AUTUMN STATEMENT 2023

DALY ACCOUNTING

CHARTERED ACCOUNTANTS

Below, we set out the Autumn Statement headlines and other measures announced by the Chancellor on 22nd November.

TAX AND NATIONAL INSURANCE

For employees

In addition to income tax, all employees earning more than £12,570 a year pay Class 1 NICs. The main rate of Class 1 NICs will be cut from 12% to 10% from 6 January 2024. This will come into effect from January 2024 and, over a full year, the average worker on £35,400 will receive a NIC reduction of over £450. Workers earning more than £50,270 a year will receive a NIC reduction of £754.

The Class 1 NIC rate will remain at 2% for earnings above £50,270 a year.

Similarly, there are no changes to the rate of employer's Class 1 NICs, which remains at 13.8%.

For the self-employed

Self-employed individuals with profits of more than £12,570 a year pay two types of NIC: Class 2 and Class 4.

- Class 2 NICs have been at a flat rate sum of £179.40 a year (£3.45 a week) in 2023/24 but no one will be required to pay the charge from 6 April 2024.
- The main rate of Class 4 NICs will be cut from 9% to 8% from 6 April 2024. Class 4 NICs will continue to be calculated at 2% on profits over £50,270.

Taken together these changes will result in an average self-employed person with profits of £28,200 saving £336 in 2024/25.

Class 2 NICs currently provide the self-employed with access to a range of state benefits, including the State Pension. From 6 April 2024, self-employed people with annual profits;

- Above £12,570 – will continue to receive access to the benefits.
- Between £6,725 and £12,570 - will continue to receive access to the benefits, via a National Insurance credit.
- Under £6,725 (or with losses) – will be able to continue to pay Class 2 NICs on a voluntary basis in order to maintain their access to state benefits. Class 2 NICs had been due to increase in 2024/25 but it seems that these will be maintained at the current £3.45 weekly level for those in this bracket.

STATE BENEFITS

The government will uprate all working age benefits for 2024/25 by the September 2023 Consumer Price Index (CPI) of 6.7% and will continue to protect pensioner incomes by maintaining the promised 'triple lock' and uprating the basic State Pension, new State Pension and Pension Credit standard minimum guarantee for 2024/25 in line with highest of the three possible measures, namely average earnings growth of 8.5%.

NATIONAL MINIMUM WAGE (NMW)

An increase to the National Living Wage has been announced, with the government fully accepting the recommendations made by the Low Pay Commission. Eligibility for the National Living Wage will also be extended by reducing the age threshold to 21-year-olds for the first time. It was previously for those aged 23 and over only. From 1 April 2024 the minimum pay rates will be as follows:

	NMW rate £	Increase £	Increase %
National Living Wage (age 21 and over)	11.44	1.02	9.8
18-20 year old rate	8.60	1.11	14.8
16-17 year old rate	6.40	1.12	21.2
Apprentice rate	6.40	1.12	21.2

BUSINESS MEASURES

Tax Relief for expenditure on plant and machinery

The Annual Investment Allowance (AIA) is now permanently set at £1million. This means that businesses can claim tax relief at 100% on up to £1million of expenditure on qualifying plant and machinery (e.g. capital equipment).

'Full expensing' is an additional and alternative relief for companies only. It allows unlimited 100% upfront tax relief on qualifying plant and machinery that is purchased in a new condition on or after 1 April 2023. There is also an associated 50% allowance for expenditure on certain types of plant and machinery that does not qualify for the full 100% (including space and water heating systems, for example).

This 'full expensing' regime was initially introduced in Spring 2023 and had an original end date of 31 March 2026. It has now been announced that it will be made permanently available. It must be noted that it will usually only benefit companies or groups of companies that have already utilised their £1million AIA. It is not available at all for unincorporated businesses, although the expansion of the cash-basis (see below) achieves a very similar effect for sole traders and partnerships.

Business Rates

A new business rates support package worth £4.3 billion will be made available over the next five years to support small businesses and the high street. For 2024/25, the small business multiplier will continue to be frozen and the 75% Retail, Hospitality and Leisure business rates relief will continue to apply.

