

Spring Budget 2023

A Hunt for Growth?

15 MARCH 2023



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A view from the market

Chancellor Hunt delivered an economically encouraging Budget against the background of turmoil in the global banking sector, continuing cost of living challenges, industrial unrest and a clock ticking ever closer to the next General Election. The economic and market impact has been modest; but the betting odds in favour of a Labour majority eased back during the Budget speech.

Macro-market impact

Financial markets barely moved over Chancellor Hunt's speech: equities, bond yields and sterling all drifted – in sharp contrast to the reaction to Mr Kwarteng's ill-starred 'fiscal event' last September. Perhaps that's hardly surprising given the degree of trailing in the press in the days preceding the budget statement.

Similarly, the impact on the macro outlook, as seen by the OBR, is little changed from its November assessment:

GDP growth forecasts are about 1 percentage point higher this year compared to the November forecast but still negative 0.2% overall. The claims of "no recession" could imply that one or maybe two non-consecutive quarters are expected to be negative and the remaining quarters mildly positive but not enough in aggregate to offset the negative(s). Within that profile real household disposable income is forecast to be modestly higher compared to the November forecast, perhaps a reflection of the announced extension to the Energy Price Guarantee until end June.

CPI is expected to fall a bit faster but still flirts with deflation (negative numbers) in 2024 and 2025. That sounds good but can present a different set of challenges for policy makers

Debt as a proportion of GDP is now forecast to be about 3 percentage points lower by 2025 but still almost 95%.

The tax burden (tax receipts as percentage of GDP) is expected to rise to 37.3% in 2025 – not least because of the increase in corporation tax but that was expected well beforehand and the new forecasts for the tax burden are hardly changed compared to the forecasts made in November. Given that the growth outlook is also not greatly different (see above) that suggests that behind the headlines has been a large amount of shuffling of deckchairs.

Standout features from a macro perspective

Perhaps the most significant announcement beneficial to the short-term outlook is the extension

to the Energy Price Guarantee (EPG) at its existing level rather than the increase that had been scheduled. It is estimated to save average households some £160 over the period at a cost to the Treasury of around £3bn. Not big numbers but they help to lift the short-term forecasts for GDP and real household disposable income as noted above

Longer-term are the announcements making childcare provision ultimately available for all under-5s, helping with the return to work for young working parents; abolishing the lifetime allowance on pension fund contributions, keeping people (particularly NHS doctors?) in work longer; the full and immediate expensing of capital investment for an initial three year period – to help kickstart the UK's stalled productivity performance; the swifter regulatory approval process envisaged for MedTech; and the classification of nuclear energy as "environmentally sustainable" which opens the way to greater energy self-sufficiency.

Political context

A 'poll-of-polls' has had the governing Conservative Party trailing the main opposition Labour Party by some 20 percentage points (48% vs 28%) since the end of last year. Plugging those numbers into a model of the UK Parliament produces a significant majority for the Labour Party with a probability of almost 100%. But while those polls move relatively slowly, the betting markets move with greater speed and over the course of Chancellor Hunt's Budget speech the implied probability of a Labour victory dropped from 66% to 60%. Still a mountain to climb for Prime Minister Sunak, but more like Annapurna than Everest.



Company Taxation

Tax rates and allowances

As previously announced, the headline rate of corporation tax will increase to 25% from April 2023 applying to profits over £250,000. The Finance Act 2021 introduced a small profits rate (SPR) of 19% for companies with profits of £50,000 or less from April 2023. 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 corporation tax rate. The Spring Budget 2023 announced that legislation will be introduced in Spring Finance Bill 2023 to set the main rate at 25% and the small profits rate at 19% for the financial year beginning 1 April 2024 also.

The increase in the rate of corporation tax will have knock-on effects for both the diverted profits tax rate and the bank surcharge. From April 2023, the bank surcharge will be an additional 3% rate on banks' profits above £100 million – this level means that they will continue to pay a higher combined rate of corporation tax than other businesses and a higher rate than they did previously. Also from April 2023, the rate of Diverted Profits Tax (DPT) will increase from 25% to 31%, in order to retain a 6% differential above the main rate of corporation tax.

For a table of the main tax rates and allowances for 2023/2024, see page [30](#).

Investment zones

New measures will enable Investment Zones to be designated and recognised in law as geographical areas where businesses can benefit from tax and NICs reliefs. The intention is to incentivise investment in Investment Zones, in part, through tax reliefs and reducing the cost of hiring employees.

Section 113 Finance Act 2021 currently allows HM Treasury to designate Freeport tax sites (a product of then Chancellor Rishi Sunak) which can provide a range of tax reliefs for businesses such as enhanced capital allowances, enhanced structures and buildings allowances and employer NICs relief. The new measures will extend these existing tax and NICs reliefs to special tax sites in or connected with Investment Zones.

Investment Zones were previously announced under the former Chancellor Kwasi Kwarteng's package of measures in the now largely defunct Growth Plan 2022. The specific tax incentives were tabled but

never finalised. The current proposals for Investment Zones appear to align much more closely to the existing tax reliefs in Freeports, and suggest Chancellor Jeremy Hunt is taking a more cautious approach than his predecessor on his interpretation of Investment Zones. Nevertheless, given the relatively optimistic forecasts by the Office of Budget Responsibility since the Autumn Statement 2022, the "re-focus" on Investment Zones as a headline measure of the Spring Budget 2023 will likely be hailed by the Chancellor as a shift away from pragmatic cost-saving measures and towards a growth-oriented fiscal strategy.

The measure will have effect on and after the date of Royal Assent to the Finance Bill 2023.

"The intention is to incentivise investment in Investment Zones, in part, through tax reliefs"



OECD Pillar Two

A multinational top-up tax and domestic top-up tax will be introduced for business groups with annual global revenues exceeding EUR 750m (in at least two of the previous four accounting periods) where they are conducting business activities in the UK. These top-up taxes form the first stage of the UK's implementation of the OECD's Pillar Two rules under the Inclusive Framework on Base Erosion and Profit Shifting (BEPS). The objective of Pillar Two is to implement a global minimum level of taxation for corporate entities at an effective rate of 15%.

The multinational top-up tax will target UK parent companies within a multinational enterprise (MNE) group. The top-up tax will be triggered where (i) a UK parent company has an interest in entities overseas in a non-UK jurisdiction and (ii) the UK parent company's group has profits arising in such non-UK jurisdiction that are taxed below 15%.

The domestic top-up tax will target UK companies in either a domestic or MNE group. The top-up tax will be triggered where the group's profits arising in the UK are taxed below 15%. In essence, the UK government considers that if UK companies are to be subject to a top-up tax, the UK Exchequer should be the one to benefit from it.

Certain entities will be excluded from both the multinational top-up tax and domestic top-up tax, such as governmental entities, international organisations, non-profit organisations and pension funds. Investment funds and real estate investment vehicles will also be excluded where such entities are the ultimate parent of the group. The intention is to protect the status of certain investment funds/vehicles as tax neutral entities in order not to deter investment activity, but the exclusion will not extend to all fund arrangements and careful analysis will be required.

The multinational top-up tax and domestic top-up tax are intended to be the UK equivalent of the OECD's Income Inclusion Rule (IIR) and Qualifying Domestic Minimum Top-up Tax (QDMTT) respectively. The new measures do not yet provide for the OECD's Undertaxed Payments Rule (UTPR), which acts as a final resort to catch qualifying MNE groups that have not been subject to the IIR or QDMTT. However, under the UK government's consultation on Pillar Two, it is intended that the UTPR also be implemented in the UK, though most

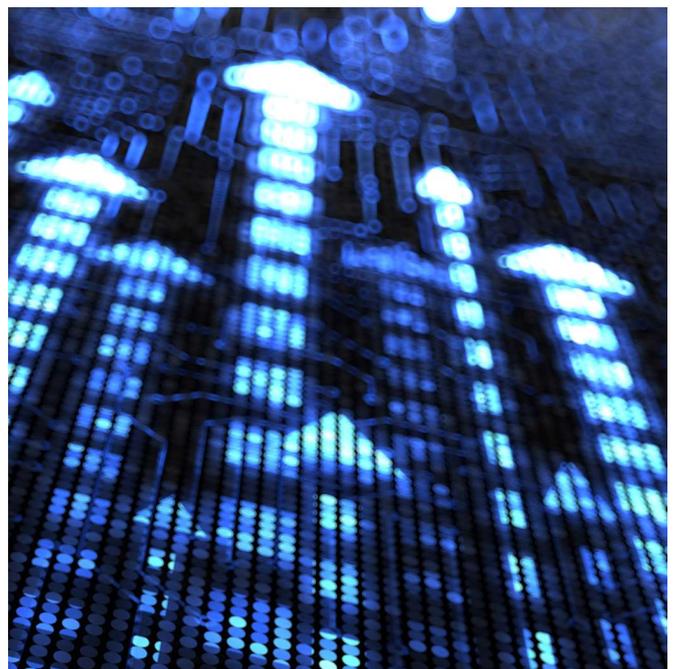
likely at a later date.

The measures will have effect in respect of a qualifying group's accounting periods beginning on or after 31 December 2023.

