UK BUDGET SUMMARY NOTES

15 MARCH 2023

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KEY POINTS

- Putting aside for a minute the numerous mini-Budgets presented towards the end of last year, including the November Statement, this was the first 'official' Budget in 18 months and builds upon the various other tax measures previously announced. Once again this Budget has focused on the recovery of the economy following the pandemic and was issued against the back-drop of the ongoing cost of living crisis.
- Given the number of fiscal statements made in the last few months including the further freezes to various tax bands, it is unsurprising perhaps that we didn't see many further measures in today's Budget.
- The Budget did announce some significant changes to UK pensions, including the removal of the Lifetime Allowance and an increase of the Annual Allowance from £40,000 to £60,000 from 6 April 2023. However, there is small sting in the tail here in that the Pension Commencement Lump Sum (PCLS) is still pinned to the previous Lifetime Allowance – meaning the maximum PCLS remains at £268,275, or in other words, 25% of £1,073,100.
- Despite further speculation leading up to this Budget, no changes were made to the headline Capital Gains Tax (CGT) rates themselves. However, the CGT annual exemption has been reduced from £12,300 to £6,000 from 6 April 2023 and will further decrease to £3,000 from 6 April 2024.
- The reduction of the Dividend Allowance from £2,000 to £1,000 from 6 April 2023, and the previous increases to the dividend rates of tax themselves, will see more investors impacted by these measures.
- Overseas Insurance Bonds could now be more attractive to a wider range of investors as the increase to dividend rates and reduction of allowances continue to hit direct investors.

INTRODUCTION

The Chancellor of the Exchequer, Jeremy Hunt, delivered his first Budget, and the first official Budget for nearly 18 months, amid continued instability caused by the cost of living crisis and high energy prices.

This Spring Budget follows a number of fiscal statements issued last which were essentially Mini-Budgets in their own right, as together they all introduced quite significant tax measures.

First we had a Spring Statement in March which was followed by Kwasi Kwarteng's infamous 'Mini-Budget' in September following the appointment of Liz Truss as Prime Minister. This was quickly followed by an announcement a week later reversing most of the policies the Mini-Budget introduced, with Kwasi Kwarteng eventually leaving office to be replaced by Jeremy Hunt. This led to another fiscal statement in November (the November Statement) which introduced further tax policies – some of which were in complete contrast to those announced during Liz Truss's Government only a few months earlier.

Jeremy Hunt's November Statement followed on from Rishi Sunak's previous Budget by further extending the freezing of various tax thresholds for a further two years. However this statement also cut the additional rate threshold, dividend allowance and Capital Gains Tax (CGT) exempt amounts. From Kwasi Kwarteng's previous Mini Budget only two measures remained:
the abolishment of the planned rise to NICs to fund health and social care and the abolishment of the Office of Tax Simplification.

This Briefing brings together the many changes over the last year and looks at the changes announced today, including those relating to pensions.

PERSONAL INCOME TAX

PERSONAL ALLOWANCES, RATES AND THRESHOLDS[1]

› As previously confirmed in the November Statement, the personal allowance and the Basic Rate Threshold will be frozen until tax year 2027/28. However, the Higher Rate Threshold has decreased and the resultant rates for 2023/24 are as follows:

i. the income tax personal allowance for the whole of the UK is £12,570;

ii. The Basic Rate Threshold is £37,700 (taxable income) which means that the Higher Rate Threshold (the personal allowance added to the basic rate limit) is £50,270;

iii. The Higher Rate Threshold reduces to £125,140 (taxable income) meaning the Additional Rate is applicable for any taxable income exceeding this amount.

› Individuals who have "adjusted net income" of £100,000 p.a. or more from 6 April 2023 will lose their personal allowance by £1 for every £2 of income over £100,000. Where income exceeds £125,140 the entire allowance is lost. These individuals will suffer an effective tax rate of 60% for income between £100,000 and £125,140. Readers will note the reduction in the threshold here now aligns with the rate at which taxable income is subject to additional rate.

