John Kerr
Chartered Accountants

Spring Budget 2023

(First Published: 20 March 2023)

We are all well aware that Jeremy Hunt delivered his "Growth Budget" on 15 March 2023, and we all know that he resisted seriously loud calls to reverse the planned increase to the Corporation Tax Rate, but now the dust has had chance to settle, we look here at what the Budget might actually mean to owner-managed and small family businesses.

Concentrating on policy changes that we feel will have the most significant impact, we focus in the first instance on changes affecting the individual.

CHANGES AFFECTING INDIVIDUALS

Pension Tax Reforms

The annual pension allowance, which is the amount an individual is permitted to contribute to a pension scheme each year without incurring significant tax consequences, will be increased from £40,000 to £60,000 with effect from 6 April 2023. This is welcome news for sure, for those lucky enough to be able to contribute these sums.

Since 6 April 2020, individuals with taxable income in excess of £240,000 have had their annual pension allowance restricted. For every £2 of income earned in excess of £240,000, their annual allowance has been reduced by £1 with the minimum allowance falling to £4,000 but not below. As a result of the Spring Budget, the threshold at which the annual allowance is tapered will now increase to £260,000.

In addition, the minimum tapered pension annual allowance will increase from £4,000 to £10,000.

The Chancellor also announced that the pension lifetime allowance (PLTA) charge will be removed from 6 April 2023, with the PLTA being abolished entirely from 6 April 2024. The PLTA was a maximum value which a pension fund could reach before draconian levels of tax would be triggered. The PLTA has been rising in line with inflation and for 2024/25, the PLTA was expected to be £1,073,100.

Not wanting to be too generous, the Chancellor maintained the 25% tax-free lump sum which can be withdrawn from a pension at £268,275 which is calculated as 25% x £1,073,100.

What does this mean?

Take your choice of cliché; make hay while the sun shines or strike while the iron is hot; these changes represent an opportunity for individuals and business owners alike, to maximise amounts contributed to pension scheme all whilst obtaining tax relief. From 1 April 2023, a company could contribute £60,000 into an employees' or director's pension and as a result, the company's corporation tax liability would reduce by £15,000 (tax relief @ 25%). This means it actually only costs £45,000, to increase your pension pot by £60,000.

Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. Licensed by the Institute of Chartered Accountants in England and Wales to carry out the reserved legal activity of non-contentious probate in England and Wales. A member of the ICAEW Practice Assurance Scheme. John Kerr is the trading name of Kerr & Co Limited, a company registered in England and Wales with company number 10446955. A list of directors' names is available at 375 Eaton Road, West Derby, Liverpool L12 2AH
VAT Registration No 253 8368 81

Views expressed in this document are those of the contributor. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material in this document can be accepted by Kerr & Co Limited or any of its associated concerns.

The story could actually be better if you factor in the ability to include in the pension contribution un-used allowances from the previous 3 tax years.

UK Gov have made these pension reforms to tempt retirees back into work and to prevent existing workers from 'early retirement', but it is well documented that Kier Starmer wishes to reverse the changes should the Labour Party win the next election. Could this be an opportunity for individuals to top-up their pension pot whilst the rules allow, or will Labour's reversal be retrospective? Either way, our advice to clients is that they should be reviewing the situation especially where individuals have recently frozen their pension contributions because they reached or were close to reaching the PLTA.

CHANGES AFFECTING BUSINESSES

We were hopeful that the Chancellor would reverse the planned Corporation Tax Rate rise but that did not materialise! Unfortunately, the rate of Corporation Tax will rise increase to 25%, as planned, from 1 April 2023. The Corporation Tax Rate of 25% is a not a flat rate of tax, it is instead, the headline rate for companies whose taxable profits exceed £250,000. Profits under £50,000 will continue to be taxed at 19%, whilst a marginal rate of tax of 26.5% will apply to profits in between £50,001 and £250,000.

Remembering back to the last time Corporation Tax was not a flat rate of tax, you may recall a complicated calculation was required to determine the marginal rate of tax that applied to profits in between the upper and lower profit thresholds. You may also remember that the threshold limits had to be divided across the number of 'associated companies'.

As a result of the above, we now strongly recommend that clients review whether associated companies are needed and we recommend that salary *v* dividends levels are reviewed, as higher salaries may help avoid the higher rates of Corporation Tax. In the meantime, here are some other changes announced in the Spring Budget.