Capital allowances: full expensing

The Spring Budget 2023 introduces a new temporary form of capital allowances for plant and machinery in an attempt to drive business growth in the UK, termed "full expensing".

Capital allowances are a tax relief for businesses that allow companies to deduct some, or all, of the cost of a capital item from their profits before paying tax. Various forms of capital allowances are already available in the UK which allow businesses to claim different amounts. These include annual investment allowances, writing down allowances, first-year allowances and structure and buildings allowances. If an item qualifies for more than one type of capital allowance, businesses can choose which one to use. They can claim 18% tax relief per accounting period on all plant and machinery they buy which falls under the "main rate" pool, unless the items are required to be allocated to the "special rate" pool, or "single asset" pool.



Where full expensing is claimed, companies will be able to claim 100% capital allowances on qualifying plant and machinery in the first accounting period. This allows companies to write off the cost of investment in one go, rather than spreading it across a number of years. For every pound that a company invests, their taxes will be cut by up to 25p. For the full expensing to apply, companies must be subject to corporation tax; expenditure must be incurred on the provision of “main rate” plant or machinery; it must be claimed on plant and machinery which is new and unused; and full expensing cannot be claimed on cars, or items given to the company as a gift, or bought to lease to someone else.

Plant and machinery that may qualify for full expensing includes machines such as computers and printers; office equipment such as desks and chairs; vehicles such as vans, lorries and tractors; warehousing equipment such as forklift trucks, pallet trucks, shelving and stackers; tools such as ladders and drills; construction equipment such as excavators, compactors and bulldozers; some fixtures such as kitchen and bathroom fittings; and fire alarm systems in non-residential properties.

Special rules will apply when a company sells an asset on which it has claimed full expensing, and companies will be required to bring in an immediate balancing charge equal to 100% of the disposal value. In other words, if the company sold an asset for £10,000 on which they had claimed full expensing, they would be required to increase their taxable profits by £10,000.

Full expensing will be available for expenditure incurred on or after 1 April 2023 until, initially, 31 March 2026 – though the Chancellor announced the ambition to make this change permanent. The temporary extension of allowances is in line with the UK’s policy goal of promoting investment in UK businesses. It aims to build on the success of the 130% super-deduction, and follows a capital allowances consultation last year in which businesses showed a clear preference for full expensing over the other options under consideration.

Capital allowances: annual investment allowance

In addition to bringing in full expensing, the government has announced that the increase to the limit of the annual investment allowance (AIA) from £200,000 to £1,000,000 for qualifying expenditure on plant and machinery, which has applied temporarily to expenditure incurred on or after 1 January 2019, will be made permanent. This increase would otherwise have expired.

The permanent level of the AIA was initially set at £200,000 with effect from 1 January 2016. The AIA is a 100% capital allowance for qualifying expenditure on plant and machinery up to a specified annual limit i.e. it provides an equivalent benefit to full expensing for the expenditure covered. Businesses can claim the AIA in respect of expenditure which would otherwise be eligible for writing down allowances (WDAs). Given at either the main or special rates, WDAs provide relief for eligible capital expenditure over a number of tax periods. The AIA therefore accelerates relief, typically simplifying processes for businesses and aiding their cashflow. This measure will provide an incentive for businesses to increase their capital expenditure on plant and machinery.

The measure will have effect in relation to AIA qualifying expenditure incurred from 1 April 2023, and is in line with the UK’s policy goal of incentivising investment in UK businesses.

“Full expensing will be available for expenditure incurred on or after 1 April 2023 until, initially, 31 March 2026”



Capital allowances: first year allowances for electric vehicle charging points

The Spring Budget 2023 introduces a measure to extend the availability of a 100% first-year allowance (FYA) for qualifying expenditure on plant and machinery (equipment) for electric vehicle charge-points by two years.

The FYA was introduced for expenditure incurred from 23 November 2016 to support the UK transition to cleaner vehicles. This measure is designed to continue to incentivise the uptake of equipment for charging electric vehicles and aligns the period of its availability with the 100% FYAs available for zero-emission cars and zero-emission goods vehicles.

The FYA will therefore be extended to 31 March 2025 for corporation tax purposes, and to 5 April 2025 for income tax purposes. This measure aligns with the government's policy goal of incentivising businesses to install charging points, and therefore purchase zero emission vehicles to support the government's wider objective on climate policy to reduce greenhouse gas emissions to net zero by 2050.



Transfer pricing documentation

A further policy paper has been published alongside the Spring Budget 2023 on the changes to the UK's transfer pricing documentation requirements which will align with the OECD Transfer Pricing Guidelines. This measure will primarily affect businesses operating in the UK, which are part of a large multinational enterprise group that has global revenues of €750m or more and will have effect for accounting periods commencing on or after 1 April 2023 for corporation tax purposes. For income tax purposes it will apply to the 2024/2025 tax year and subsequent years. However, the policy paper contains no substantive update on the government's earlier announcements. Further information on these can be found in our previous Insight articles (including on the [draft primary legislation](#) which was published for technical consultation as part of L-Day 2022 (20 July 2022) as well as on the measure's [secondary legislation](#) which was published for comment on 21 December 2022).

This measure is a reflection of how HMRC will continue to focus on investigating transfer pricing compliance. HMRC employed nearly 400 full-time equivalent staff in 2021/2022 to work on international issues including transfer pricing, and its total transfer pricing yield figure was approximately £1.5bn during that year. The government considers that the new transfer pricing documentation requirements will further enable HMRC to carry out informed risk assessments, target resources more efficiently and reduce the time taken to establish the facts in compliance interventions. Due care should be taken by businesses to comply with the new requirements, particularly given the proposed revisions to the law on the applicability of penalties for failing to do the work necessary to maintain the relevant records or to produce those records on request. In addition, businesses should keep abreast of the ongoing consultation regarding the proposed Summary Audit Trail requirement, which will, if introduced, result in additional compliance obligations.

Genuine diversity of ownership reform

Spring Budget 2023 confirmed that the government would move forward with amendments to the genuine diversity of ownership (GDO) condition to enable the condition to be applied more easily to “multi-vehicle arrangements” such as parallel funds or alternative investment vehicles.

The GDO condition, intended to distinguish “true” funds from more private arrangements and to act as a gateway to particular tax regimes, was originally designed to operate in the context of a single tier open-ended fund structure, but the adoption of the condition in the REIT, non-resident capital gains and qualifying asset holding company rules has demonstrated the condition’s shortcomings when applied to more complicated, often closed-ended, fund arrangements.

The measure, which follows consultation with an industry working group, will enable the GDO condition to be treated as satisfied for the purposes of the REIT, NRCG and QAHC rules, where an entity forms part of multi-vehicle arrangements and the GDO condition is met when considering those arrangements as a whole. This will apply even if the entity itself does not meet the GDO condition, for example if it is made available only to a single investor. Updated GDO guidance is also expected to be published shortly.

Qualifying asset holding company rules

A little less than a year after their introduction, the QAHC rules have seen good take-up in terms of entities applying to benefit from the regime, particularly following clarity on the position of QAHCs in a credit fund and loan origination context. In Spring Budget 2023, the government confirmed further updates to the regime to enable the rules to work as intended.

The proposed updates cover a range of topics,

following continued discussion with industry stakeholders on the operation of the rules in practice. Some changes are positive, such as the confirmation that certain entities will still be treated as collective investment schemes which applying the QAHC conditions, despite being bodies corporate. Others will toughen up the gateway into the regime, for example by extending the anti-fragmentation rule to exclude structures involving more than one QAHC in which the combined percentage of relevant interests held by “bad” (i.e. non-category A) investors exceeds 30%. There are also some more esoteric changes, including an amendment to confirm that a securitisation company cannot also be a QAHC, which had been discussed in some corners given that the rules did not contain an obvious tie-breaker.

Overall, it is positive to see that following the introduction of the rules, the government and HMRC continue to invest time and effort in making a success of the QAHC regime, and it is hoped that this approach will continue.

Real Estate Investment Trust rules

The Spring Budget 2023 confirmed that the government will proceed with the updates to the REIT regime announced as part of the Edinburgh Reforms package. These changes represent a further evolution of the regime, following on from proposals discussed in the UK Funds Review call for input issued in January 2021 and subsequent changes enacted in the Finance Act 2022.

“it is positive to see that HMRC continue to invest time and effort in making a success of the QAHC regime”

The amendments that have now been confirmed include removal of the “minimum three properties” requirement where a REIT holds a single commercial property worth at least £20 million, amending (but not repealing) the three-year development rule to ensure that the valuation used when applying the rule better reflects increases in property values and amending the rules dealing with deduction of tax from property income distributions (PIDs) paid to partnerships. This last change will enable a REIT to pay part of the PID gross, reflecting the interest of partners who would be entitled to gross payment if the partnership had not been interposed, with the balance paid net.

These changes will remove some further friction in the application of the REIT rules, in particular to enable REITs to hold large single commercial properties such as logistics warehouses let to a single tenant, where current HMRC guidance on treating floors of office blocks or units in a shopping mall as separate properties does not assist. Even in the latter cases, the change is positive in clarifying the position in law, rather than placing reliance on guidance and practice.

