



DAVID PATTINSON CHARTERED ACCOUNTANTS

December 2022



QUARTERLY NEWSLETTER

Xmas and New Year Holidays

My office will close at midday on Thursday, 22 December and re-open at 9:00 a.m. on Tuesday, 2 January.

All Change (nearly)

The government of Liz Truss collapsed shortly after Kwase Kwarteng's disastrous "growth plan" mini-budget, which was covered in my last newsletter. The new chancellor, Jeremy Hunt, then reversed nearly all of the changes in that mini-budget, as well as announcing further austerity measures, detailed in this newsletter.

The one major change which was not reversed was the abolition of the Health and Social Care Levy of 1.25%, apparently because the legislation had nearly completed its passage through parliament. I find that most frustrating, because the problem of how to fund social care had been discussed for years, with successive governments fearing making a decision because it might prove politically unpopular. Then, when something was finally introduced, it lasted for only a few months. The unavoidable truth is that the problem is not going away and a solution will have to be found which, inevitably, will mean most people paying more tax.

National Insurance

Thresholds for employees will be frozen at current levels until 5 April 2028. As with Income Tax, that means that employees will pay a higher proportion of their earnings in National Insurance as their wages rise.

For 2023/24, the Class 2 rate for the self-employed will increase from £3.15 to £3.45 a week, and the voluntary Class 3 rate will increase from £15.85 to £17.45.

The Employment Allowance, which covers the first £5,000 a year of employer's National Insurance, will be frozen until 5 April 2028.

Income Tax

The personal allowance will now be frozen at £12,570 until 5 April 2028, instead of 2026 as previously announced. That means that, as people's income rise over the next few years, basic-rate taxpayers will be paying a higher proportion in Income Tax. Likewise, the higher-rate threshold is frozen at £50,270 for the same period, meaning more people will be paying some 40% tax. More parents will also have earnings over £50,000 and have to repay some Child Benefit.

From 6 April 2023 the additional rate of 45% will apply to income over £125,140, rather than £150,000 at present. That may seem an odd figure, but there is a logic to it, because the personal allowance is withdrawn for people with income over £100,000, at the rate of £1 for every £2 of income. £125,140 is the point at which the whole personal allowance is lost. If the 45% rate started at the round figure of £125,000, then the marginal rate of tax on the next £140 of income would be 67.5%.

Dividends

The dividend allowance of £2,000 will be reduced to £1,000 from 6 April 2023 and to £500 from 6 April 2024. Although the 1.25% Health and Social Care Levy has been removed from National Insurance, it remains on dividends, giving rates of 8.75%, 33.75% and 39.35% for basic-rate, higher-rate and additional rate taxpayers respectively.

Capital Gains Tax

The annual exemption of £12,300 will be reduced to £6,000 in 2023/24, then £3,000 in 2024/25. That may influence people to bring forward the planned sale of a chargeable asset, such as a rental property, in order to reduce the tax payable.

Inheritance Tax

The nil rate band and residence nil rate band will be frozen at £325,000 and £175,000 respectively until 5 April 2028. As inflation increases the value of assets, that will bring more estates into Inheritance Tax.

VAT

There are no changes planned to the rates or scope of VAT, but the registration threshold will remain £85,000 until April 2026, by which time it will have been frozen for nine years. Inevitably, that will mean more businesses having to register as their turnover increases with inflation. Likewise, the deregistration threshold is frozen at £83,000.

National Minimum Wages

Rates will increase by 9.7% from 1 April 2023, which is roughly in line with inflation

	Old £	New £
Living wage (23 and over)	9.50	10.42
Minimum wage (21 to 22)	9.18	10.18
18 - 20	6.83	7.49
16 - 17	4.81	5.28
Apprentice (under 19 or in first year)	4.81	5.28

Stamp Duty Land Tax

The cuts announced in the mini-budget will be reversed, but not until 31 March 2025, giving house buyers a saving of £2,500 until then.

Personal Service Companies

The rules requiring public bodies and large businesses to decide whether IR35 applies when paying subcontractors trading as companies have been reinstated, after being abolished in the mini-budget.

Corporation Tax

The increase from 19% to 25% in April 2023 will now proceed as originally planned. The full rate will apply to companies with profits over £250,000, while those with profits up to £50,000 will still pay only 19%. As profits rise from £50,000 to £250,000, the rate gradually increases from 19% to 25%.

Electric Vehicles

To encourage motorists to switch to electric vehicles, they are currently exempt from road tax and are taxed less heavily when provided to employees as company cars. Those concessions will gradually be withdrawn from April 2025.

Savings Allowance

The savings allowance, which covers bank interest, is unchanged (£1,000 for basic-rate taxpayers, £500 for higher-rate taxpayers, nil for additional rate taxpayers) but the freezing of personal allowance and tax thresholds will see some people entitled to a lower amount as incomes rise.

Pass it on

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