The standard rate multiplier will be uprated in line with the September 2023 CPI of 6.7%. While this will increase business rates bills for some, large retailers are expected to benefit from hundreds of millions of pounds of tax relief per year as a result of full expensing.

Getting Paid

One of the key challenges facing small businesses is the cash-flow implications of late payments, which hold them back from investing and innovating. The government plans to introduce more stringent payment time requirements for firms bidding for large government contracts. From April 2024, firms bidding for government contracts over £5million will have to demonstrate that they pay their own invoices within an average of 55 days, tightening to 45 days in April 2025, and to 30 days in the coming years.

Investment Zones and Freeports

Earlier this year, the government announced that it would establish 12 'Investment Zones' across the UK. These Zones target tax and other incentives on high potential industry sectors to boost productivity and growth. A number of the Zones have now been announced and the Chancellor has now pledged to extend the program of funding and tax reliefs for these Zones from 5 to 10 years.

The tax incentives include relief from Stamp Duty Land Tax (SDLT), enhanced capital allowances for plant and machinery, enhanced structures and buildings allowances, business rates relief and reduced employer NICs on the earnings of eligible employees.

There has also been an associated extension to the window to claim Freeport tax reliefs in England; from 5 to 10 years, until September 2031. The tax benefits on offer in these port-based locations are similar to Investment Zones but also give extra VAT and Customs benefits.

VAT

The VAT registration and deregistration thresholds continue to be frozen at £85,000 and £83,000 respectively, instead of increasing each year in line with inflation. This is thought to be a blocker to growth in small businesses and so will be one to watch in the Spring Budget next year.
There have been no change to rates of VAT.

‘Stealth’ increases

The personal allowance and basic rate band threshold are still frozen at their 2021/22 levels and, subject to the outcome of the next general election, are expected to remain at such until 5 April 2028. As earnings increase, individuals will move into higher tax bands. This is often referred to as ‘fiscal drag’ because it will raise more tax without the government increasing income tax rates.

The tax-free personal allowance of £12,570 continues to be partially and then fully withdrawn for higher earners, with £1 of personal allowance lost for every £2 of adjusted net income over £100,000.

Income tax rates and allowances for 2024/25

Held at their 2023/24 levels, the following income tax rates will apply to taxable income, after the personal allowance has been utilised.

Band	Taxable Income	Tax rate in 2024/25		
		Earned income (e.g. wages, business profits and rental profits)	**Savings income**	**Dividend income**
Basic rate	£0 - £37,700	20%	20%	8.75%
Higher rate	£37,701 - £125,140	40%	40%	33.75%
Additional rate	Over £125,140	45%	45%	39.35%

Other allowances

Savings income continues to benefit from a 0% personal savings allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers.

Dividend income attracts a 0% dividend allowance of £500 in 2024/25, down from the £1,000 allowance seen in 2023/24.

Tax Efficient Savings

The annual limits for Individual Savings Accounts (ISAs), Child Trust Funds and the Junior ISA remain at £20,000, £9,000 and £9,000 respectively in 2024/25. The lifetime ISA annual subscription limit also remains unchanged at £4,000 (excluding the government top-up bonus).

The government is making changes to simplify ISAs and provide more choice, meaning it will be easier to choose the best ISA accounts and move money between them. This involves digitalising the ISA reporting system to make it more effective, as well as expanding the investment opportunities available in ISAs.

Pension tax relief

Annual allowances determine the maximum amount that an individual can save into their pension pots in a tax year before tax relief starts to be withdrawn by way of pension tax charges.

These allowances will remain fixed in 2024/25 at their 2023/24 rates, being the £60,000 annual allowance applicable in most circumstances and the £10,000 money purchase annual allowance for those who have flexibly accessed their pension pot. The annual allowance is reduced for those with a high income of more than £260,000.

PENSION REFORM

The government has announced a comprehensive package of pension reforms that aim to provide better outcomes for savers, drive a more consolidated pensions market and enable pension funds to invest in a diverse portfolio.

