RAYMOND JAMES

Growth plan newsletter

September 2022

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The background

What the Chancellor, Kwasi Kwarteng, presented to the House of Commons on Friday was definitively not a Budget; it was 'The Growth Plan'. The sixth chancellor since 2016 was careful to avoid the B word, despite the huge sums of spending and borrowing that he announced – greater than in most, if not any, real Budgets, let alone mini-Budgets. When the Autumn Budget proper emerges - probably in November or December it is most unlikely to contain anywhere near such a wide range of radical and costly measures as were announced on 23 September.

By eschewing a formal Budget, the Chancellor was able to say that the Office for Budget Responsibility (OBR) was not required to carry out its normal detailed assessments and projections. These, too, will await the actual Budget. Side-lining the scrutiny of the OBR was a controversial move as its last Economic and Fiscal Outlook (EFO) was published on 23 March. To put it mildly, much has happened in the intervening six months, not least a surge in the cost of energy and a corresponding rise in inflation to double digits.

Energy price support was always expected to form an important part of Mr Kwarteng's statement, albeit the initial announcements of the consumer and non-domestic schemes happened earlier this month. Today's statement put a £60bn price tag on the cost of support for the next six months.

Beyond energy price protection, there proved to be more to his Growth Plan than even the flood of media leaks suggested. Mr Kwarteng's search for 2.5% growth stretched from reducing income tax rates to the creation of new Investment Zones. The immediate bottom-line result is an extra £70bn+ of government borrowing in this financial year.

In this Newsletter we look at the impact of the changes announced by Mr Kwarteng and the energy support packages due to operate from 1 October.

If you need further information on how you will be affected personally, you are strongly recommended to consult your wealth manager.

The main measures

Some of the more expensive measures announced by the Chancellor had been well trailed in Liz Truss's leadership campaign, the recent announcements from government departments or the past week's media coverage. While the era of Budget purdah has disappeared, Mr Kwarteng did manage to produce some real surprises.
If you or your partner do not fully use the personal allowance, you could be paying more tax than necessary. There are several ways to make sure you maximise use of your allowances:

Income tax

In his Spring Statement 2022, Mr Sunak's rabbit-out-the-hat announcement was that basic rate tax would be cut to 19% from April 2024. This was effectively made possible by the Chancellor's earlier decision to freeze personal allowances and tax bands through to April 2026. Higher than projected inflation meant that the freeze was generating much greater revenue than had been anticipated.

Mr Kwarteng went considerably further on the income tax front. The cut in basic rate tax will now take effect from April 2023 and at the same time the 45% additional rate of tax on income over £150,000 will be abolished.

Neither change will apply to non-dividend non-savings tax in Scotland, which sets its own tax rates.

Special transitional provisions will maintain Gift Aid relief at 20% until April 2027. Similarly, pension tax relief at source will stay at 20% for 2023/24 before dropping to 19%.

PLANNING POINT

The reduction in both the basic rate and abolition of additional rate means that the timing of income receipts and the making of tax relievable pension contributions has become more important. For example, you may wish to defer realisation of an investment until after 5 April 2023 to benefit from lower tax rates in 2023/24. On the other hand, you may want to make pension contributions in this tax year if you are currently an additional rate taxpayer.

National Insurance contributions

Rishi Sunak announced an across-the board 1.25 percentage point increase to the rates of National Insurance Contributions (NICs) in September 2021 as part of Boris Johnson's social care package. The extra charge was due to disappear from NICs in 2023/24, to be replaced by a new Health and Social Care Levy at 1.25%, which would be payable by all earners, not just those under State Pension Age as currently applies to NICs. Before the higher rates were due to take effect on 6 April 2022, Mr Sunak was forced by backbench pressure to water them down. The dilution took the form of increasing the starting point at which employees and the self-employed (but not employers) begin to pay earnings-related NICs from £9,880 a year to £12,570 a year. This change took effect from 6 July 2022, three months into the new tax year and will remain in being.

The main question with the widely anticipated unwinding of the rate increase was also one of timing. This was resolved the day before Mr Kwarteng's statement when the Government published a bill to scrap the Health and Social Care Levy due in 2023/24 and reinstate lower NIC rates with effect from 6 November 2022. HMRC seem concerned about the timing, as on Thursday evening it sent employers an email as it wished them to know of the changes ‘at the earliest opportunity’. The email also said that ‘HMRC will be directing employees to their employers to correct any overpaid NICs in the first instance.’

Fortunately, there will be no change to the NIC starting points.

