000 will now be able to benefit from additional rate tax relief on pension contributions, increasing the tax efficiency of pension savings for earners in this band. Some may wish to consider using salary exchange to take their headline earnings below this threshold, if they can afford to save additional sums into pension.

Cuts to the Dividend Allowance will impact directors who are remunerated through dividends, but also those who hold income-paying shares outside of tax efficient wrappers like ISAs and pensions.

The change to CGT will impact those with investments, including notably those with additional property investments (buy to let). This is likely to further increase pressure on individual landlords to dispose of rental properties, exacerbating shortages in the rental sector for tenants.

While many will not have been surprised by the announcement on electric vehicles (more motorists driving electric vehicles on the road with a duty exemption has signaled a reducing tax take for the government, this is unlikely to prove sustainable long term), this does crystallise the point at which a change will need to be made. Individuals and employers participating in salary exchange for 'green cars' or 'electric vehicles' schemes will need to re-run the numbers and seek advice once further detail is brought forwards.

Pensions - Key Points

Triple lock protected, fiscal drag looming large for savers.

State Pension Age Review– We already know that the State Pension age will rise from 66 to 67 between 2026 and 2028, as announced in 2014. The Government must also review the State Pension Age every six years from 2017. The next review is due by May 2023 and was trailed by the Chancellor as being released earlier in 2023.

One can only surmise what will happen with a rise to 68 mooted between 2037 and 2039. Improvements in life expectancy have slowed and the health of the nation shows wild differences in life expectancy between different regions and demographic groups. On the one hand markets may be further calmed by reducing future benefit spending demand on the state via later state pension ages (and therefore smaller claimant numbers), which could be attractive. However the political fall-out from those facing a further year working may be significant.

Triple-Lock and Pension Credit – Standing by their manifesto pledge the government has confirmed that they will increase the State Pension by 10.1%, the value of CPI inflation in September 2022, meaning the New State Pension from April 2023 will be £10,600 pa and the Basic State Pension (for those that reached State Pension Age before April 2016) will be £8,122 pa.

Please see above for details on the Personal tax allowances which may offset some of this increase if more pensioners begin to pay income tax.

In welcome news to protect the poorest pensioners the Pension Credit will also increase by 10.1%, rather than average earnings.

Lifetime Allowance and Annual Allowance – To confirm the Lifetime Allowance remains frozen at £1,073,100 (the level set at April 2020) with no increases until at least April 2025.

With wage inflation averaging around 5% there is the greater risk that more and more savers will be impacted by reaching the Lifetime Allowance, not least because of the inclusion of death benefit lump sums payable, and if members or employers have not reviewed their benefits together with the frozen Lifetime Allowance they would be wise to do so. This may be especially relevant for trustees and employers to consider if they are not currently deploying excepted life schemes for members and employees that are more likely to be impacted by reducing real-terms limits.

For those individuals closer to retirement, or with larger defined contribution funds or defined benefit pensions, advice should be sought to ensure pension saving or accrual remains tax efficient in the context of their wider financial plan.

For completeness the Annual Allowance and Money Purchase Annual Allowance are both frozen at £40,000 and £4,000 respectively.

Businesses - Taxes

Businesses also being asked to "pay their fair share". Though the largest employers will pay the most.

National Insurance Thresholds – Employers NI threshold frozen until April 2028. This will have a substantial impact on businesses costs of employment.

Business Rates – A package of targeted support was announced worth £13.6 billion over the next 5 years. Business rates multiplier will be frozen in 2023-24, and upward transitional relief caps will provide support to those ratepayers that are facing large bill increases following the revaluation. Sector specific relief for retail, hospitality and leisure sectors has been extended and increased (to 75%), and additional support for small businesses.

Corporation Tax – The planned increase in Corporation Tax rate to 25% for businesses with profits over £250,000 will go ahead in April 2023. The additional rate of income tax will now be removed, and the Small Profits Rate will ensure that the basic rate of tax will be maintained at 20%.

VAT Registration Threshold – Frozen at £85,000 for 2 more years from April 2024.

Research and Development Reliefs – Under ongoing review. The government is reforming the reliefs to try to optimise efficiency of spend by rebalancing rates.

Annual Investment Allowance – This will be set to its highest ever level of £1 million from 1st April 2023. This will mean that businesses will be able to write off the cost of qualifying plant machinery investment for an estimated 99% of UK businesses (www.gov.uk Autumn Statement 2022).

Broadstone Comment:

Employers who are already facing higher costs of employment in an inflationary environment will find scant relief amidst frozen NI thresholds and higher minimum wage levels.

Salary exchange schemes for pensions and most benefits will be even more efficient in the context of fiscal drag. Though schemes will need to be reviewed ahead of April 2025 in the case of green cars/electric vehicles employee benefit schemes to ensure they are still advantageous.

Though corporation tax rates are rising, the government is at pains to highlight that rates will still be the lowest in the G7, which ought to mean that the UK remains relatively strong in terms of international competitiveness. Though for businesses that are domestically focussed, this will of course simply increase the cost pressure reducing overall post-tax profitability.

Broadstone View

The Chancellor attempted to set a **calming tone** for the Autumn Statement, with a clear intent to set a distance between the course being plotted now, and the rather more buccaneering tone taken by Kwarteng in September. There was a **reinforcement of the remit of the Bank of England**, which again marked a contrast to the combative relationship between the prior short-lived regime and the Governor of the Bank of England.

While clearly more prudent and considered, it remains to be seen whether the approach taken reflects an over-correction in course, especially alongside interest rate rises which have yet to take full effect in the wider economy. Being able to point to 'not increasing' headline rates of tax will provide cold comfort to businesses and individuals over the coming years as **fiscal drag** takes effect, with everyone paying more. How palatable this will continue to feel to the electorate as more and more are pulled into higher rates of tax, originally intended to be preserved for the highest earners, may yet come into question.

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Find out more

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