

Income Tax

The UK personal allowance, tax rates and bands for the tax year 2022/23 were announced by the Chancellor in the October 2021 Budget.

The personal allowance

The personal allowance is currently £12,570 and will be frozen at £12,570 for the tax years to 2025/26.

There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000. The reduction is £1 for every £2 of income above £100,000. So there is no personal allowance where adjusted net income exceeds £125,140.

The marriage allowance

The marriage allowance permits certain couples, where neither party pays tax in the tax year at a rate other than the basic rate, to transfer £1,260 of their personal allowance to their spouse or civil partner.

Tax bands and rates

The basic rate of tax is 20%. In 2022/23 the band of income taxable at this rate is £37,700 so that the threshold at which the 40% band applies is £50,270 for those who are entitled to the full personal allowance. The bands of tax are also frozen for the tax years to 2025/26.

Individuals pay tax at 45% on their income over £150,000.

Tax on savings income

Savings income is income such as bank and building society interest.

The Savings Allowance applies to savings income and the available allowance in a tax year depends on the individual's marginal rate of income tax. Broadly, individuals taxed at up to the basic rate of tax have an allowance of £1,000. For higher rate taxpayers the allowance is £500. No allowance is due to additional rate taxpayers.

Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However, the rate is not available if taxable non-savings income exceeds £5,000.

Tax on dividends

The first £2,000 of dividends are chargeable to tax at 0% (the Dividend Allowance). For 2022/23 and subsequent tax years the rate at which dividends received above the Dividend Allowance are taxed has increased across all rates by 1.25% to the following rates:

- 8.75% for basic rate taxpayers
- 33.75% for higher rate taxpayers
- 39.35% for additional rate taxpayers.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the Dividend Allowance.

To determine which tax band dividends fall into, dividends are treated as the last type of income to be taxed.

Business Tax

Making Tax Digital for Business: VAT

April 2022 sees the final phase of the introduction of the Making Tax Digital (MTD) for VAT regime. All VAT registered businesses, regardless of turnover, will enter MTD for VAT from their first VAT return period starting on or after 1 April 2022.

Businesses must keep digital records for VAT purposes and provide their VAT return information to HMRC using MTD functional compatible software

MTD for Corporation Tax (CT)

The Government is committed to ongoing collaboration with stakeholders on the service design and, following any decision to mandate MTD for CT, will provide sufficient notice ahead of implementation but this will not be mandated before 2026 at the earliest.

Corporation Tax rates

The main rate of CT is 19% for the Financial Year (FY) beginning 1 April 2022. This rate will increase to 25% for the FY beginning on 1 April 2023.

If a company's accounting period straddles more than one FY, the amount of profits for that accounting period must be apportioned to arrive at the tax rate charged.

A small profits rate will be introduced for qualifying companies with no associated companies in the accounting period and profits of £50,000 or less so that they will continue to pay CT at 19%. Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective CT rate.

Capital allowances

Plant and machinery

A further extension to the temporary increase in the Annual Investment Allowance (AIA) to 31 March 2023 allows 100% tax relief to businesses investing up to £1 million in qualifying expenditure.

The AIA reverts to £200,000 for expenditure incurred on or after 1 April 2023 and special rules apply to accounting periods which straddle these dates.

First Year Allowances (FYA) for companies

For qualifying expenditure which is unused, not second-hand and is incurred on or after 1 April 2021 but before 1 April 2023 a super-deduction of 130% is available where the expenditure would normally qualify for the 18% main rate of writing down allowance or a Special Rate Allowance of 50% for expenditure which would normally attract the 6% special rate of writing down allowance.

For FYAs, what matters is the actual date on which the expenditure is incurred and not the date on which it is treated as incurred.

Preventing abuse of the R&D tax relief

From April 2023 a number of changes are proposed to the regimes from both existing schemes of relief which will include the expansion of relief to cloud and data computing.

Claims for relief will have to be made digitally and more detail will be required within the claim. Each claim will need to be endorsed by a named senior officer of the company and companies will need to inform HMRC, in advance, that they plan to make a claim. Claims will also need to include details of any agent who has advised the company on compiling the claim.

Cultural relief

A temporary increase in cultural tax reliefs for theatres, orchestras, museums and galleries across the UK will apply until 31 March 2024, increasing the relief organisations can claim as they invest in new productions and exhibitions.

From 1 April 2022 changes will also be introduced to better target the cultural reliefs and ensure that they continue to be safeguarded from abuse.

The Residential Property Developer Tax

The Residential Property Developer (RPDT) will be introduced on the very largest property developers for accounting periods beginning on or after 1 April 2022.

Broadly RPDT is a charge of 4% treated as corporation tax on the profits of the residential property developer over an allowance of £25 million in a 12-month period.

Employment Taxes

Employer provided cars

The scale of charges for working out the taxable benefit for an employee who has use of an employer provided car are normally announced well in advance. Most cars are taxed by reference to bands of CO₂ emissions multiplied by the original list price of the vehicle. The list price is reduced for capital contributions made by the employee up to £5,000.

For fully diesel cars generally add a 4% supplement unless the car is registered on or after 1 September 2017 and meets the Euro 6d emissions standard.