	6/7/22-5/11/22	6/11/22-5/4/23
Class 1		
Employee - Primary	£242-£967pw: 13.25% Over £967 pw: 3.25%	£242-£967pw: 12.00% Over £967 pw: 2.00%
Employer - Secondary	Over £175 pw: 15.05%	Over £175 pw: 13.80%

	2022/23
Directors: Primary	£11,908-£50,270 pa: 12.73% Over £50,270 pa: 2.73%
Secondary	Over £9,100 pa: 14.53%
Class 4	
Self-employed On profits	£11,908– £50,270 pa: 9.73% Over £50,270 pa: 2.73%

Dividend tax rates

PLANNING POINT

Lower NIC rates reduce the benefits of salary sacrifice as a way of making pension contributions. However, substantial benefits remain, as the table below shows:

	Personal contribution		Salary sacrifice employer contribution (sacrificed amount + NIC saving)	
Tax rate	**20%**	**40%**	**20%**	**40%**
	£	**£**	**£**	**£**
Gross salary	1,000.0	1,000.0	Nil	Nil
Employer pension contribution	Nil	Nil	1,138.0	1,138.0
Employer NIC (13.8%)	138.00	138	Nil	Nil
Total employer outlay	1,138.0	1,138	1,138.0	1,138.0
Employee salary	1,000.0	1,000	Nil	Nil
Less:				
income tax	(200.0)	(400.0)		
NICs (12.00%/2.00%)	(120.0)	(20.0)		
Net pay = net pension contribution	680.0	580.8		
Tax relief	170.0	387.2		
Total pension contribution	**850.0**	**968.0**	**1,138.0**	**1,138.0**

The tax rates applicable to dividends will be reduced by 1.25 percentage points for 2023/24 onwards, removing the 2022/23 increase which will operate for the current tax year only. The relevant dividend tax rates (above the frozen £2,000 dividend allowance) are thus:

	BASIC RATE	HIGHER RATE	ADDITIONAL RATE
2022/23	8.75%	33.75%	39.35%
2023/24	7.50%	32.50%	N/A

PLANNING POINTS

One side effect of inflation has been and will be to reduce the real value of the ISA investment limit, which was last increased (to £20,000) in April 2017 and is not scheduled to rise again until April 2026. That inflationary erosion makes it all the more important to maximise the ISA limit each tax year. Remember, there is no UK tax on dividends, interest and capital gains generated by ISA investments.

Beyond the ISA its worth remembering that the dividend allowance cannot be carried forward if unused. It can deliver a useful addition to tax free investment income. For example, if a share portfolio held directly or through a collective investment yielded 3% pa, an investment of £65,000 would produce completely tax-free income in addition to whatever your ISA and Venture Capital Trust investments produce by way of tax-free dividends.

If you are a shareholding director in a private company you will need to factor in the proposed changes to national insurance, income tax and dividend taxation when deciding how to most tax efficiently take money from your company. Advice will be essential.

Stamp Duty Land tax

Revisions to SDLT (which applies in England and Northern Ireland) were widely expected, but the changes announced, effective from 23 September 2022, proved to be hardly radical:

- The 0% slice increases from the first £125,000 to the first £250,000 of value, removing the 2% band entirely and giving a potential tax saving of up to £2,500.

- For first time buyers only, the 0% band is extended from the first £300,000 to the first £425,000, subject to the property being worth up to £625,000 (previously £500,000). The potential maximum saving here is £11,250, although it is worth noting the average UK first time buyer is currently paying under £230,000 for their home, according to Nationwide.

Rate	Pre-23/9/22	23/9/22 On
0%	Up to £125,000*	Up to £250,000⁺
2%	£125,001-£250,000*	N/A
5%	£250,001-£925,000*	£250,001-£925,000
10%	£925,001 - £1,500,000	£925,001 - £1,500,000
12%	Over £1,500,000	Over £1,500,000

* 0% on the first £300,000 for first time on property worth up to £500,000
+ 0% on the first £425,000 for first time on property worth up to £625,000

Wales and Scotland have their own land taxes, so are unaffected unless they decide to make changes in response.

Corporation tax

The Spring Budget 2021 introduced a large increase in the corporation tax rate from April 2023:

- The current main flat rate of 19% was to be replaced with a new rate of 25% for businesses with profits above £250,000.

- For businesses with profits between £50,000 and £250,000 a marginal relief would apply that effectively meant the existing 19% rate applied to the first £50,000 of profits with a 26.5% rate on the excess.

- For businesses with profits of up to £50,000, the existing 19% rate would remain.

The increase tax on companies was due to generate about £17bn a year by 2025/26. Mr Kwarteng has chosen to forgo that revenue and maintain a 19% corporation tax rate. There will also be no special “windfall tax” on energy (or any other) companies.