› The November Statement announced that the Dividend Allowance, whereby individuals will not have to pay tax on an amount of dividend income, will decrease to £1,000 for 2023/24 and further decrease to £500 for 2024/25. There were no further measures announced in this area in the Budget. Dividend income above the Dividend Allowance will be taxed at 8.75% (basic rate), 33.75% (higher rate) and 39.35% (additional and trust rate).

[1] For Scottish taxpayers the rates for non-savings income are set by the Scottish Parliament. HMRC will determine whether someone is deemed a Scottish taxpayer based on their main place of residence.

PERSONAL INCOME TAX (CONTINUED)

- The Personal Savings Allowance (PSA) will continue unchanged for 2023/24, meaning that a basic rate taxpayer will not have to pay tax on the first £1,000 of savings income received, whilst a higher rate taxpayer will not have to pay tax on the first £500 of savings income received. Additional rate taxpayers are not eligible for the PSA.
- The Married Couple's Allowance (only available where at least one of the spouses was born before 6 April 1935) will increase to £10,375. This allowance is given as a tax reducer at the rate of 10% and reduced by £1 for every £2 of adjusted net income that exceeds the £34,600 income limit, subject to a minimum of £4,010.
- The blind person's allowance will increase to £2,870.
- There were no changes to the main rates of income tax which will remain at 20% for basic rate taxpayers, 40% for higher rate taxpayers and 45% for additional rate taxpayers with "adjusted net income" in excess of £125,140 p.a.
- The threshold for the starting rate for savings income will remain at £5,000 with a corresponding nil rate of tax.

  Should an individual's taxable non-savings income exceed the starting rate limit for savings income, then this is not available.
- A spouse or civil partner who is not in receipt of Married Couples Allowance and not liable to income tax at the higher or additional rates, will be entitled to transfer £1,260 of their personal allowance to their spouse or civil partner (this is providing the recipient is not subject to income tax at the higher or additional rate). This will mean that the receiving spouse/civil partner could benefit from a tax saving of £252 (i.e. £1,260 at 20%). the marriage allowance may also be claimed where a spouse or civil partner has died.

Full details of the rates of tax and personal allowances etc. are set out in our separate Tax Summary.

COMMENT

Whilst this Budget didn't announce any additional measures in the area of personal income tax, the further freezing of most of the income tax thresholds and allowances in the previous Budget, and extended in the November Statement, shouldn't be underestimated.

The reduction of the Dividend Allowance announced in the November Statement combined with increases to the dividend rates announced in the last Budget, will further erode the attractiveness of unwrapped investments. This may be of particular interest to company shareholders, such as those with holdings in Family Investment Companies or those who rely on dividends from unwrapped investment portfolios.

Overseas insurance bonds for UK residents can help to defer any charge to tax on gains and this may be useful in light of these various tax freezes and cuts to the dividend allowance.

NATIONAL INSURANCE CONTRIBUTIONS (NICs)

One measure that remains from Kwasi Kwarteng's Mini-Budget was the reversal of the increase in NICs to fund health and social care. In the November Statement the Chancellor then froze the employer's NIC Threshold until 2028. The rates of NICs for 2023/24 are therefore:

