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embark group

AUTUMN STATEMENT 2022

The 17 November 2022 autumn statement focussed on the economic challenges the country faces due to surging global energy prices and high inflation. The government's response, in contrast to the previous growth plan, is to raise taxes and cut spending, but this time round there are no changes to national insurance rates. There are, however, many other changes affecting the pensions industry that require analysis.

National Insurance

National Insurance thresholds, including the Secondary Threshold that applies to employers, will be maintained at current levels from 6th April 2023 until 5th April 2028:

- The annual Lower Earnings Limit will remain at £6,396.
- The annual Small Profits Threshold will remain at £6,725.
- The annual Lower Profits Limit will become £12,570.
- The annual Primary Threshold will remain at £12,570.
- The annual Secondary Threshold will remain at £9,100.
- The annual Upper Earnings Limit and Upper Profits Limit will remain at £50,270.

Impact

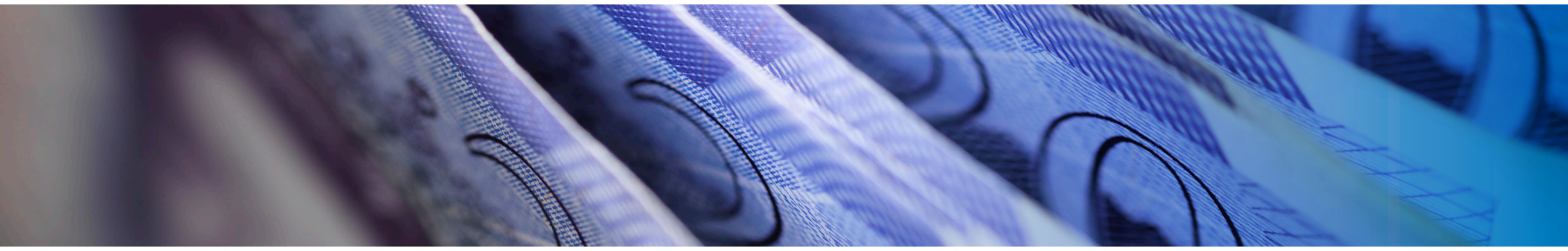
Salary exchange arrangements, where an employee opts to give up salary in exchange for a higher employer pension contribution, offer NICs savings for both employees and employers. Freezing allowances at a time of rising costs amounts to a tax rise, which should enhance the appeal of any arrangement that helps to reduce the amount of tax payable. Employers should, therefore, consider whether salary exchange will be beneficial for them and their workforce. And employees who have not taken up their employer's offer of salary exchange should consider what savings might be available to them.

Dividends

- On 6th April 2023 the annual Dividend Allowance will reduce from £2,000 to £1,000, and from 6th April 2024 it will reduce again to £500.
- It was announced on 17th October 2022 that from 6th April 2023, the following rates of tax will apply to dividend income received in excess of the Dividend Allowance:
- 8.75% for Basic Rate taxpayers.
- 33.75% for Higher Rate taxpayers.
- 39.35% for Additional Rate taxpayers.

Impact

Shareholding directors normally have the ability to determine their own remuneration strategies comprising a mix of salary, dividends and employer pension contributions. Despite recent increases to the dividend rates, a remuneration strategy comprised mainly of dividends is still likely to be more tax-efficient than one focused on salary. But pension contributions still remain even more tax-efficient up to the available Annual Allowance. The company's advisers and accountant will be able to help them find their optimum mix of salary, dividend and employer pension contributions.



Pensions

Allowances

- No changes were announced to the £40,000 standard Annual Allowance, the £4,000 Money Purchase Annual Allowance, the Tapered Annual Allowance or the Lifetime Allowance.
- The Lifetime Allowance remains frozen at the current level of £1,073,100 until April 2026.

Contributions

- The lowering of the Additional Rate Threshold (see next section) from 6th April 2023 will bring more individuals into the 45% additional rate of taxation. Those who suffer an increased tax bill as a result might also be able to get higher rates of tax relief against their pension contributions than they were previously able to.