PLANNING POINT

The changes to corporation tax rates, NICs, income tax rates and dividend tax rates have once again altered the calculations on the relative financial benefits of incorporation over self-employment. Whether or not you have reviewed this recently, it could be worth revisiting the topic with your wealth manager.

Capital Allowances

The Annual Investment Allowance, which has long oscillated at the whim of Chancellors will now be fixed at its current £1 million level. It had been due to fall to £200,000 from next April.

Company Share Option Plan

From April 2023, qualifying companies will be able to issue their employees with a maximum of £60,000 of Company Share Option Plan (CSOP) options, double the present ceiling. The restrictions on share classes within CSOP will be eased, widening access to CSOP for growth companies.

Seed Enterprise Investment Scheme

Young companies will be able to raise up to £250,000 of Seed Enterprise Investment Scheme (SEIS) investment from 2023/24, compared with a current limit of £150,000. In addition, from the same date:

- The gross asset limit will be increased to £350,000.
- The company age limit will be increased from 2 to 3 years.
- The annual investor limit will double to £200,000.

IR35 – Off-payroll working

The off-payroll working rules reforms introduced in 2017 and 2021 will be repealed from 6 April 2023, effectively taking the IR35 regime back to its original structure. Thus, from 6 April 2023, individuals providing their services through an intermediary, e.g. a personal service company, will once again be responsible for determining their own employment status and paying the appropriate amount of tax and NICs. While this is good news for larger employers (smaller employers were exempt), the change will throw the onus back on the worker, with all the issues that originally created.

Investment Zones

The government plans to encourage the establishment of investment zones throughout the UK. These zones would benefit from relaxed planning and environmental rules and time-limited reductions in tax. For zones in England, the possible 10-year tax-incentives being considered are:

- 100% business rates relief on newly occupied business premises and certain existing businesses where they expand into a zone.
- 100% first year capital allowances for plant and machinery.
- Accelerated relief, allowing businesses to set 20% of the cost of qualifying non-residential investment per year against profits.
- 0% employer NICs on salaries of any new employee working in the tax site for at least 60% of their time, on annual earnings up to £50,270 per year, with employer NICs being charged at the usual rate above this level.
- Full SDLT relief for land and buildings bought for use or development for commercial purposes, and for purchases of land or buildings for new residential development.