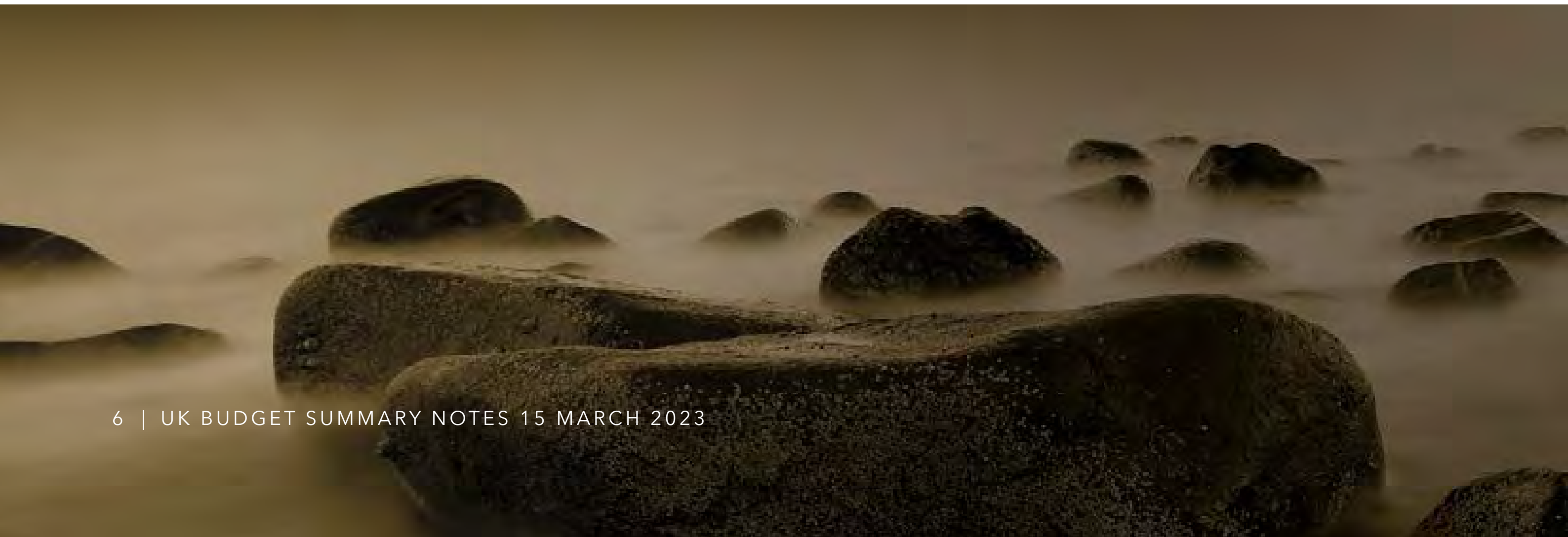
- The main rate of employees' Class 1 NICs (between the primary threshold and the upper earnings limit) will be 12%, and the primary rate (above the upper earnings limit) will be 2%.
- The employer's secondary threshold will be £175 per week, and the employer's rate will be 13.8%.
- The primary threshold for employee's NICs remains at £242 per week.
- The upper earnings limit for NICs remains at £967 per week.
- For the self-employed, the rate of Class 2 contributions will be £3.45 per week.
- The rate of voluntary Class 3 contributions will be £17.45 per week.
- The rate of Class 4 NICs between the lower profits limit (£12,570) and the upper profits limit (£50,270) will be 9%, and 2% above this.
- Employers are not required to pay Class 1 secondary NICs on earnings paid up to the upper earnings limit in respect of any employee under the age of 21 or apprentices under the age 25 who are working within a government approved framework.

COMMENT

No significant changes were made here and the previous reversal of the 1.25% NIC increase will no doubt be welcomed by individuals and employers. The November Statement cited an average saving for almost 30 million workers of £480 in the 2023/24 tax year.

The freezing of bands and other measures mentioned in previous statements and today's Budget measures will no doubt attempt to plug the gap in finances that would have been covered by the previous proposed changes to National Insurance.

The Budget was delivered on a day where national strikes, including those by junior doctors, continue to impact the country as workers struggle with the rising cost of living. As a result, this may be yet another one of Mr Kwarteng's policies that is eventually reassessed, only time will tell.



CAPITAL GAINS TAX (CGT)