Impact

- The freezing of the Lifetime Allowance until April 2026 will lead to a growing number of pension savers paying a Lifetime Allowance Charge. The main situations where the charge can apply are: on accessing pension savings, death under age 75, and reaching age 75 with unused funds or with growth on drawdown funds. The charge is 55% if the excess over the Lifetime Allowance is taken as a lump sum or 25% if it's taken as taxable income, or an age 75 charge applies.
- Unless unexpected changes are announced in a possible Spring Budget, those who are affected by the Tapered Annual Allowance will be able to reinstate their full £40,000 Annual Allowance if they can pay enough in personal contributions to reduce their Threshold Income to £200,000 or below.
- Pension savers who have been brought into Additional Rate taxation as a result of the reduced Additional Rate Threshold (and with scope to make additional contributions) should consider further pension contributions to enable them to recoup some or perhaps all of their increased income tax bill.

Income Tax

- The Additional Rate Threshold will reduce to £125,140 on 6th April 2023 and remain at that level until 5th April 2028.
- All other Income Tax thresholds will remain at their current levels until 5th April 2028:
- The Personal Allowance will remain at £12,570 for all UK taxpayers.
- The Basic Rate Band for non-Scottish and non-Welsh taxpayers will remain at £37,700.
- As no announcements on this point were made, it appears the Personal Allowance continues to be tapered if Adjusted Net Income exceeds £100,000, reducing to nil once Adjusted Net Income reaches £125,140.
- Scotland sets its own rates of Income Tax for earnings and any other non-savings, non-dividend income. The Scottish Government's 2023/2024 Draft Budget will be published on 15th December 2022.
- Wales has the power to set its own rates of Income Tax for earnings and other non-savings, non-dividend income. The Welsh Government's 2023/2024 Draft Budget will be published on 13th December 2022.
- The Basic Rate of Income Tax will be maintained at 20% and the Additional Rate of Income Tax will be maintained at 45% in 2023/2024 following the reversal of measures announced in the Growth Plan.

Impact

- The frozen Income Tax allowances will see more people paying Income Tax, with a significant increase in those paying Higher Rate Tax.
- The reduction in the Additional Rate Threshold from 6th April 2023 will move a large number of Higher Rate Taxpayers into the 45% Additional Rate Band.

Capital Gains Tax

- The Annual Exempt Amount will reduce from £12,300 to £6,000 on 6th April 2023.
- The Annual Exempt Amount will reduce again to £3,000 on 6th April 2024.
- It appears that the following will remain in place:
- The 10% and 20% rates for individuals and the 20% rate for trustees and personal representatives.
- The link to the amount of an individual's unused Basic Rate Band.
- The 18% and 28% rates that apply to carried interest and residential property not covered by Private Residence Relief.
- To address tax avoidance, legislation will be introduced in 2023 so that non-UK company shares that were exchanged for UK shares in a close company are deemed to be located in the UK.

Inheritance Tax

The Nil Rate Band will remain frozen at £325,000 and the Residence Nil Rate Band will remain frozen at £175,000 with the Residence Nil Rate Band taper continuing to start at £2 million for two further tax years until April 2028.

Corporation Tax

As already announced as part of the reversal of the Growth Plan, from April 2023 a 25% Main Rate of Corporation Tax rate will apply to profits over £250,000. The Corporation Tax rate will remain at 19% for small profits of under £50,000, with relief for businesses with profits between £50,000 and £250,000 so that they pay less than the main rate.

State Pension

- The State Pension will be increased by inflation on 6th April 2023, in line with the Triple Lock, from £185.15 to £203.85 per week.
- The Old State Pension is predicted to increase on 6th April 2023 from £141.85 per week to £156.20 per week.
- A review of the currently planned increases to the State Pension Age will be published in early 2023.

National Living/Minimum Wage

- The National Living Wage for those aged 23 or over will increase by over 9.7% on 1st April 2023 from £9.50 to £10.42 an hour.
- The National Minimum Wage rates will also increase:
- from £9.18 to £10.18 an hour for 21-22 year olds
- from £6.83 to £7.49 an hour for 18-20 year olds
- from £4.81 to £5.28 an hour for 16-17 year olds and apprentices.

Every care has been taken to ensure that this information is correct and in accordance with our understanding of the law and HM Revenue & Customs practice, which may change. However, independent confirmation should be obtained before acting or refraining from acting in reliance upon the information given. This information is based on announcements made in the November 2022 Autumn Statement which may change before becoming law.

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