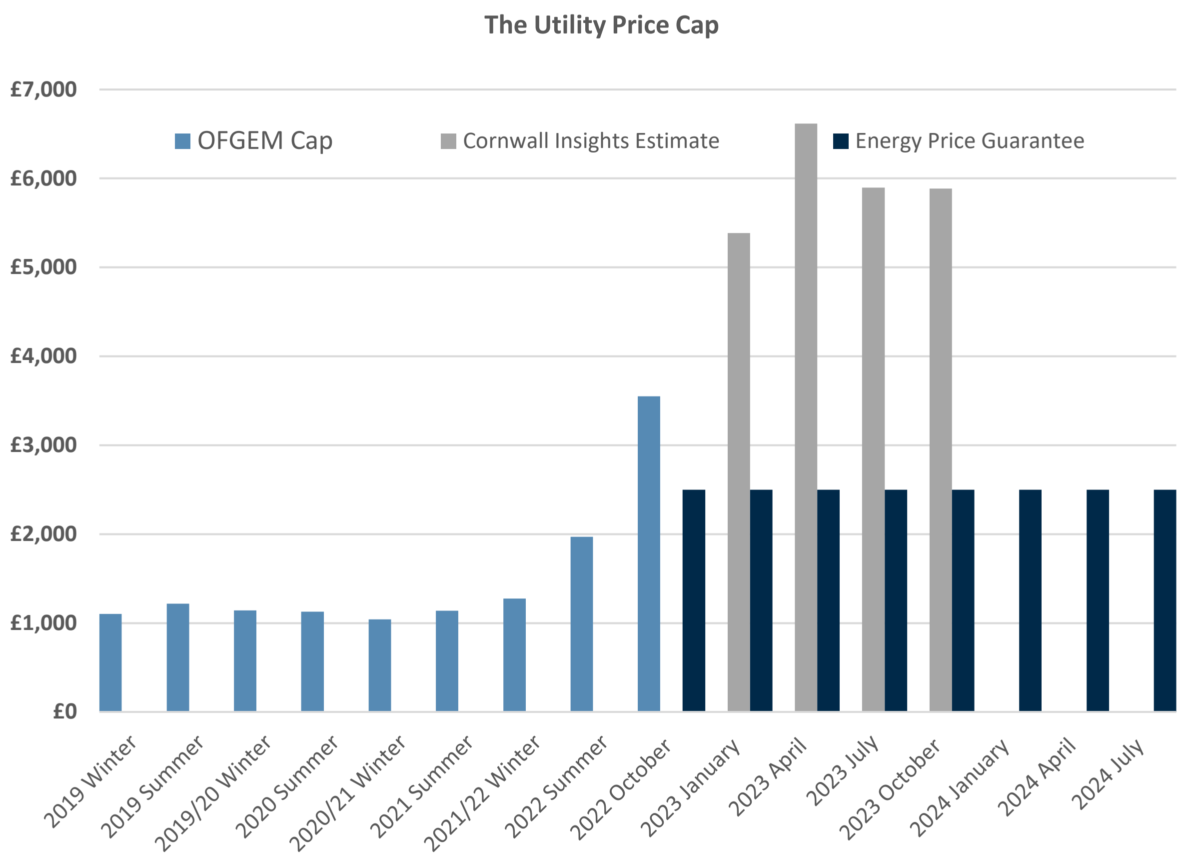
Energy price measures

Measures to limit the impact of rising gas and electricity prices were announced before Mr Kwarteng's statement, but inevitably influenced his financial room for manoeuvre. In the absence of any analysis from the OBR, the only information on costings came from the Treasury which put the total cost of energy support at £60bn through to the end of this financial year.

The outline of the distinct but related domestic and non-domestic schemes is now reasonably clear:

Domestic consumers

On 8 September the Liz Truss and the Department for Business, Energy and Industrial Strategy (BEIS) briefly set out how the government planned to protect domestic consumers from rising energy bills. The backdrop was two August announcement from Ofgem, the energy regulator for Great Britain. The first shortened the period between price cap reviews to three months E, while the second set a £3,549 price cap for three months from 1 October, an increase of 80% on the previous level.



Source: Ofgem, Cornwall Insights

The key points of the government scheme are:

- An Energy Price Guarantee (EPG) of £2,500 per year for "average customer usage". This replaces the Ofgem price cap from 1 October 2002 for two years, a period some observers saw as driven by election timings. Like the existing Ofgem price cap it is not a ceiling on total bills, but instead limits on standing and unit charges (see below).

  EPG Charges for monthly customers paying by direct debit

Charge	Gas	Electricity
Standing: Pence per day	28.0	46.0
Unit: Pence per kilowatt hour	10.3	34.0

- For anyone with an existing fixed rate tariff costing above the EPG level, the EPG figures will apply subject to a maximum subsidy of 4.2p/kWh for gas and 17p/kWh for electricity. Thus, the very few people who recently signed fixed deals could still end up paying more than the rates shown above.

- The various measures announced by Rishi Sunak in May, including the £400 Energy Bills Support Scheme and additional £300 Winter Fuel Payment for pensioners, will remain.

- There will be discretionary payments for those households using heating oil and LPG.

- The same level of support will be given to households in Northern Ireland where the Ofgem rules do not apply.

Non-domestic customers

Two days before Mr Kwarteng's statement, the BEIS set out its Energy Bill Relief Scheme (EBRS) for non-domestic energy users. While this drew on the approach used for domestic customers, the Scheme contains many differences reflecting the different features of the commercial energy markets:

- With very few exceptions, the EBRS applies to all non-domestic customers, both commercial and non-commercial, who are:
  - on existing fixed price contracts agreed on or after 1 April 2022;
  - signing new fixed price contracts;
  - on deemed/out of contract or variable tariffs; or
  - on flexible purchase or similar contracts (mainly the largest users)

- The EBRS targets the wholesale element of non-domestic unit prices, bringing them down to government supported price levels for the period from 1 October 2022 to 31 March 2023. However, there is a limit to the maximum reduction/discount per unit the Scheme provides.

  EBRS Unit Charges

	Gas Pence per kilowatt hour	Electricity Pence per kilowatt hour
Support level	7.5	21.1
Maximum discount	11.5	40.5

  In its Wednesday statement, the BEIS said that the current estimated wholesale costs for this winter are about 18p/kWh for gas and 60p/kWh for electricity.

- A review of the EBRS is promised in three months' time, with the focus on 'the most vulnerable non-domestic customers. This yet to be defined sector will benefit from ongoing support after the EBRS comes to a close. Thus, in theory, most non-domestic customers will pay full market energy costs from April 2023.

- Support matching the level of the EBRS will be provided for non-domestic consumers who use heating oil, LPG or other alternative fuels.

- In Northern Ireland, a separate but similar scheme to the EBRS will be set up.

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