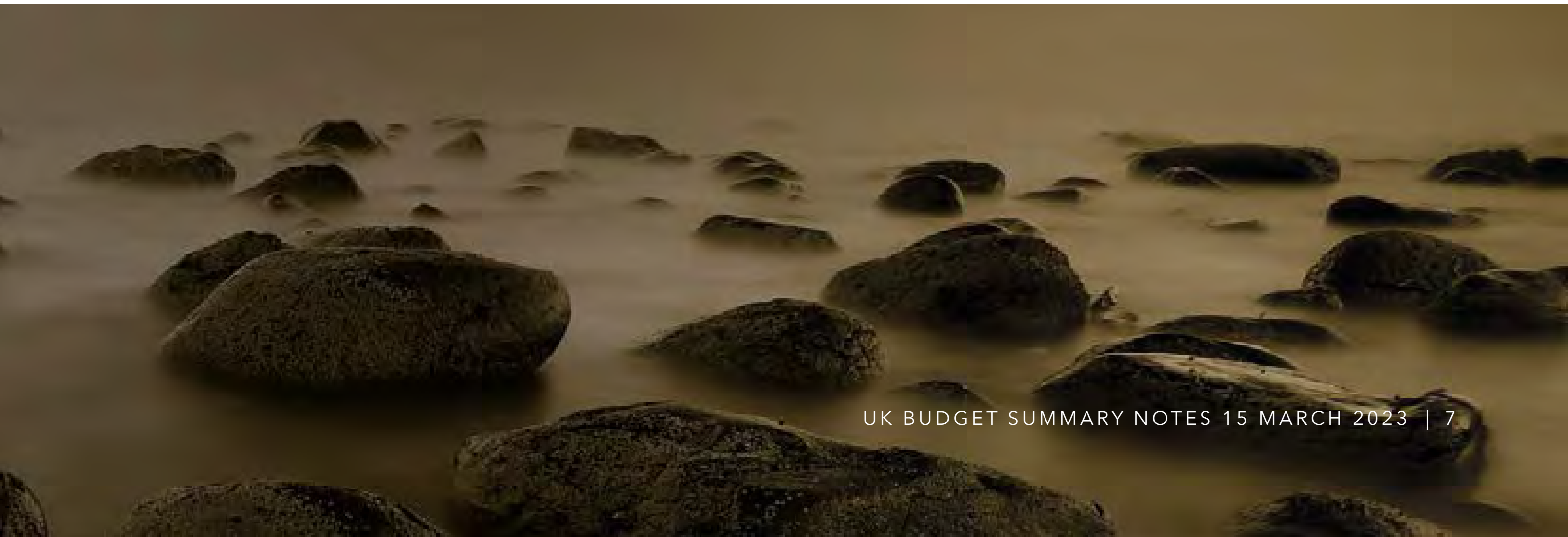
- As announced in the November Statement, the annual exemption is to reduce to £6,000 for 2023/24 for individuals and £3,000 for trusts. It will then further reduce to £3,000 (£1,500 for trusts) for tax year 2024/25. The Budget made no further changes in the areas of CGT.
- For 2023/24, the main rate for basic rate taxpayers will be 10% and for higher and additional rate taxpayers and most trusts, 20%.
- These rates do not apply to capital gains on disposals of residential property (that do not qualify for private residence relief) which will remain at 18% and 28% respectively.

COMMENT

Despite the usual speculation that there may be changes here to reduce or eliminate the disparity between the CGT rates and those of income tax, no alterations were forthcoming.

However, the changes already announced in the November Statement will significantly impact savers using direct investments. The reduction of the CGT Annual Exemption combined with the reduction of the Dividend Allowance and increase to dividend rates of taxes in general will make unwrapped investments less attractive to some savers.

Conversely, as overseas insurance bonds are taxed to savings rates of income tax and allow for tax deferral these may become more attractive to a wider audience.



INHERITANCE TAX (IHT)

- As confirmed in the November Statement, the Nil Rate Band (NRB) will remain frozen at £325,000 until 2027/28. No further changes to Inheritance Tax were made in today's Budget.
- The Resident Nil Rate Band (RNRB) legislation remains unchanged and in line with the NRB the RNRB limit will be frozen at £175,000 until 2027/28. A full Briefing on the RNRB is available from our website.

COMMENT

Both the NRB and RNRB had been destined to rise with CPI from April 2021 but in line with other headline rates of tax, the previously announced freezing of the levels (extended in the November Statement) will continue to increase revenues as more estates will exceed the thresholds.

Advisers should consider the implications of the freeze here and the potential for more of their clients being caught in the IHT net. Tried and tested IHT mitigation schemes, such as discounted gift trusts, reversionary interest trusts and loan trusts, can be used to protect against the effects of this rate freeze.

Here, overseas insurance bonds are especially useful, as the bond (or policies) can be assigned to adult beneficiaries without an immediate charge to tax providing the assignment is for no consideration. This will eliminate the impact of trustee rates of tax by allowing the tax of chargeable gains to fall on the beneficiaries at their prevailing rates.