Carried interest

The government has announced a measure designed to ameliorate the position of UK resident individuals who are taxed on carried interest in both the UK and another country. The paradigm example is a UK resident US citizen. Under current US tax rules, they will be taxed on carried interest based on deemed accruals each year, whereas the UK does not tax them until actual distributions of carried interest.

The UK historically offered a concessionary “credit of last resort” which was set out in HMRC’s published guidance on carried interest, but this was withdrawn in 2022.

The proposed measure will introduce an elective basis of UK taxation for carried interest, under which it will be taxed on an accruals basis. In the above

example, it is presumably intended to allow the UK resident to elect to be treated as having paid UK tax on the deemed accruals which are subject to US tax. Whether the UK and US basis of accruals will match up remains to be seen.

Generally, it will be interesting to see how the proposed measure will be drafted. Given that the presumed intention of the measure is to allow UK tax to be credited against the non-UK tax, it will also be interesting to see whether e.g. the US tax rules actually do give credit, or treat the election as giving rise to some kind of non-creditable voluntary payment of tax.

Corporate interest restriction amendments

The Spring Budget 2023 announced a series of technical changes to the Corporate Interest Restriction (CIR) rules, which limit the extent to which large businesses can claim corporation tax deductions for net interest expense above a de minimis threshold of £2 million. This comprises 21 different (generally relatively minor) changes to the details of the CIR rules. They are intended to help ensure the CIR rules operate as intended, reduce unfair outcomes and avoidance, and relieve unnecessary high administrative burdens. The changes generally take effect for accounting periods beginning on or after 1 April 2023, and are not expected to raise any material revenue for the Exchequer.

“The proposed measure will introduce an elective basis of UK taxation for carried interest”



Double tax relief time limits

The Spring Budget 2023 confirmed the changes to double tax relief time limits announced in the 20 July 2022 Written Ministerial Statement. These prohibit extended time limits for double tax relief claims being claimed from 20 July 2022 onwards in respect of credits for deemed rates of notional non-UK taxes. The changes do not apply to increases in actual non-UK taxes paid (within the last 6 years). Similarly extended time limit claims can still be made in relation to accounting periods which are under appeal or scrutiny. The effect is backdated to the 20 July 2022, the date of the Written Ministerial Statement.

R&D tax credits

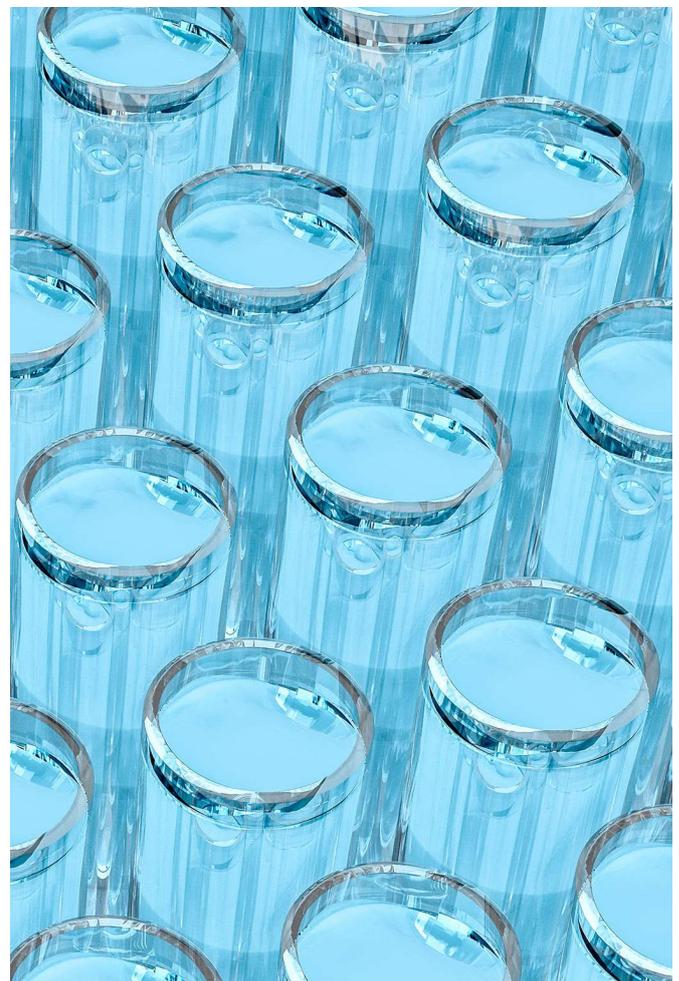
The government has confirmed that R&D Expenditure Credit (RDEC) rate will increase from 13% to 20%, the small and medium enterprise additional deduction rate will reduce from 130% to 86%, and the SME payable credit rate (for non-R&D intensive companies) will decrease from 14.5% to 10%. The possibility of merging these schemes is still on the table following the government's recent consultation which closed on 13 March 2023.

Importantly, the government has also released a 'Technical Note' with details of a new R&D scheme for qualifying 'R&D intensive' SMEs. This will be legislated for in a future Finance Bill and qualifying SMEs would be eligible to receive this additional relief from 1 April 2023. This is an important and welcome development for many SMEs, following the rate changes announced during the Autumn Statement in 2022 which raised many questions on how the UK remains a competitive location for cutting edge research and innovation. Eligible R&D intensive SMEs are able to claim an additional higher R&D payable credit rate of 14.5% instead of the 10% credit rate for non R&D intensive companies.

The Technical Note provides a definition of an 'R&D intensive' company as a "loss-making SME with an R&D intensity of at least 40%" (meaning that such company incurs at least 40% of its expenditure on R&D). Companies meeting this condition will be able to claim the additional support as part of their claim to SME credit, using the higher rate of credit for any expenditure on or after 1 April 2023, by delaying submission of their claim until the legislation is in place, or by amending their claim once the legislation is in place. Rules will be included in the legislation to target anti-avoidance and prevent manipulation of the relief for a tax advantage, including for commencement purposes and across the relief more widely.

Alongside the above changes, the government announced that it will continue to review how the R&D reliefs are operating, including the possibility of merging the RDEC and SME schemes. The government is due to publish draft legislation on a merged scheme for technical consultation in Summer 2023, along with a summary of responses to the consultation. Any further changes as a part of the ongoing R&D tax reliefs review will be announced at a future fiscal event, including a final decision on whether to merge the RDEC and SME schemes (with possible implementation from April 2024).

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Patent box

A 'legislative fix' to the Corporation Tax Act 2010 (CTA 2010) will ensure that companies elected into the Patent Box will continue to pay corporation tax at the correct rate from 1 April 2023. The revision to s.357A CTA 2010 will ensure that companies with profits of £50,000 or less, pay the correct preferential rate of 19% corporation tax on their Patent Box profits. Leaving the legislation unamended would have meant these companies could, effectively, have paid a rate lower than 10% on their relevant Patent Box income.

Tax advantaged employee share schemes

Those who haven't blocked out all memories of the first half of 2021 may recall that the Government launched a review of the Enterprise Management Incentives (EMI) scheme during that period, with the stated intention of examining whether the scheme should be available to more companies. The EMI scheme is one of several tax-advantaged employee share schemes, and is intended to help SMEs recruit and retain talent through share incentives. There was a call for evidence that closed in May 2021 which had 48 respondents, and after some considerable delay a summary of response has now been published alongside the Budget.

In the interim it was announced in the Spring Statement 2022 that the EMI scheme was still "effective and appropriately targeted", followed in September 2022 by an announcement of an expansion of the Company Share Option Plans Scheme (CSOP) with the intention of ensuring that companies can graduate more smoothly from the EMI scheme to the CSOP scheme and continue to

offer attractive share-based remuneration.

Accordingly, as previously announced from 6 April 2023 the CSOP scheme rules will be amended to:

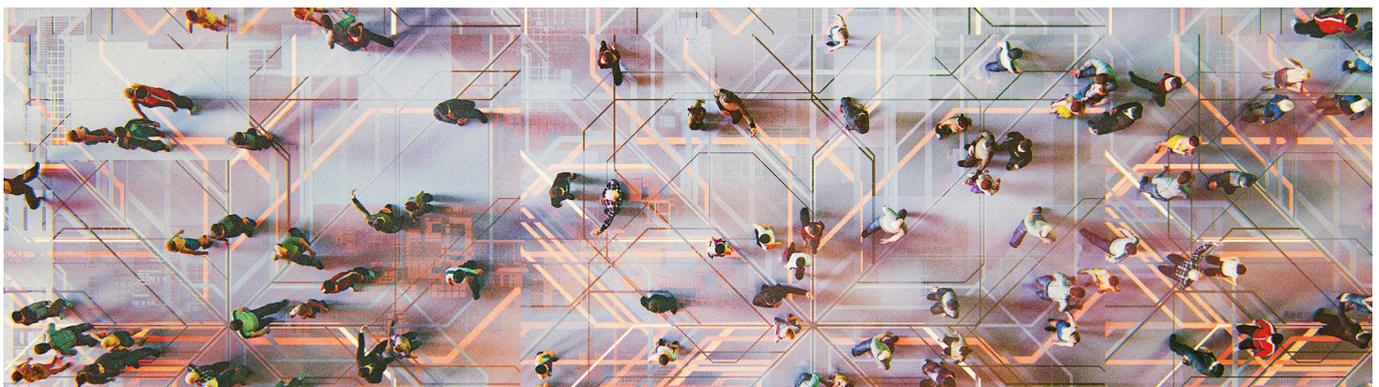
- Remove the restriction imposed on companies with more than one class of shares that the shares to be placed under CSOP options must either be open market shares or employee control shares; and
- Double the employee option limit from £30,000 to £60,000

In addition, some tweaks are being made to the EMI scheme with effect from 6 April 2023 in order to reduce the administrative burdens of compliance with the scheme:

- Removal of the requirement for the company to declare that that the employee has signed a working time declaration when they are granted an EMI option (NB the actual working time requirement is not removed); and
- Removal of the requirement to set out in an option agreement restrictions on the shares to be acquired

From 6 April 2024 there will also be an extension of the time within which companies must submit an EMI notification relating to the grant of an EMI option (currently within 92 days of option grant) to the 6 July that follows the end of the relevant tax year in which the EMI option is granted.

