Another 'George Osborne moment' budget

Spring Statement summary

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For professional advisers only

Before the Chancellor stood up today, there was a lot of speculation, particularly around taxation of pension savings.

Pensions

I recall in 2014 when the then Chancellor, George Osborne, stood up and stated that there would no longer be tax on pension death benefits, my immediate reaction was "what did he just say?". This was almost immediately followed by the telephone ringing and an adviser asking what the implications were for pension savers.

As always with most legislation, the devil is in the detail, and the Taxation of Pensions Act 2014, while creating what we know as 'pension freedoms', certainly didn't result in death benefits being truly free of tax.

Today, the current Chancellor, Jeremy Hunt announced that he was removing the lifetime allowance as a way to incentivise highly skilled individuals to remain in the labour market, which I might be tempted to call another George Osborne moment.

There is, at present, little in the way of any detail on the subject. What information that is available, suggests it will be removed from 6 April 2023 on a temporary basis, before being completely abolished in a future Finance Bill.

However, there's something of a 'fly in the ointment', in that for those individuals who have no form of protected pension commencement lump sum (PCLS), their right to a PCLS will be limited to the current level of 25% of £1,073,100 (£268,275) and remain frozen at that level thereafter.

Apart from the above potential game changer, the Chancellor also announced that the annual allowance (AA) will be increased from £40,000 to £60,000 from 6 April 2023, with the ability to carry forward any unused AA from the previous three tax years to remain. There was also, as anticipated, an increase in the money purchase annual allowance (MPAA) to £10,000 from the current level of £4,000, also effective from 6 April 2023. The MPAA applies to those individuals who have first flexibly accessed their defined contribution pension savings and restricts the total tax-relieved pension savings they can make each tax year into money purchase arrangements.

Coincidentally, alongside the increase in the MPAA, the minimum tapered AA will also be increased from £4,000 to £10,000 from 6 April 2023. As the AA has been increased, the adjusted income threshold is to be increased from £240,000 to £260,000, and the income level where the tapering will cease to have an effect will rise to £360,000 from the present £312,000, bearing in mind that the minimum tapered AA will be £10,000.

Through secondary legislation, which will apply from the April 2023 tax year, a further measure is to be introduced to increase the retention of the workforce in the public sector who are members of both open and closed public service pension schemes. For those individuals, the schemes will be considered linked for the purposes of calculating AA charges, allowing them to offset any negative real growth for AA purposes in the legacy public service pension schemes against the AA.

And now for some other news

Freezing of starting rate for income tax

The starting rate for savings will be frozen at £5,000, enabling individuals with less than £17,570 in employment income to receive up to £5,000 savings income free of tax.

Individual Savings Accounts (ISA) and Junior Individual Savings Accounts (JISA) annual subscription limits

The annual subscription limit for adult ISAs will remain at £20,000 and the JISA (and Child Trust Fund Accounts) will remain at £9,000.

The Energy Price Guarantee (EPG)

The government is maintaining the EPG at its current £2,500 per year level for an additional three months (to June 2023). The planned increase to a level of £3,000 per year will therefore be implemented on 1 July, rather than 1 April as previously announced.

Fuel duty

The rates of fuel duty are to remain at the current levels for an additional twelve months, through extending the temporary 5p fuel duty cut and cancelling the planned increase in line with inflation for 2023-24.

Business investment and tax

Capital allowances

Full expensing – From 1 April 2023 until 31 March 2026 investments made by companies in qualifying plant and machinery will qualify for a 100% first-year allowance for main rate assets. This means companies across the UK will be able to write off the full cost in the year of investment, known as full expensing.

Companies investing in special rate (including long life) assets will also benefit from a 50% first-year allowance in the year of investment. Expenditure on plant or machinery for leasing is excluded from first-year capital allowances due to longstanding concerns about abuse and wide scope for error. The government will work with industry to identify possible policy solutions that appropriately mitigate these risks.

Additional tax relief for Research and Development (R&D) intensive Small and medium sized enterprises (SMEs)

From 1 April 2023, a higher rate of relief for loss-making R&D intensive SMEs will be introduced. SME companies for which qualifying R&D expenditure constitutes at least 40% of total expenditure will be able to claim a higher payable credit rate of 14.5% for qualifying R&D expenditure.

Tax simplification

The government is focused on ensuring that meeting tax obligations is as straightforward as possible at key events for a growing business, such as when a business is set up or takes on a first employee.

As a first step, there’s to be a consultation to expand the ‘cash basis’ – a simplified way for over four million sole traders to calculate and pay their Income Tax – and a systematic review of HMRC guidance and key forms for small businesses, to ensure the tax system is easy for them to understand.

For small businesses not applying the cash basis, the Annual Investment Allowance (AIA) provides 100% first-year relief for plant and machinery investments. From April 2023, this will be permanently set at £1million, simplifying the tax treatment of capital expenditure for 99% of businesses.

The Budget also includes a discussion document on modernising HMRC’s Income Tax services so taxpayers can quickly and easily manage their own tax affairs online, reducing the need to contact HMRC. This builds on the government’s commitment to make HMRC services simpler and more efficient, for example through introducing a Single Customer Account so taxpayers can interact with all their tax information in one place.

Simplification for trusts and estates administration

The government will formalise and extend existing income tax concession for low income trusts and estates, and provide further changes to make calculations and reporting of tax more straightforward. HMRC also intend to make changes to inheritance tax regulations to remove non-taxpaying trusts from reporting requirements.

Alcohol duties

Duty rates of all alcoholic products produced in, or imported into, the UK will increase in line with RPI. Draught Relief will increase from 5% to 9.2% for beer and cider draught products and from 20% to 23% for wine, spirit based and other fermented draught products. These changes will take effect from 1 August 2023.

Comment

The proposed abolition of the LTA will have caught most by surprise, however, as always, we'll await the draft legislation, to determine how this, and some of the other aspects will actually play out. We'll, naturally, provide more detail and analysis as further information becomes available.

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