

Mini Budget 2022 - what it means for you

23 September 2022
(Courtesy of abrdn)

In his Fiscal Statement, Kwasi Kwarteng introduced a number of tax cuts aimed at addressing the rising cost of living and delivering future growth.

In his 'plan for growth' he carried through on Liz Truss's leadership pledge to reverse the National Insurance and dividend tax increases that were implemented to help fund social care reforms. And in a surprise move, he will remove the additional rate of income tax from April 2023 and bring forward the 1% cut to basic rate tax.

Read our summary of the key points from today's fiscal event.

Income tax

- Earnings and savings - The additional rate of tax of 45% (39.35% for dividends) on income in excess of £150,000 is to be abolished from 6 April 2023. This means that all taxable income over £37,700 will be taxed at 40% (32.5% for dividends).

The cut to the basic rate of income tax will take place a year earlier than planned, also from April 2023. The rate for both non-savings and savings income will fall from 20% to 19% - a saving of up to £377 a year.

The Scottish Government intend to hold their own Mini Budget in the coming weeks and this will determine how these changes will apply to Scottish taxpayers.

- Dividends - The rate of tax on dividend income is to be cut by 1.25% from 6 April 2023. The rates will return to their pre-April 2022 levels of 7.5% (basic rate) and 32.5% (higher rate) on amounts in excess of the £2,000 dividend allowance. Following the removal of the additional rate, 32.5% will be the highest rate paid on dividends from next year.
- Allowances and thresholds - There were no fresh announcements relating to the personal allowance and basic rate band. These remain frozen at £12,570

and £37,700 respectively until 2025/26. This means that the higher rate tax threshold will remain at £50,270 for those entitled to a full personal allowance.

- Trusts - There was no announcement on how the removal of the additional rate of tax will impact trusts. Currently trustees pay tax on trust income and dividends at a rate equivalent to the additional rate (45% on income and 39.35% on dividends). Further clarification is awaited and may be included in the Autumn Statement or when draft legislation is published in the Finance Bill.

The trust standard rate band for the first £1,000 of income will fall from 20% to 19% from 6 April 2023.

- Gift Aid - although the basic rate falls to 19% from next year, there will be a four year transitional period for Gift Aid, maintaining income tax basic rate relief at 20% until April 2027.

Pensions

- There were no changes to pension tax relief or allowances in the Emergency Budget.
- The abolition of the additional rate tax band from 6 April 2023 will mean that the maximum level of tax relief on pensions will be at the higher rate of 40%.
- Despite the reduction of basic rate income tax from 20% to 19% from 6 April 2023, pension schemes that operate the relief at source method for claiming tax relief (personal pensions, stakeholders, SIPPs) will still be able to claim 20% basic rate relief until April 2024.

National Insurance

- The increase to NI to help pay for social care reforms has been scrapped. The additional 1.25% which was added to the rates of NI for 2022/23 for employees, employers and the self-employed will be removed from November 2022.

The changes to the thresholds at which individuals (both employed and self-employed) start to pay NI, which were introduced in July 2022, will remain - i.e, they're in line with the annual personal allowance of £12,570.

Capital Gains Tax

- No changes announced.

Previously announced - The annual exempt amount will remain frozen at £12,300 for individuals (and personal representatives) and to £6,150 for trustees of settlements, until 2025/26.

Inheritance tax

- No changes announced.

Previously announced - Both the nil rate band and residence nil rate band will remain fixed at £325,000 and £175,000 respectively until April 2026.

Corporation tax

- The planned rise to the rates of corporation tax from 19% to 25% from April 2023 will not go ahead. The rate of corporation tax will remain at 19% and the reintroduction of tapering relief for businesses with profits under £250,000 has also been scrapped.

Seed Enterprise Investment Schemes (SEIS)

- In a move to encourage entrepreneurship, the Chancellor is increasing the amount of funding that young start-up companies can raise through the SEIS. The amount that investors can subscribe into SEIS and enjoy the tax breaks on offer will double from £100,000 to £200,000 from April 2023.

IR35

- Previous reforms to 'off-payroll' working, also known as IR35, will be repealed as part of the Government's plan to reduce complexity in the tax system.

From 6 April 2023, the responsibility for determining employment status and paying the right amount of tax and NI will again fall those contactors providing their services via an intermediary company, such as a personal services company.

This will take the burden away from the company engaging the services of a contractor, saving them time and money and allowing them to focus on growth.

The rules as to the employment status of a worker providing services through an intermediary have not changed, and the Chancellor promised that compliance would be kept under review.

Stamp Duty Land Tax

- As part of a package of measures designed to 'get the housing market moving', the SDLT threshold will be doubled so that no tax will be due on purchases of residential property up to £250,000 in England and Northern Ireland.

This relief is extended to first time buyers who will pay no tax on purchases less than £425,000 (up from £300,000) on properties up to a maximum value of £625,000.

These new thresholds will apply from today.

In Scotland Land and Buildings Transaction Tax (LBTT) and Wales Land Transaction Tax (LTT) is a matter for their respective Governments, but both will receive funding to use as they see fit.