In addition, the government has announced that it will be launching a call for evidence on the Share Incentive Plan and Save As You Earn employee share schemes. The government will use the call for evidence to consider opportunities to improve and simplify the schemes.



Investment reliefs

It is seemingly a tradition that every Budget must include some tinkering with the terms of the UK's various venture capital schemes, and the Spring Budget 2023 does not disappoint.

As previewed in September 2022, the Seed Enterprise Investment Scheme (SEIS) has received a boost in the form of relaxations of the rules on the size and age of companies that can raise SEIS-qualifying funding and the amounts on which investors can claim income and capital gains tax reliefs, in all cases with effect from 6 April 2023.

The changes are as follows:

Relevant measure	Current limit	New limit
Limit on investment a qualifying company can raise in the relevant period and on which investors can claim tax relief	£150,000	£250,000
Limit on "gross assets" a qualifying company can have	£200,000	£350,000
Age limit on "new qualifying trade" at date of investment	2 years	3 years
Annual limit on investment amount on which investors can claim income tax and CGT re-investment reliefs	£100,000	£200,000

Sovereign immunity

Alongside the Spring Budget 2023, the UK government has confirmed that, following "careful consideration" of the responses to the consultation last year on the scope of the UK's application of sovereign immunity to tax, it has decided that the UK's sovereign tax exemption will continue to operate as it does now. This news will be a relief to many sovereign wealth funds which had engaged with the consultation and had particular concerns about the potential wider implications of such investors no longer being "qualifying investors" alongside other institutional investors for the purposes of the UK's REIT rules and substantial shareholdings exemption. Those sovereign wealth investors with portfolio management activities located in the UK will also be relieved not to have to grapple with the potential transfer pricing implications of such activity giving rise to a UK permanent establishment.

One consequence of carrying forward the changes which were consulted on could have been to make the UK materially less attractive to sovereign wealth investment, and it may have been this factor which has ultimately persuaded the Government not to go ahead.



Audio-visual tax reliefs

HM Treasury has released its consultation outcome and policy decisions in respect of 'Audio-Visual Tax Reliefs' (AVTRs), namely: film tax relief; animation tax relief; high-end TV tax relief; children's TV tax relief; and video games tax relief.

The policy decisions are designed to modernise the original tax relief implemented in 2007 to "support and incentivise the production of culturally British film, animation, high-end TV, children's TV and video games". The reforms merge AVTRs into two new models: audio-visual expenditure credit (AVEC) and video games expenditure credit (VGEC).

AVEC will have a headline rate of 34% for films and high-end TV programmes and a headline rate of 39% for animations and children's TV programmes.

VGEC will have a headline rate of 34% for video game expenditure credits.

Both models will retain the existing eligibility requirements and definitions of qualifying expenditure (subject to certain conditions) and will have an 80% cap on qualifying expenditure (i.e. tax credits are only payable on up to 80% of the total qualifying expenditure).

Cultural sector tax reliefs

It was announced at the Spring Budget 2023 that the government will legislate in the Spring Finance Bill 2023 to extend the current headline rates of relief for the Theatre Tax Relief (TTR), Orchestra Tax Relief (OTR) and Museums and Galleries Exhibitions Tax Relief (MGETR) for two years.

The rates for TTR and MGETR, which were due to taper to 30% (for non-touring productions) and 35% (for touring productions) on 1 April 2023, will remain

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at 45% and 50% respectively until 31 March 2025. From 1 April 2025, the rates will be 30% and 35% and rates will return to 20% and 25% on 1 April 2026.

The rates for OTR will remain at 50% for expenditure taking place from 1 April 2023, reducing to 35% from 1 April 2025 and returning to 25% from 1 April 2026.

The tax relief available for qualifying companies in the museum and gallery sectors is due to expire in March 2024. However, the Spring Budget 2023 announced that the government will legislate in the Spring Finance Bill 2023 to extend the sunset clause for the MGETR for a further two years until 31 March 2026. MGETR will, therefore, now expire after 31 March 2026 and no expenditure after this date will be eligible for relief.

A number of administrative changes have also been announced to these reliefs, including limiting their scope to expenditure on goods and services that are used or consumed in the UK only and introducing an anti-abuse measure on payments between connected parties. Draft legislation will be published in summer 2023 for consultation. The changes will take effect from January 2024.



Electricity generator levy

As announced at Autumn Statement 2022, the government will legislate in the Spring Finance Bill 2023 for the Electricity Generator Levy. This new 45% charge applies from 1 January 2023 to exceptional electricity generation receipts arising from non-fossil fuel sources to corporate groups with more than 50,000 MWh of in-scope generation per annum. It applies to wholesale receipts for electricity in excess of a benchmark price of £75 per MWh. The benchmark will be adjusted in line with CPI from 1 April 2024. Exceptional receipts are calculated after deducting increases in generation fuel costs, and groups have an annual allowance of £10m.

Draft legislation and a technical note were published on 20 December 2022.



Income Tax and NICs

Income tax rates and allowances

As previously announced, the basic rate of income tax will remain at 20%. Other rates will also remain unchanged. The personal allowance and higher rate threshold are fixed at their current levels until April 2028. The income tax additional rate threshold will be lowered from £150,000 to £125,140 from 6 April 2023.

The government has previously announced that it would reduce the dividend allowance from £2,000 to £1,000 from April 2023, and to £500 from April 2024. The 1.25% increase in rates of tax on dividends will be maintained (despite the scrapping of the Health and Social Care Levy which was its justification) so that the ordinary rate will continue to be 8.75%, the upper rate 33.75% and the additional rate 39.35% from April 2023.

For a table of the main tax rates and allowances for 2023/2024, see page [30](#).

National insurance contributions

From July 2022 the NICs Primary Threshold (PT) and Lower Profits Limit (LPL) were increased to align with the personal allowance at £12,570 and will be maintained at this level from April 2023 until April 2028. The Class 2 Lower Profits Threshold (LPT) will also be fixed from April 2023 until April 2028 to align with the LPL. The NICs Upper Earnings Limit (UEL) will remain at £50,270.

The government has also previously announced that it will fix the level at which employers start to pay Class 1 Secondary NICs for their employees at £9,100 from April 2023 until April 2028.

Low income trusts and estates

Following a consultation on low income trusts and estates, the government has announced that it will introduce legislation to:

- provide that trusts and estates with income up to £500 do not pay tax on that income as it arises;
- remove the default basic rate and dividend ordinary rate of tax that apply to the first £1,000 slice of discretionary trust income;
- provide that beneficiaries of UK estates do not pay tax on income distributed to them that was within the £500 limit for the personal representatives; and
- make technical amendments to ensure for beneficiaries of estates that their tax credits and savings allowance continue to operate correctly.

The substantive changes will have effect for tax years 2024/25 onwards. They should hopefully provide greater certainty and simpler tax administration for low income trusts and estates by legislating and extending an existing HMRC concession.

“The substantive changes should hopefully provide greater certainty and simpler tax administration for low income trusts and estates”

Expanding the cash basis

The government has launched a consultation seeking views on options to extend the cash basis for the self-employed. The cash basis is a simplified regime for calculating taxable profits for income tax purposes for businesses with straightforward tax affairs. The regime allows businesses to calculate their taxable profit as the difference between income and expenditure when money is actually received or paid out. This eliminates accounting and tax complexities such as accruals and most capital allowances, and simplifies reporting. The government wants to ensure as many businesses as possible are able to benefit from this simplified regime.

The consultation focuses on the following four policy proposals but welcomes other ideas:

- increasing the turnover thresholds for businesses to use the cash basis;
- setting the cash basis as the default, with an opt-out for accruals;
- increasing the £500 limit on interest deductions in the cash basis; and
- relaxing restrictions on using relief for losses made in the cash basis.

The consultation closes on 7 June 2023.



Capital Gains Tax

Tax rates and allowances

The government has previously announced that the CGT annual exempt amount will reduce from £12,300 to £6,000 from April 2023 and to £3,000 from April 2024.

