Autumn Statement November 2023

22 November 2023

The Chancellor has presented his Autumn Statement, which seeks to address inflationary pressures, the tax burden, and the need for economic growth in the UK. The Statement focused on spending plans and incentives to promote business, with a number of tax and benefit measures which are summarised below.

BUSINESS TAXES

RESEARCH & DEVELOPMENT TAX RELIEF REFORMS

For accounting periods beginning on or after 1 April 2024, the current RDEC (for large businesses) and R&D SME schemes will be combined into a merged scheme. A technical note is expected in due course to clarify the proposed changes and to provide additional changes, but the headline changes are:

- To simplify the R&D schemes, going forwards there will be a single set of qualifying rules for most R&D businesses rather than two separate schemes.
- An above the line credit will be established that allows companies to claim for their qualifying R&D costs, including contracted out R&D.
- The merged scheme will adopt the more generous PAYE and NI contributions cap currently applied in the SME scheme.
- The SME rules restricting relief where part of the project expenditure has been subsidised have been removed.
- The notional tax rate applied to loss-makers in the merged scheme will be the small profits rate of 19% rather than the 25% main rate set in the current RDEC.
- New definitions of qualifying earnings of 'Externally Provided Workers' and defining UK expenditure will be expected in the technical note.

Loss-making small or medium enterprises whose research and development expenditure constitutes at least 40% of total expenditure (or 30% from 1 April 2024) will be eligible for a higher rate of payable tax credit of 14.5%, instead of the 10% credit rate for non-intensive companies. This applies to expenditure on or after 1 April 2023 and was announced at the Spring Budget 2023.

Businesses claiming R&D tax credit payments will no longer be able to use a nominee to receive payments on their behalf, with payments now going directly to claimants. This is effect for assignments made on or after 22 November 2023.

CAPITAL ALLOWANCES – PERMANENT FULL EXPENSING

The government has made permanent the 'full expensing' regime which was previously due to apply only for expenditure incurred up to 31 March 2026. Full expensing involves a 100% first-year allowance for main rate expenditure, and the 50% first-year allowance for special rate expenditure for companies investing in plant and machinery.

EXPANDING THE CASH BASIS

As announced in Autumn statement 2023, the government will introduce legislation in Autumn Finance Bill 2023 to expand the income tax cash basis for the self-employed and partnerships. The changes that will be made are to set the cash basis as the default method for most unincorporated businesses and partnerships comprising only individuals, and remove the turnover, interest and loss relief restrictions that are currently apply to the cash basis. The changes will take effect from 6 April 2024.

SIMPLIFYING MAKING TAX DIGITAL FOR INCOME TAX SELF-ASSESSMENT

The government announced that they will make design changes to Making Tax Digital for Income Tax Self Assessment, simplifying and improving the system for taxpayers and their representatives. The government will:

- Simplify the requirements for all taxpayers providing quarterly updates and for taxpayers with more complex affairs, such as landlords with jointly-owned property
- Remove the requirement to provide an End of Period Statement
- Exempt some taxpayers, including those without a National Insurance number, from MTD
- Enable taxpayers using MTD to be represented by more than one tax agent

In addition, the government will introduce legislation in Autumn Finance Bill 2023 to ensure that taxpayers who volunteer to join Making Tax Digital (MTD) from April 2024 are subject to the government's new, fairer penalty regime for late filing of tax returns and late payment of tax. These changes, which will apply new penalties to annual obligations only, will take effect from 6 April 2024.

INDIRECT TAXES

CONSTRUCTION INDUSTRY SCHEME

From 6 April 2024, subcontractors will have to demonstrate compliance with VAT obligations to be granted and keep gross payment status. This includes demonstrating that compliance with VAT filing and payment obligations have been met.

INTERPRETATION OF VAT AND EXCISE LAW

It will no longer be possible for any part of any UK Act of Parliament or domestic legislation to be quashed or disapplied on the basis that it was incompatible with EU law following the changes made in the Retained EU Law (Revocation and Reform) Act 2023.

REUK is EU legislation that continued to apply in the UK after the UK's exit from the EU. It was introduced as a temporary measure by the European Union (Withdrawal) Act 2018 to ensure legal continuity. The REUK Act introduces provisions to allow for the amendment of REUL and to remove the special status it has in the UK legal system from the end of 2023.

This measure clarifies how VAT and excise laws should continue to be interpreted and therefore ensures the VAT and excise regimes continue to operate as intended.

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

The ATED annual charges will rise by 6.7% from 1 April 2024 in line with the September 2023 Consumer Price Index.

PERSONAL TAXES AND BENEFITS

NATIONAL INSURANCE CONTRIBUTIONS

The main rate of Class 1 employee National Insurance Contributions will be reduced by 2 percentage points from 12% to 10% from 6 January 2024 meaning that an average salaried individuals will save over £450 per year. However, as NI and income tax bands are already frozen until 2028 means that any kind of pay rise could drag an individual into a higher tax bracket and hence, resulting in a higher tax liability or greater proportion of income taxed than otherwise would be expected.

For the self-employed, the main rate of Class 4 NIC will be reduced by 1 percentage point from 9% to 8% from 6 April 2024.

From 6 April 2024, self-employed individuals with profits above £12,570 will no longer be required to pay Class 2 NIC, but will continue to receive access to contributory benefits, including the State pension. This will mean that a self-employed person who pays Class 2 NICs every week will save at least £192 per year. Together with the cut to Class 4 NIC the self-employed individuals will benefit, with an average self-employed person on £28,200 saving £350 in 2024-25.

Those with profits between £6,725 and £12,570 will continue to get access to contributory benefits including the State Pension through a National Insurance credit without paying NICs.