With people (especially younger generations) changing jobs more frequently than used to be the case, the government wants to tackle the long-standing problem of “small pot” pensions that accumulate with each short to medium term employment. There will be a call for evidence on a ‘lifetime provider model’ which would allow individuals to have contributions paid into their existing pension scheme when they change employer, providing greater agency and control over their pension.

CAPITAL GAINS TAX

The capital gains tax annual exemption is set to drop to £3,000 in 2024/25, down from £6,000 in 2023/24. This change will mean that those selling capital assets such as property or shares will pay more tax, where the new lower annual exemption is exceeded. Capital gains tax rates range from 10% to 28% in 2023/24, depending on the tax status of the seller and the type of asset sold.

If you are planning any capital disposals, please contact us to discuss the best strategy for the disposal.

INHERITANCE TAX

The inheritance tax nil rate band continues to be frozen at £325,000 until April 2028. The residence nil rate band will also remain at £175,000 and the residence nil rate band taper will continue to start at £2million. Despite prior rumours to the contrary, there has been no change to inheritance tax rates.

CORPORATE TAXES

Rates from 1 April 2024

From 1 April 2024, the rate of Corporation Tax will continue to be 25% if a company's profits exceed £250,000 a year. The small profits rate of 19% will apply where profits are no more than £50,000 a year.

Where a company's profits fall between £50,000 and £250,000 a year, the profits are taxed at the higher 25% rate, but a 'marginal relief' is given to reduce the liability, with the effective rate being closer to 19% the closer profits are to £50,000.

Companies in the same corporate group (or otherwise connected by association) must share the £50,000 and £250,000 thresholds between them, making the 25% rate more likely to apply. A similar rule applies to the £1.5 million threshold which, if exceeded, means that companies are required to pay their corporation tax earlier and in instalments.

Research & Development (R&D) Reliefs

These are significant changes and come on top of a raft of changes already seen in 2023. HMRC say that further action may still be needed to reduce the unacceptably high levels of non-compliance with tax rules in the R&D sector.

For company accounting periods commencing on or after 1 April 2024, a new R&D scheme for limited companies will come into effect, merging the Small and Medium Enterprise (SME) scheme with the current R&D Expenditure Credit (RDEC) scheme (for larger companies). There will also be a second new R&D scheme for 'R&D intensive SMEs'.

Within the new rules there are new provisions in relation to:

- The definition of qualifying expenditure, taking into account whether the R&D has been undertaken in the UK. This change comes in from 1 April 2024. Currently, overseas R&D costs incurred by a UK claimant company qualify for R&D tax incentives in the UK. However, for accounting periods starting on or after 1 April 2024, subcontracted R&D work and the cost of externally provided workers (EPWs) will be limited to work done in the UK subject to certain exemptions.
- Who can claim relief when companies contract out R&D activities; and
- Restrictions on nominations and assignments of R&D relief payments. This change will affect the business model of a number of specialist R&D Consultancies who charge on a % fee basis

The position on the different schemes and the rates of relief can be summarised as follows:

	SME regime		Large company regime (RDEC)		Merged Scheme -SME
	Up to 31 March 2023	**From 1 April 2023**	**Up to 31 March 2023**	**From 1 April 2023**	**For Accounting periods from 1 April 2024**
Loss making company	Costs plus 130% uplift = 230 x 14.5% repayable credit = **33.3% tax credit**	Costs plus 86% uplift = 186 x 10% repayable credit = **18.6% tax credit**	**10.5% tax credit**	**15% tax credit**	**16.2% tax credit**
Loss making R&D intensive company*	N/A	Costs plus 86% uplift = 186 x 14.5% repayable credit = **26.97% tax credit**	N/A	N/A	N/A
Profitable company	130% uplift on costs = 24.7% net benefit	86% uplift on costs = 21.5% net benefit	Headline rate 13% = 10.5% post tax	Headline rate 20% = 15% post tax	Headline rate 20% = 15% post tax

*The intensity threshold for R&D intensive loss-making SMEs will be reduced from 40% to 30%. There will also be a one- year grace period, so that companies that dip under the 30% qualifying R&D expenditure threshold will continue to receive relief for one year. Businesses will be able to claim for expenditure incurred from 1 April 2023 once the Autumn Finance Bill 2023 has received Royal Assent, with the reduction in intensity threshold and grace period coming into effect for accounting periods beginning on or after 1 April 2024. While this higher rate will apply for the 2023/24 tax year, it will be legislated for in Finance Bill 2023-24 which is expected to become law in spring 2024, therefore, these relief rates cannot yet be used for claims made prior to the changes becoming law.