For a table of the main tax rates and allowances for 2023/2024, see page [30](#).

Disposals of joint interests in land

Current provisions in the Taxation of Chargeable Gains Act 1992 allow individuals and partners in certain partnerships holding land, where roll-over relief or principal private residence relief would be available on a disposal of that land, to qualify for that relief where the disposal involves an exchange of land held by the individual co-owners in consideration of land provided by other co-owners – broadly the provisions allow individuals to reorganise their holdings in, for example farmland by exchanging land interests and claiming tax relief to the extent the other conditions for relief are met.

The relief will be extended for disposals on or after 6 April 2023, to ensure roll-over relief and principal private residence relief will be available for LLPs and Scottish partnerships when an exchange of interest in land or private residences held by an LLP or partnership takes place as the case currently is when the land is held by individual members or partners in other types of partnerships.

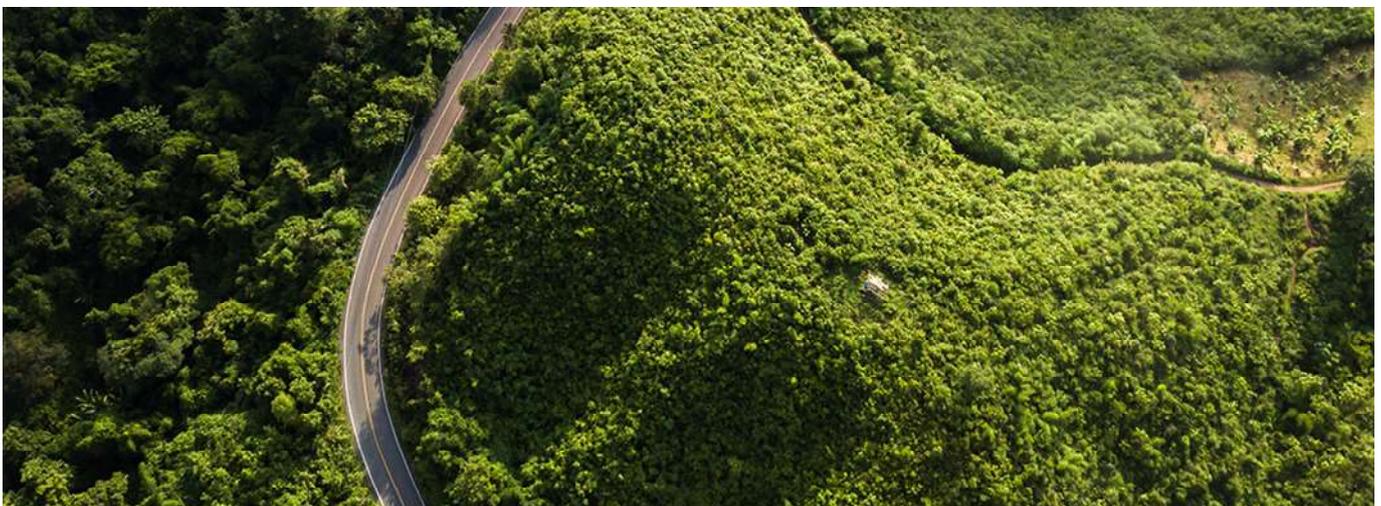
Capital gains avoidance: share exchanges

The government has confirmed that it intends to introduce an anti-avoidance provision in relation to securities in a UK close company which are exchanged for securities in a non-UK company which would be close if it were UK resident. The provision will deem securities in the non-UK company to have a UK situs for capital gains tax purposes.

The legislation gives individuals the option to elect out of its provisions by choosing to pay a CGT charge based on the market value of the securities in the UK company at the point of the reorganisation. Individuals must make the election before the first anniversary of 31st January following the tax year in which the reorganisation takes place.

An equivalent provision will be introduced for income tax purposes, such that dividends and other distributions received in respect of the non-UK securities will not be considered relevant foreign income.

The rules will have effect where an individual has a material interest in both the UK and the non-UK company and where the share exchange is carried out on or after 17 November 2022. Draft legislation was originally published alongside the Autumn Statement 2022.



Late completion of unconditional contracts

New provisions will be introduced that will modify the relevant notification periods and assessment and claim time limits, so that these will all operate by reference to the tax year or accounting period when an asset is conveyed or transferred rather than the tax year or period in which the contract for the disposal was made.

The modifications will apply for CGT purposes where the conveyance or transfer of an asset takes place after the date six months after the end of the tax year in which the disposal is treated as taking place and for corporation tax, the date one year after the end of the accounting period for the disposal.

The proposed amendments appear to be driven by the fact that, although section 28 TCGA treats the point of disposal of an asset as being the time when an unconditional contract comes into effect, section 28 TCGA only comes into operation if the contract is completed, or in other words, if the disposal actually takes place. Section 28 TCGA does not deem a disposal to take place. When a disposal has in fact taken place in accordance with the contract, section 28 TCGA fixes the date of that disposal as the date of the unconditional contract.

Under the current rules, a delayed completion can therefore leave HMRC out of time to assess tax in the year the unconditional contract was entered into, hence the proposed delayed reporting and assessment times.

“Under the current rules, a delayed completion can therefore leave HMRC out of time to assess tax”



Stamp Duty and SDLT

Rates

On 23 September 2022, the government increased the nil-rate threshold of SDLT from £125,000 to £250,000 for all purchasers of residential property in England and Northern Ireland and increased the nil-rate threshold paid by first-time buyers from £300,000 to £425,000. The maximum purchase price for which First Time Buyers' Relief can be claimed was increased from £500,000 to £625,000. The Chancellor subsequently announced that this would be a temporary SDLT reduction. The SDLT cut will remain in place until 31 March 2025 to support the housing market. The government then intends to repeal these changes.

No further changes were announced to stamp duty rates and thresholds.

For a table of the main tax rates and allowances for 2023/2024, see page [30](#).



Value Added Tax and indirect taxes

Thresholds

The standard rate of VAT remains at 20%. For a table of the main tax rates and allowances for 2023/2024, see page [30](#).

The VAT registration (£85,000) and deregistration (£83,000) thresholds will not change. In particular, the government has previously announced that, on the basis of the recommendations of the Office of Tax Simplification (OTS) concerning the distortions created by the high registration threshold in the UK, the registration threshold would be frozen until April 2024.

VAT treatment of fund management fees

The government's consultation on proposed reform of the VAT rules on fund management to improve legal clarity and certainty closed in February 2023. The government has indicated it is considering the responses and continuing to discuss the proposals with interested stakeholders. The government will publish its response to the consultation in the coming months.

VAT review of financial services

The government has announced that, building on the recommendations of the industry working group established to consider the future of VAT and financial services, it will continue working with industry stakeholders to consider possible reforms to simplify the VAT treatment of financial services, reducing inconsistencies and providing businesses with greater clarity and certainty. Given the significant interest in extending zero rating to certain financial services, in particular fund management, it is somewhat disappointing that there is no further clarity on the proposed direction of travel.

Energy saving materials VAT relief consultation

The government has published a consultation which seeks to build on its commitment, made in the 2022 Autumn Statement, to support improvements in energy efficiency in order to reduce energy bills across households, businesses and the public sector.

Since 2000, reduced rate VAT of 5% has applied to the supply and installation of certain energy saving materials (ESMs) in residential buildings (and, for some periods, buildings used for relevant charitable purposes). In 2022's Spring Statement, the government expanded the relief in Great Britain by introducing a temporary zero-rate on the installation of ESMs in residential accommodation until 31 March 2027, and re-expanded the list of ESMs falling within the scope of the relief (the list of qualifying materials having changed over the years). Currently, the zero-rating applies to materials such as insulation, solar panels, ground and air source heat pumps, wood-fuelled boilers and wind and water turbines amongst others.

“it is somewhat disappointing that there is no further clarity on the proposed direction of travel”

The call for evidence published today seeks views on 2 potential areas for further reform of the VAT relief on ESMs, namely:

- the energy saving materials within the scope of the relief; and
- the potential re-introduction of the relief for the installation of ESMs in buildings intended solely for a relevant charitable purpose,

in order to help meet the objectives of the ESM relief to improve energy efficiency and reduce carbon emissions in a cost effective way.

The consultation invites views specifically on whether electrical battery storage should be brought within the scope of the relief, as well as more wide ranging input on other new technologies to be brought within scope, and any technologies currently within scope which should be removed.

Importantly, as well as considering the scope of the reliefs, the consultation seeks views on how access to reliefs can be more effective and efficient.

It also asks whether, post-Brexit, the government should consider re-instating relief for the installation of ESMs to buildings used for 'relevant charitable purposes'. The consultation closes on 31 May 2023.

In addition to the call for evidence itself, the government has indicated that the Windsor Framework agreed recently will mean the 2022 Spring Statement expansion of the relief, as detailed above, can apply in Northern Ireland.

Overall, this can only be a positive step in the right direction for businesses and for climate change. It's encouraging that HMRC are not only looking at the scope of the reliefs, but also the accessibility, which is equally important to incentivise change.