Those with profits under £6,725 and others who pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension will continue to be able to do so.

Technical specifications for payroll software companies will be published in due course.

For those paying Class 2 NIC and Class 3 voluntarily, the government has decided to maintain the current rates. Therefore, for 2024-25 Class 2 NIC will remain £3.45 per week and the Class 3 rate will remain at £17.45 per week. According to the Autumn statement, the NIC limits and thresholds will be maintained at the current levels until the 2027-28 tax year.

The Government will freeze the Lower Earnings Limit (LEL) and the Small Profits Threshold (SPT) for one year from April 2024.

EXTENSION OF NATIONAL INSURANCE CONTRIBUTIONS (NICS) RELIEF FOR HIRING VETERANS

The government is extending the employer National Insurance contributions relief for employers hiring qualifying veterans for a further year from April 2024 until April 2025. This means that businesses will continue to pay no employer National Insurance contributions up to annual earnings of £50,270 for the first year of a qualifying veteran's employment in a civilian role.

NATIONAL MINIMUM WAGE

From 1 April 2024, the National Living Wage for over 23s will increase by 9.8% and, hence will rise from £10.42 to £11.44 an hour.

Those aged 21 to 22 will be eligible for the National Living Wage for the first time, so they will also receive £11.44 an hour.

The National Minimum Wage for under-18s will rise from £5.28 to £6.40 an hour.

The apprentice rate goes up from £5.28 to £6.40 an hour.

INDIVIDUAL SAVINGS ACCOUNTS

The subscription limits will be maintained at the same level for 2024/25 for Adult, Junior, Lifetime ISAs and Child Trust Fund meaning that the adult ISA limit will remain at £20,000, the limit for Child Trust Funds will remain at £9,000, Junior ISA limit will remain at £9,000 and Lifetime ISA limit will remain at £4,000.

In addition, the government will make changes to simplify and widen the scope of investments that can be included in ISAs i.e.:

From 6 April 2024, the government will:

- Allow multiple subscriptions in each year to ISAs of the same type
- Remove the requirement to make a fresh ISA application where an existing ISA account has received no subscription in the pervious tax year
- Allow partial transfers of current year ISA subscription between providers
- Harmonise the account opening age for any adult ISAs to 18
- Digitise the ISA reporting system to enable the development of digital tools to support investors

From 6 April 2024, the scope of investments will be widened to:

- Allow Long Term Asset Funds to be permitted investments in the Innovative Finance ISAs
- Allow open-ended property funds with extended notice periods to be permitted investments in the Innovative Finance ISAs
- Engage with the finance industry on allowing certain fractional shares contracts to become permitted ISA investments

VAN BENEFIT CHARGE

Van benefits charge and the car and van fuel benefit charges will be maintained at 2023/24 levels during 2024/25.

The flat rate van benefit will remain at £3,960. The multiplier for the car fuel benefit will remain at £27,800. The flat rate van fuel benefit charge will remain at £757.

STATE PENSION INCREASE

The chancellor announced that the triple lock will remain in place, guaranteeing the increase of the full state pension by 8.5% to £221.20 a week. From April 2024.

PENSION POT FOR LIFE

Pension savers could have a "pot for life" under plans to tackle the problem of people building up lots of smaller pots when they move from job to job. The government wants to adopt a lifetime provider model, which would allow people to have contributions paid into their existing pension scheme when they change their employer, providing greater control over their pension.

PENSION SCHEMES RELIEF AT SOURCE

The digitisation of RAS, which was previously considered, will not be operative until April 2027 at the earliest, and there will be no enabling clause in the Autumn Finance Bill 2023.

SURPLUS EXTRACTION ARRANGEMENTS FOR DEFINED BENEFITS PENSION SCHEMES

The government will introduce secondary legislation to reduce the free-standing tax charge which applies to authorised surplus payments to sponsoring employers of a registered pension scheme from 35% to 25%. This will take effect from 6 April 2024.

ABOLITION OF PENSIONS PERSONAL ALLOWANCE

As announced at Spring Budget 2023, the government will introduce legislation in Autumn Finance Bill 2023 to complete the work to remove the Lifetime Allowance. This measure will clarify the taxation of lump sums and lump sum death benefits, and the application of protections. It will also clarify the tax treatment of overseas pensions, transitional arrangements and reporting requirements. This measure will take effect from 6 April 2024.

OFF-PAYROLL WORKING (IR35)

As announced in the Autumn Statement 2023, the government will introduce legislation in Autumn Finance Bill 2023 to enable HMRC to reduce the PAYE liability of a deemed employer, where that engagement was incorrectly treated as self-employed for tax purposes. This would account for tax and National Insurance contributions already paid by a worker and their intermediary on payments received from an off-payroll working engagement. Secondary legislation will be laid in due course to set out how it will work. These changes will take effect from 6 April 2024.

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CHARTERED ACCOUNTANTS

EMI: EXTENDING THE TIME LIMIT TO SUBMIT A NOTIFICATION OF A GRANT OF OPTIONS

As announced at Spring Budget 2023, the government will introduce legislation in Autumn Finance Bill to extend the time limit to notify HMRC of a grant of EMI options from 92 days following the grant to 6 July following the end of the tax year in which the grant was made. This change will apply to EMI options granted on or after 6 April 2024.

EIS AND VCT EXTENSION

The government will introduce legislation in Autumn Finance Bill 2023 to extend the existing sunset clauses for EIS and VCT scheme from 6 April 2025 to 6 April 2035. This will continue the availability of Income and Capital Gains Tax relief for investors in new shares issued before this date by EIS qualifying companies and VCTs. The changes will take effect in accordance with regulations made by HM Treasury.

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