The maximum charge irrespective of the fuel, is capped at 37% of the list price of the car.

The rates announced for 2022/23 will remain frozen until 2024/25.

Employer provided fuel benefit

From 6 April 2022 the figure used as the basis for calculating the benefit for employees who receive free private fuel from their employers for company cars is increased to £25,300.

Employer provided vans and fuel

For 2022/23 the benefit increases to £3,600 per van and the van fuel benefit charge where fuel is provided for private use increases to £688.

Changes to the van benefit charge from April 2021 means that if the van cannot in any circumstances emit CO₂ by being driven the cash equivalent is nil.

National Insurance contributions (NICs)

In September 2021 the government published its proposals for new investment in health and social care in England. The proposals will lead to a permanent increase in spending not only in England but also by the devolved governments. To fund the investment the government will introduce a UK-wide 1.25% Health and Social Care Levy based on the NIC system but ring fenced for health and social care.

From April 2022 the Health and Social Care Levy Act provides for a temporary 1.25% increase to both the main and additional rates of Class 1, Class 1A, Class 1B and Class 4 NICs for 2022/23.

From April 2023 onwards, the NIC rates will revert back to 2021/22 levels and will be replaced by a new 1.25% Health and Social Care Levy.

Broadly, the new Health and Social Care Levy will be subject to the same reliefs, thresholds and requirements as NIC. However the Levy (as opposed to the temporary increase in NICs for 2022/23) will also apply to those above State Pension age who are still in employment or are self-employed.

Existing reliefs for NICs to support employers will apply to the Levy. Companies employing apprentices under the age of 25, all people under the age of 21, veterans and employers in Freeports will not pay the Levy for these employees as long as

their yearly gross earnings are less than £50,270, or £25,000 for new Freeport employees.

The Employment Allowance, which reduces employers' Class 1 NICs by up to £5,000, will also be available for the employers' liability to the Levy.

National Living Wage (NLW) and National Minimum Wage (NMW)

Following the recommendations of the independent Low Pay Commission, the government will increase the NLW for individuals aged 23 and over by 6.6% from 1 April 2022. The government has also accepted the recommendations for the other NMW rates to be increased.

From 1 April 2022, the hourly rates of NLW and NMW will be:

- £9.50 for those 23 years old and over
- £9.18 for 21-22 year olds
- £6.83 for 18-20 year olds
- £4.81 for 16-17 year olds
- £4.81 apprentice rate for apprentices under 19, and those 19 and over in their first year of apprenticeship

Capital Taxes

Capital gains tax (CGT) rates

The current rates of CGT are 10%, to the extent that any income tax basic rate band is available, and 20% thereafter. Higher rates of 18% and 28% apply for certain gains; mainly chargeable gains on residential properties with the exception of any element that qualifies for private residence relief.

There are two specific types of disposal which potentially qualify for a 10% rate:

- Business Asset Disposal Relief (BADR) which was formerly known as Entrepreneurs' Relief. This is targeted at working directors and employees of companies who own at least 5% of the ordinary share capital in the company and the owners of unincorporated businesses. BADR has a lifetime limit of £1 million for each individual.
- Investors' Relief. The main beneficiaries of this relief are external investors in unquoted trading companies who have newly-subscribed shares. This has a lifetime limit of £10 million for each individual.

CGT annual exemption

The CGT annual exemption is £12,300 for 2022/23 and will remain frozen until April 2026.

CGT reporting

New reporting and payment on account obligations for chargeable gains on residential property were introduced in April 2020. From 27 October 2021 the deadline to report and pay CGT after selling UK residential property was increased from 30 days after the completion date to 60 days.

Inheritance tax (IHT) nil rate bands

The nil rate band has remained at £325,000 since April 2009 and is set to remain frozen at this amount until April 2026.

IHT residence nil rate band

The residence nil rate band (RNRB) was introduced in 2017, meaning that the family home can be passed more easily to direct descendants on death.

The rate of the RNRB is £175,000 for 2022/23.

There are a number of conditions that must be met in order to obtain the RNRB.

For many married couples and registered civil partnerships the relief which is available following the second death can effectively be doubled as each individual has a main nil rate band and a residence nil rate band which passes on the death of the surviving spouse.

Charitable giving

A reduced rate of IHT applies where broadly 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In those cases the 40% rate will be reduced to 36%.

Other Matters

VAT rates and limits

The VAT registration and deregistration thresholds will remain unchanged for a period of two years from 1 April 2022.

The six-month extension to the UK-wide VAT reduction to 12.5% for the tourism and hospitality sectors comes to an end on 31 March 2022 with rates returning to the standard rate of 20%.

Vehicle Excise Duty (VED)

With effect from 1 April 2022 the rates of VED rates for cars, vans, motorcycles, and motorcycle trade licenses will increase in line with Retail Prices Index (RPI).

For heavy goods vehicles, VED continues to be frozen in 2022/23. The HGV Levy is suspended for another 12 months from 1 August 2022.

Landfill Tax

With effect from 1 April 2022 both the standard and lower rates of Landfill Tax will increase in line with the RPI