PENSIONS

- In a surprise move, the Lifetime Allowance Charge is to be abolished entirely from 6 April 2023. This will be followed by legislative changes that will remove the Lifetime Allowance from pension tax legislation. However, the Pension Commencement Lump Sum (PCLS) that can be taken will be aligned, and fixed, to the 2022/23 lifetime allowance – meaning that the PCLS is limited to 25% of £1,073,100 (£268,275).
- The Budget also increased the Annual allowance from £40,000 to £60,000.
- For 2023/24 the 'threshold income' will be £200,000, so individuals with income below this level will not be affected by the tapered annual allowance, and the annual allowance will only begin to taper down for individuals who also have an 'adjusted income' above £260,000.
- For those on the very highest incomes, the minimum level to which the annual allowance can taper down will be £10,000 from tax year 2023/24.

COMMENT

Many higher earners have cited the Lifetime Allowance as a restrictive barrier for staying in work longer.

The changes announced in the Budget will certainly help to persuade some higher earners, including those in highly skilled roles, to continue to work and save in their pension without incurring tax charges.

This change is perhaps especially important given the recent levels of higher inflation, with many employees seeing rises to salaries to counter the impact of the cost of living crisis.

CORPORATION TAX

As previously announced by Liz Truss in a press statement on 14th October, and reconfirmed in the November Statement, the corporation tax rate of 19% will increase from April 2023 to 25% for those companies making profits over £250,000. Unsurprisingly, there was no change to this measure in today's Budget statement, however, various new reforms were made to capital allowances.

Companies classed as making 'small' profits (£50,000 or less) will continue to benefit from the lower Corporation Tax rate and there will be relief for businesses with profits between £50,000 and £250,000 so that they pay less than the main rate.

CORPORATION TAX RATES

	2022/23	2023/24
MAIN RATE	19%	25%
SMALL PROFITS RATE	N/A	19%
LOWER THRESHOLD	N/A	£50,000
UPPER THRESHOLD	N/A	£250,000

COMMENT

The rise in the main rate of Corporation Tax from 1 April 2023 will impact Family Investment Companies (FICs) as they will not be able to benefit from the tapering provisions or the small profits rate.

Overseas insurance bonds may offer an alternative to FICs, as they can allow for gross-roll up of investment returns and offer opportunities for income tax and IHT planning. Taxed to savings rates of income tax, the insurance bond offers opportunities for income tax planning and IHT mitigation opportunities for the High Net Worth investor.

VAT

- The standard rate of VAT remains at 20%.
- The Government has confirmed the VAT registration threshold will remain at £85,000 up to and including 2023/24. The corresponding rate whereby a person may apply for deregistration will be £83,000.

INDIVIDUAL SAVINGS ACCOUNT (ISA)

- The overall annual contribution limit will remain at £20,000 for 2023/24. It is possible for savers to contribute the full amount to a cash account. They can also withdraw and replace money within their cash ISA without it counting towards their annual subscription limit.
- The maximum contribution under a Junior ISA (JISA) will also remain unchanged at £9,000, as has the maximum contribution to a Child trust fund (CTF). It has been possible from 6 April 2015 to convert a CTF to a JISA.

TRUSTS

There were minor changes in the area of trust and estate taxation.

- The £1,000 starting rate for discretionary trusts will be removed from April 2024.
- Where trusts and estates have income of less that £500 there will be no tax to pay from April 2024.
- There was also a note that HMRC intend to make changes to IHT regulations to remove non-tax paying trust from reporting requirements. At this stage the details of these proposals are not clear.

SUMMARY

As expected, this Budget, much like the previous two, focused heavily on how the Government plans to support the recovery of the economy in light of the pandemic, Brexit and the ongoing cost of living crisis. Given the number of fiscal statements made in the run up to this official Budget it is perhaps unsurprising that there was little new detail in the Budget itself.

With respect to the taxation of Utmost's products in the UK market, little has changed, although the freeze in the rates of taxation could make overseas insurance bonds more attractive to a greater number of investors.

This Technical Briefing represents our current understanding of the major issues arising from the Spring Budget 2023. Inevitably some further details will emerge over the coming weeks and the impact of the changes can then be assessed. We will, of course, keep you informed of all major developments.

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