

# Tax changes in the UK September-November 2022



By Robert Newey, Solicitor and Chartered Tax Adviser, London



## Introduction

Radical plans to cut taxes in the United Kingdom were announced on 23 September 2022. These plans were badly received by financial markets. Most of the plans were abandoned on 17 October 2022. Instead, on 17 November 2022, tax increases were announced.

## Quick summary of the political changes

- Liz Truss replaced Boris Johnson as Prime Minister on 6 September 2022. She was elected as new leader of the Conservative party by party members: as leader of the Conservative Party, which has a majority of the seats in the House of Commons, she automatically became Prime Minister.
- On 23 September 2022 a “growth plan”, involving tax cuts and a substantial increase in public borrowing, was announced. The announcements triggered a very negative market reaction. As a result, on 17 October, it was announced that most of the tax cuts that had been announced on 23 September would be abandoned.
- On 20 October 2022 Liz Truss resigned as Prime Minister. To date she is the shortest serving UK Prime Minister. Ms Truss was rapidly replaced as Prime Minister by Rishi Sunak, who was effectively selected by Conservative MPs.
- On 17 November 2022, tax increases were announced.



A cartoon by Chris Riddell published in the Guardian, depicting the political events this summer

## The overall position, taking recent announcements into account

### Personal taxes

#### Income tax

- The threshold for the top rate of income tax (45%) will be reduced from £150,000 to £125,140. This means that:
  - For an individual whose income does not exceed £100,000:
    - The first £12,570 of income will be tax-free (personal allowance);
    - The next £37,700 will be taxed at 20%; and
    - The remainder will be taxed at 40%.
  - For an individual whose income exceeds £100,000:
    - The £12,570 personal allowance will be reduced by £1 for every £2 of income over £100,000 (so the amount of income taxed at 40% will be increased); and
    - Income in excess of £125,140 will be taxed at 45%.
- The income tax personal allowance and higher-rate thresholds will be frozen until April 2028.
- Currently the first £2,000 of dividends is free of tax for all taxpayers. This dividend allowance will be cut to £1000 from April 2023, and then to £500 from April 2024.

#### Capital gains tax ("CGT")

- The annual exempt amount for CGT will be cut from £12,300 to £6,000 from April 2023, and then to £3,000 from April 2024.
- CGT rates:
  - The rate of tax for an individual is determined by treating gains as the top slice of income.
  - On gains arising from the disposal of interests in residential properties (where not exempt): 18% to the income tax basic rate limit of £37,700; 28% above the basic rate limit.
  - On other gains: 10% to the income tax basic rate limit of £37,700; 20% above the basic rate limit.

#### National insurance (social security) contributions

- Main rates:
  - Employees' contributions:
    - 12% for weekly earnings between the primary threshold (£242 per week) and £967 per week; then
    - 2% for weekly earnings over £967 per week.
  - Employers' contributions: 13.8% of weekly earnings.

#### Inheritance tax

- The main thresholds will all be frozen until April 2028.
- Rate on death: 40%
- Nil rate band: £325,000
- Residence nil rate band (where a home is passed on death to direct descendants of the deceased): £175,000

#### Electric cars

- Electric vehicles will no longer be exempt from vehicle excise duty (car tax) from 2025.
- Company car benefit rates for electric cars will increase, but limited to 1 percentage point per year for 3 years from 2025.

## Stamp duty land tax

- The nil rate band was increased from £125,000 to £250,000 with effect from 23 September 2022. Where all buyers in the transaction are first-time buyers and the purchase price is £625,000 or less, the nil rate threshold is increased to £425,000 from the same date.
- With effect from 31 March 2025, the nil rate band for all buyers will return to £125,000.

## Business taxes

- For financial year 2023 (beginning in April 2023) the main rate of corporation tax will be 25%. A small profits rate of 19% will apply to profits of £50,000 or less. Profits between £50,000 and £250,000 will be taxed at the main rate of 25% but marginal relief will apply.
- Changes to tax reliefs for research and development (R&D), where expenditure is incurred on or after 1 April 2023:
  - The deduction rate for research and development activity, carried on by small and medium-sized enterprises (SMEs), will be cut to 86% (from 130%), and the credit rate will be cut to 10% (from 14.5%).
  - The rate of the separate R&D expenditure credit will be increased, however, from 13% to 20%.
- Other changes to R&D reliefs, already announced in autumn 2021, will also be enacted in 2023.

## Windfall taxes

- The energy profits levy will be increased from 25% to 35% from 1 January 2023 until March 2028.
- From 1 January 2023, a new 45% levy will be introduced on electricity generators.

(Brief background note: Over the past year 28.3% of electricity in the UK has come from wind turbines. This electricity is very cheap to generate. On the other hand, 42.4% of electricity has been generated from gas, which is very expensive. Electricity prices for end users are set by reference to the cost of generating electricity using gas and oil, so in some cases profits on electricity generation can be very high.)

## Other announcements

- Import tariffs will be removed on various goods.
- Investment zones, announced on 23 September 2022, will now be centred on universities in left-behind areas.