VAT and medicines and pharmacists

The government has announced that it will legislate to extend the VAT exemption for healthcare to include services carried out by staff directly supervised by registered pharmacists in the UK. The changes will take effect from 1 May 2023.

In addition, the government will extend the zero rate of VAT on prescriptions for medicines supplied through Patient Group Directions. This measure will be introduced in autumn 2023.

Late payment interest, late payment penalties and repayment rules

Some minor, technical changes have been announced in relation to late payment interest and penalties.

From 15 March 2023, where HMRC assesses a taxpayer in order to recover a VAT overpayment that HMRC themselves have made, the taxpayer will now be charged late payment interest from the date of the overpayment by HMRC, rather than from 30 days following the date of assessment, as is currently the case. The taxpayer will not be prevented from accruing repayment interest if they fail to comply with a requirement to provide evidence to HMRC.

“Importantly, as well as considering the scope of the reliefs, the consultation seeks views on how access to reliefs can be more effective and efficient.”



From 1 January 2023, taxpayers using the VAT Annual Accounting Scheme will no longer be charged late payment penalties or late payment interest on instalments paid late, although such penalties and interest will continue to apply to balancing payments.

Given that these changes will be effective from 2023, there should be limited impact on taxpayers currently in dispute with HMRC on these matters.

VAT accounting for drink deposit return schemes

New VAT accounting rules have been introduced for businesses making supplies within the Drink Deposit Returns Schemes. These schemes require a deposit to be charged at each stage of the supply chain – with the deposit first being added to the price of the drink when it is first sold in the UK by the manufacturer or importer, and then on any subsequent onward sales by retailers. Such deposits are refunded if the container is returned.

Existing VAT accounting rules mean that VAT is chargeable on the price of the drink, including the deposit, with VAT being adjusted in the event that the deposit is refunded to a customer to ensure that the net VAT paid to HMRC reflects what has actually been paid by the consumer.

The measure announced effectively removes the need to account for VAT at each stage of the supply chain, and will instead place the accounting burden on the manufacturer or importer who first sells the drink in the UK. They will be required to account for VAT on the value of the deposits of drinks containers which have not been returned and the corresponding deposit refunded. This will be achieved through a periodic VAT accounting adjustment.

The measure is expected to take effect from 1 August 2023 following the approval of the Spring Finance Bill 2023 and related statutory instruments.

These changes may come as no surprise as they were announced in a factsheet from HM Treasury to the Scottish Government in February 2023. Together with the introduction of the change later in the year (from 1 August 2023), HM Treasury are confident that this should have given businesses enough time to make the necessary systems changes.

Customs Advance Valuation Rulings

Measures will be introduced in the Spring Finance Bill 2023 which will enable HMRC to grant Advance Valuation Rulings (AVRs) to customers importing goods into the UK. AVRs are legally binding written decisions made by customs authorities such as HMRC, at the request of the trader, in order to provide certainty to traders on how they should arrive at the customs value for their goods (such value impacting the amount of customs duty that may be due). It is intended that any AVRs given will bind HMRC and the trader for a three year period in relation to the goods and importation scenario in respect of which it is given, subject to withdrawal of the ruling.

“It is intended that any AVRs given will bind HMRC and the trader for a three year period”



Whilst HMRC currently issues advance rulings on tariff classification and goods origin, there is currently no provision to do so on valuation in the UK, despite it being commonly offered by other customs authorities globally. In introducing AVRs in the UK, the government considers the UK will be better able to meet the requirements of its Free Trade Agreements, and will assist in the UK's accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

The measures will be introduced through amending the Taxation (Cross-border Trade) Act 2018 and issuing a Notice with force of law to cover matters including:

- cases where rulings are and are not required;
- how an AVR application should be made;
- the timeframe for applications to be determined;
- the effective period of the rulings;
- the form of the rulings;
- how rulings could be withdrawn or amended; and
- the extent of traders' reliance on the AVR.

It is hoped that, given the AVR application process is expected to replicate that already in place for tariff and origin rulings, there are minimal issues getting the application process up and running.

The introduction of AVRs should be welcomed in order to give importers greater certainty and clarity on any customs duty to be borne.

Insurance premium tax (IPT)

The IPT Regulations 1994 incorporate six forms for use by taxpayers to provide certain information. Currently any changes to those forms require secondary legislation. The government has announced that changes will be made to enable HMRC to make amendments to the forms by publishing a notice in order to simplify the administration of the tax. It will have effect from the date the Spring Finance Bill 2023 gains Royal Assent.

Landfill tax rates (LFT)

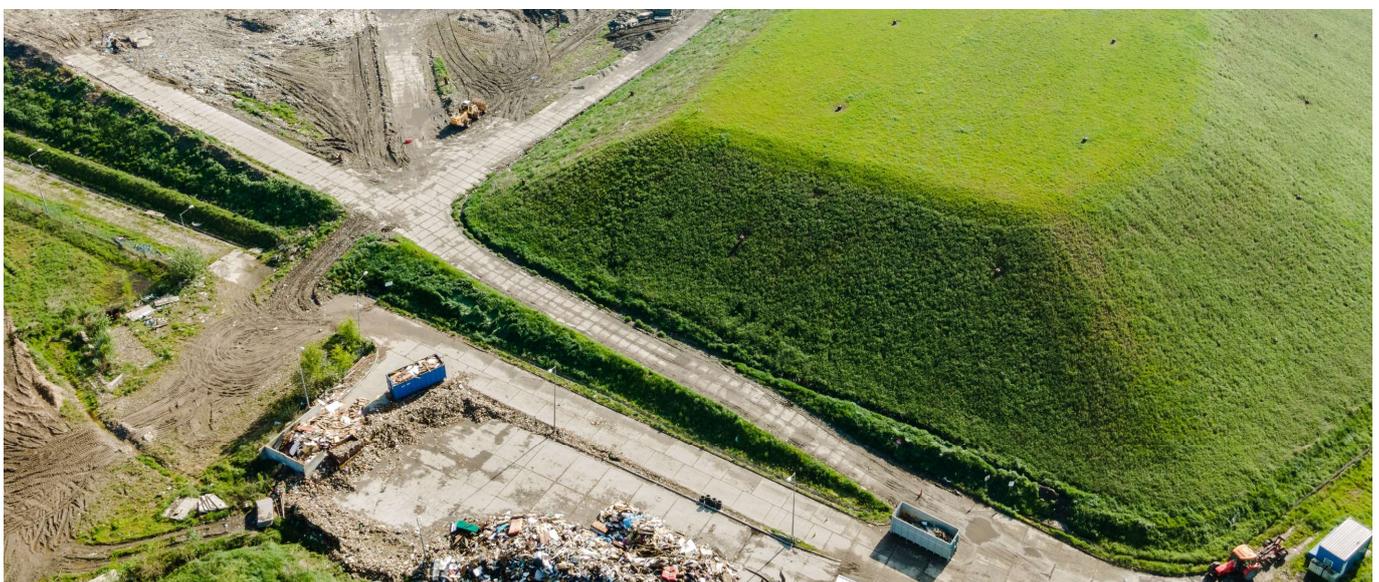
The standard and lower rates of LFT will increase for taxable disposals that take place or which are treated as taking place on or after 1 April 2023 in line with RPI as follows:

- Standard rate: £98.60 to £102.10 per tonne
- Lower rate: £3.15 to £3.25 per tonne.

Landfill tax reform

HM Treasury has published a summary of responses to its recent call for evidence on landfill tax reform.

The call for evidence was wide-ranging and suggests significant changes are likely to be made to the landfill tax regime. We will write further on it in due course. Key matters addressed include:



- **Waste crime:** respondents recognised that waste crime remains a major problem. The responses diagnosed a wide range of causes: the significant difference between the lower and standard rates of tax; the prevalence of illegal landfill sites; and perceived weakness in enforcement. Equally, a number of solutions were proposed: better inter-agency working with HMRC, the police, the Environment Agency, DEFRA, and the National Crime Agency; more effort to tackle unauthorised dumping; and public information campaigns. This broad list of problems and solutions goes to highlight the challenges in effectively tackling waste crime.
- **The lower rate of landfill tax:** there was generally broad support for reconsidering the way in which decisions about which materials attract the lower rate of landfill are made. The main focus of any such change would be focusing on whether materials can be moved 'up' the waste hierarchy – for example, by recycling. That might mean that some materials that presently attract the lower rate, like glass, could move to the standard rate, and other materials that attract the standard rate, like asbestos, might move to the lower rate.
- **Exemptions:** the consultation asked a number of questions about exemptions for filling quarries, for mining and quarrying, and for dredgings. A broad theme arising from the responses was a need for greater clarity in the legislation and limited support for changing the way in which these exemptions worked. In the case of the quarry filling exemption, the responses highlighted the difference between the approach taken by the industry (which looks on the exemption as a way of keeping landfill tax out of the restoration process) and HMRC (which looks at an exemption to the general rule that disposals of waste should be taxed, so wants to guard the boundaries of the exemption closely). For dredgings, consultation responses focused on the material that is added to the waste to dehydrate it. We expect to see further 'anti-avoidance' changes to the legislation on the various exemptions.
- **Water discounting:** there was general agreement among respondents that the water discounting regime would benefit from tightening: the review process was seen to be relatively weak and HMRC's relationship with the Environment Agency somewhat disjointed.