Capital Allowances

The super-deduction for capital expenditure comes to an end, as planned, on 31 March 2023. The super-deduction allowed for an immediate 130% tax-deduction when a company acquired new and unused plant and machinery. In reality, this was only introduced to discourage businesses from delaying capital investment because, all other things being equal, if tax rates rise, businesses are advised to delay spend, because spending money when tax rates are higher will lead to more tax relief. It is no coincidence then that 130% x 19% almost equals the up-coming Corporation Tax Rate of 25%! Anyway, super-deductions end on 31 March 2023, that is now fact.

The Chancellor announced that from 1 April 2023, there will be two main changes to the capital allowances regime:

1. The Annual Investment Allowance (AIA) of £1m per tax year will become permanent. When introduced, AIA was announced as a temporary measure to re-ignite the economy. AIA allows a business to claim tax relief against 100% of the cost of qualifying fixed asset additions up to an annual spend of £1m.

Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. Licensed by the Institute of Chartered Accountants in England and Wales to carry out the reserved legal activity of non-contentious probate in England and Wales. A member of the ICAEW Practice Assurance Scheme. John Kerr is the trading name of Kerr & Co Limited, a company registered in England and Wales with company number 10446955. A list of directors' names is available at 375 Eaton Road, West Derby, Liverpool L12 2AH
VAT Registration No 253 8368 81

Views expressed in this document are those of the contributor. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material in this document can be accepted by Kerr & Co Limited or any of its associated concerns.

2. The second announcement stated there will be a full, un-capped tax relief (known as "full expensing") for qualifying expenditure incurred by companies between 1 April 2023 to 31 March 2026. The intention is that this will be extended if circumstances allow. Also, expenditure on the Special Rate Pool assets (such as integral features in a building) will also benefit from a 50% first year allowance.

What does this mean?

These new policies mean that small businesses now have certainty that when they invest in new capital, they will get tax relief on the full investment in the year that the asset is purchased. For larger companies, who may spend more than £1m per year, they now have the same certainty, at least until 31 March 2026. This is welcomed news which will encourage capital investment for sure.

Research and Development (R&D)

It wouldn't be a Budget if the R&D rules were not tinkered with. Mr Hunt announced changes which maintain tax incentives for companies who perform R&D activity. In short, the following changes will be introduced for accounting periods beginning on or after 1 April 2023:

- The Research and Development Expenditure Credit ('RDEC') rate for large companies will increase from 13% to 20%.
- The Small and Medium Enterprise ('SME') additional deduction rate will reduce from 130% to 86%, with the SME payable credit also decreasing from 14.5% to 10%.
- However, loss-making SME's who spend at least 40% of total expenditure on R&D activities, known as "R&D intensive companies", will now retain the 14.5% rate for payable credits.

It is worth pointing out that the advice above concerning salary *v* dividend levels applies here too, as R&D can be claimed against salary costs but not dividends.

CONCLUSION

The overall tax burden has been on the increase for a while now, but as UK GOV have acknowledged the importance of growing the economy, there are clear areas where they are targeting tax relief. It is important that businesses of all shapes and sizes understand the changes that are being made and adapt their strategy accordingly, so as to take advantage of any tax break that it can. It is also clear, that times are un-certain, and new changes and challenges are just around the corner! Therefore, businesses should not delay and to make use of yet another cliché; businesses should literally mend the roof while it's not raining!

CONTACT US

If you have any queries or need any advice, please do not hesitate to contact us on:

Tel: **0151 228 8977**

Email: **advice@jkca.co.uk**

John Kerr publish articles to assist clients keep up to date with issues that we think will most affect them. Please **email** us with ideas of any subjects that you would like us to cover.

Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. Licensed by the Institute of Chartered Accountants in England and Wales to carry out the reserved legal activity of non-contentious probate in England and Wales. A member of the ICAEW Practice Assurance Scheme. John Kerr is the trading name of Kerr & Co Limited, a company registered in England and Wales with company number 10446955. A list of directors' names is available at 375 Eaton Road, West Derby, Liverpool L12 2AH
VAT Registration No 253 8368 81

Views expressed in this document are those of the contributor. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material in this document can be accepted by Kerr & Co Limited or any of its associated concerns.