Any company claiming (or considering claiming) R&D reliefs will need enhanced support to both ensure compliance and to adopt the new rules and framework. Please do get in touch if we can assist you with this.

Creative Industries

Film, TV and video games tax reliefs will be reformed into refundable expenditure credits. In particular, an Audio-Visual Expenditure Credit (AVEC) for film and TV programmes and a Video Games Expenditure Credit (VGEC) for video games. The credits will be available from 1 January 2024.

EMPLOYMENT TAXES

National Insurance Contributions (NICs)

Like the main income tax bandings, employer and employee NIC thresholds are now also frozen until 5 April 2028. This broadly means that, in 2024/25, employers' NIC will continue to apply at 13.8% to earnings in excess of £9,100 a year (£175 per week) and employees will pay at the reduced 10% rate on earnings between £12,570 and £50,270 and 2% thereafter.

PAYE and Tax Returns

For individuals with income taxed only through PAYE, they currently only need to file a self-assessment tax return if their income exceeds £150,000. From 2024/25 this threshold will be removed altogether, removing up to 338,000 individuals from the self-assessment system.

TACKLING THE TAX GAP AND COLLECTING HMRC DEBT

A 'Tackling the Tax Gap' package of measures has been announced, with plans to raise £5 billion of tax revenue over the next five years. The government is investing in HMRC's ability to better target their debt collection activity, pursuing those with tax debts that can afford to pay, and providing support to those that are temporarily unable to pay. The government is also taking action against those who continue to bend or break the rules, by reducing opportunities for tax fraud in the construction industry and taking strong action against promoters of tax avoidance. Sentences for the most egregious forms of tax fraud will be doubled from 7 to 14 years.

TAX ADMINISTRATION FRAMEWORK

New measures will be introduced to strengthen HMRC's data gathering powers. From 2025/26:

- Employers will be required to provide data on employee hours paid as part of their PAYE reporting; and
- Shareholders in owner-managed businesses will be required to include on their self-assessment tax return their percentage shareholding and dividend income from their company (separately to any other dividend income they may receive).

These measures will build on previously announced HMRC powers that will enable them to access taxpayer data from online marketplaces (e.g. from Airbnb) from 1 January 2024.

IN CONCLUSION

As we move into 2024, there are a lot of tax changes already scheduled, plus we can expect more with a Spring Budget and a general election on the horizon.
We are here to work alongside you and help you prosper so please do get in touch at any time.

Q & A'S - RESEARCH AND DEVELOPMENT

Have the rules changed on what qualifies for R&D?

Essentially no. However HMRC have got a lot stricter on checking R&D claims.

If you plan to make a claim for R&D tax credits you must be sure your project meets the definition of what consitutes R&D as set out in the HMRC guidelines.

We employ Overseas Contractors. Is that a problem?

The rules concerning workers based overseas will change for expenditure from 1st April 2024. From that date subcontracted R&D work and the cost of externally provided workers (EPWs) will be limited to work done in the UK except for certain specified exceptions.

What are the exceptions?

Where factors such as geography, environment, population or other conditions that are not present in the UK are required for research, and where there are regulatory or other legal requirements for certain activities to take place in specific territories (for example, clinical trials).

We have received a Grant , will this affect our R&D claim?

Yes. You can still claim R&D but at the reduced large company rate.

Is it still worth doing R&D in the UK?

The R&D tax benefits have reduced in recent years and certain aspects of the scheme have become more restrictive. There is also a much greater emphasis on compliance from HMRC which companies doing genuine R&D will see as a good thing. Overall, the UK is still a good place for innovation espcially if you are a R&D intensive business.

DALY ACCOUNTING

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