The summary concludes with a promise that the government will consult with stakeholders before making changes.

Landfill tax (LFT) grant scheme

The Department for the Environment, Food, and Rural Affairs (DEFRA) has been consulting on a grant scheme designed to address the 'landfill tax trap'.

The 'landfill tax trap' describes the problem that landfill tax can be a significant cost in remediation of land. For example, converting former industrial land for use as a public park probably requires the removal and treatment, and possible disposal, of meaningful amounts of soils and construction materials. Any disposals of that material attract landfill tax. But landfill tax was explicitly designed to deter disposal of waste at landfill by increasing its costs relative to other means of managing that waste. The 'trap' is that this deterrent tax is also blocking remediation or redevelopment of brownfield sites.

"A broad theme arising from the responses was a need for greater clarity in the legislation"

DEFRA's proposal to address this problem is to offer grants to discharge the landfill tax liability of those carrying out remediation of certain land.

The responses to the consultation, and DEFRA's summary, suggest that:

- a 'grant' scheme would be very popular;
- it is likely to be offered exclusively to local authorities;
- the scheme may be available even where the site will not be redeveloped if so doing would have wider economic, environmental, or social benefits: for example, cleaning up a former landfill site for environmental health reasons.

Aggregates levy

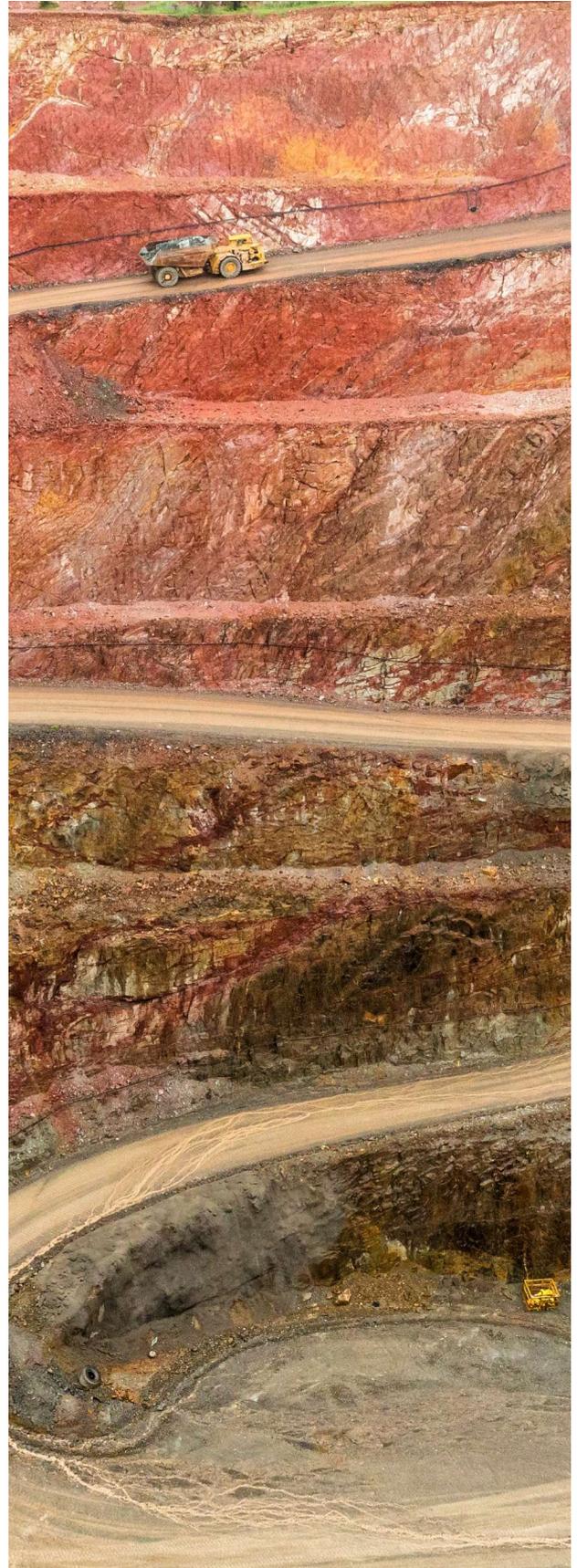
The government has announced that it will freeze the Aggregates Levy rate in 2023/2024. The government will also legislate in Finance Bill 2023/24 to increase the Aggregates Levy in line with RPI. The change will take effect from 1 April 2024.

In addition, two changes have been announced to the current exemptions from aggregates levy.

Currently aggregate that is returned unmixed to the site from which it was won is not subject to the levy. This means that aggregate extracted from 'borrow pits' located within the site boundary and used in construction works on the same site is not taxed, whereas commercially produced aggregate is taxed. Following the changes, only aggregate that is returned to the site for a purpose that is connected to winning aggregate (e.g. building haul roads) will be outside the levy. Aggregate that is extracted from an on-site borrow pit for use in construction works will be taxed in the same way as aggregate from other sources.

Existing exemptions for 'unavoidable aggregate' that results from certain specific processes (laying foundations, pipes or cables at a building site; building or improving a highway, railway, tramway or monorail; and certain other streetworks) will be replaced with a broader exemption for unavoidable aggregate that results from the construction or improvement of any (a) structure or (b) infrastructure relating to transport or utilities. The change is being introduced in response to concerns raised by the water industry that the existing exemptions did not apply consistently to by-product aggregate from laying underground pipes. Rather than add to the existing list of specific processes, it was decided to simplify the tax by replacing the existing exemptions with a more general exemption for by-product aggregate from construction projects.

The measures will take effect from 1 October 2023, to allow time for businesses affected by the borrow pit change to register for the tax. The Exchequer impact is expected to be negligible.



Pensions and investments

Abolition of the lifetime allowance (LTA) and increase in the annual allowance

The LTA was introduced in 2006 and is the maximum amount of tax-privileged pension savings that may be built up in a registered pensions scheme. In broad terms, when benefits come into payment their value is tested against the LTA, and any excess is subject to an LTA tax charge. Up to 5 April 2023 (when the change takes effect), the applicable extra tax charge is 55% for lump sums paid in excess of the LTA and 25% for any excess paid as a pension.

From 6 April 2023, the LTA charge will be removed. Legislation will then follow in a future Finance Act to remove the LTA from pensions tax legislation. However, changes will be made to freeze the level of the tax-free Pension Commencement Lump Sum (PCLS). The maximum amount that most individuals can claim as a PCLS is currently the lower of: (a) 25% of the value of their benefits; or (b) 25% of their available LTA at the time this sum is taken. From 6 April 2023, a PCLS upper monetary cap of £268,275 (25% of the current LTA), will apply. However, those individuals who already have a protected right to take a higher PCLS will continue to be able to do so.

Whilst as set out above, the LTA will be abolished, there still remains an annual limit on the amount of tax privileged pension savings that an individual may build up. This is the Annual Allowance. If there is an excess above the Annual Allowance, a tax charge arises. High earners are subject to a Tapered Annual Allowance.

The government has announced that the Annual Allowance will increase from £40,000 to £60,000. The minimum Tapered Annual Allowance will increase from £4,000 to £10,000. In addition, the adjusted income level required for the Tapered Annual Allowance to apply, increases from £240,000 to £260,000.

The Money Purchase Annual Allowance (MPAA) is a reduction to the Annual Allowance that applies to individuals who have flexibly accessed their money purchase pension savings (but still wish to build up more pension savings). The MPAA will increase from £4,000 to £10,000.

As a result of these announcements, it will be very important that employees likely to be affected by the LTA who are on the cusp of crystallising their benefits, defer doing so until 6 April 2023.

Many employers have put in place alternative cash arrangements and excepted group life arrangements for those affected by the various allowances/limits and these will need to be revisited.

“From 6 April 2023, the LTA charge will be removed.”



Relief relating to Net Pay Arrangements

Under Net Pay Arrangements (NPA), employees' pension contributions are deducted from gross salary before PAYE/tax is applied. Therefore, employees who are subject to tax obtain full tax relief on their pension contribution at that point. However, employees whose income is below the personal allowance do not receive this tax relief top up to their pension (as they are not subject to tax).

Under Relief at Source (RAS), employee pension contributions are paid net of basic rate tax. The pension provider then reclaims basic rate tax relief from HMRC, regardless of whether an employee is a low earner with income below the personal allowance (and not therefore subject to tax).

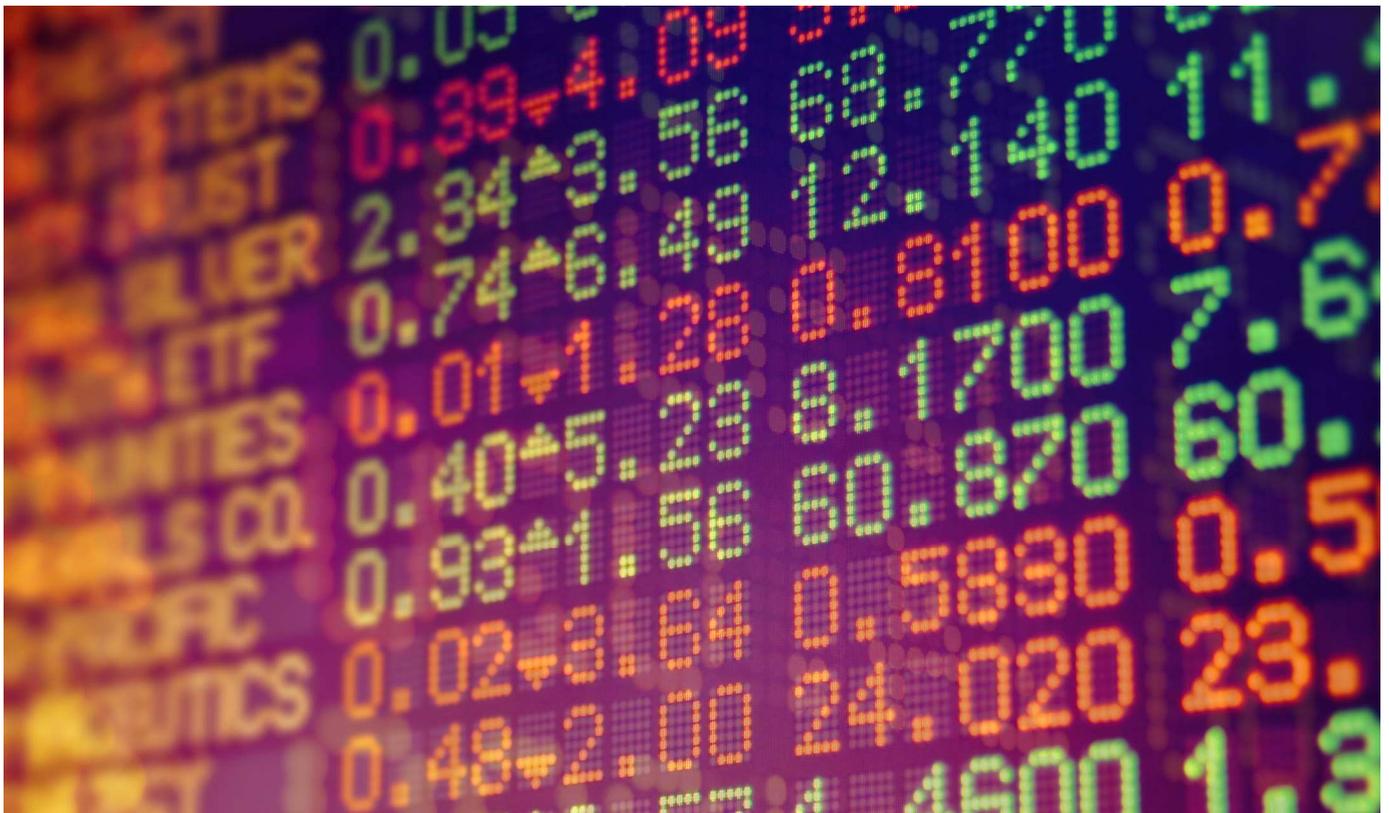
From 6 April 2024, the Government will pay a top-up to low earners making contributions to pension schemes using a Net Pay Arrangement. The amount, in relation to a contribution, is an amount equal to income tax relief not already received on the contribution at the relevant rate.

ISAs

The Spring Budget 2023 announced that the adult ISA annual subscription limit for 2023/2024 will remain unchanged at £20,000 and the annual subscription limits for Child Trust Funds and for Junior ISAs for 2023/2024 will remain unchanged at £9,000.

The Spring Budget 2023 also announced that the government will legislate by Statutory Instrument to restrict the eligibility to manage ISA and Child Trust Funds to financial institutions with a UK presence. The change will take effect from April 2024.

“The government will legislate to restrict the eligibility to manage ISA and Child Trust Funds to financial institutions with a UK presence”



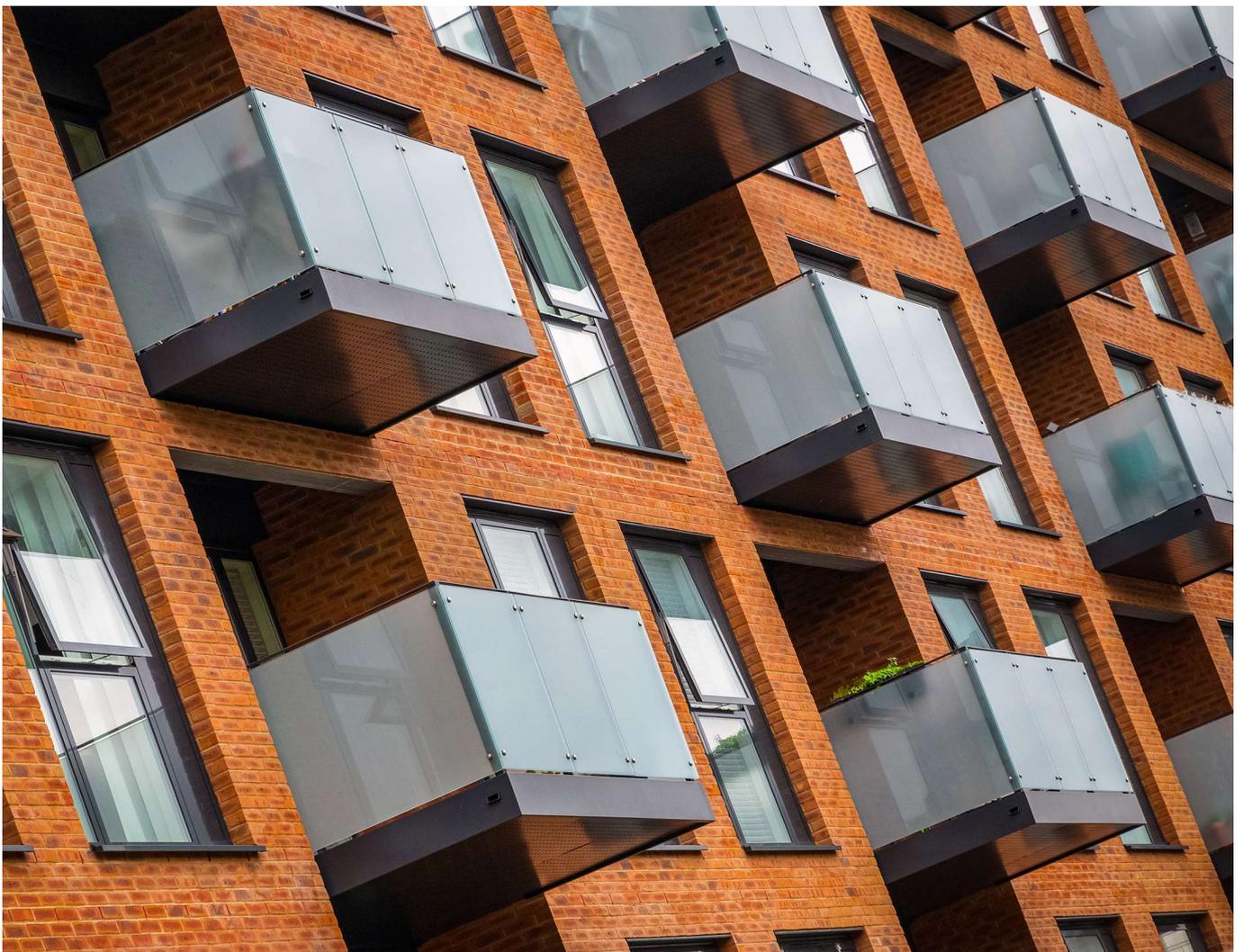
Inheritance Tax

Tax rates and allowances

The government has previously announced that the inheritance tax (IHT) threshold will remain frozen at £325,000 until 2027/2028. In addition, the residence nil-rate band will also be frozen at £175,000. When added to the IHT threshold of £325,000, it allows each individual to pass on £500,000 with no IHT payable - or £1m per couple. There is a tapered withdrawal of the additional nil-rate band for estates with a net value of more than £2m. This is at a withdrawal rate of £1 for every £2 over this threshold.

The rate of IHT remains at 40%.

For a table of the main tax rates and allowances for 2023/2024, see page [30](#).



Tax Administration

Abolition of the OTS

It has been confirmed that, as announced on 23 September 2022, the government will legislate in Spring Finance Bill 2023 to abolish the Office of Tax Simplification. The legislation will have effect from Royal Assent of Spring Finance Bill 2023.

Tax returns for cryptoassets

The Spring Budget 2023 announced that the government is introducing changes to the Self Assessment tax return forms SA108 (Capital gains summary page) and SA905 (Trust and estate capital gains page) requiring amounts in respect of cryptoassets to be separately identified. The changes will be introduced on the forms for tax year 2024/2025.

Reporting in relation to cryptoasset transactions is likely to be an area of attention for governments in the coming years. The OECD recently published its Crypto-Asset Reporting Framework (CARF) which was developed in the light of the rapid growth of the cryptoasset market and provides for the reporting of information on transactions in crypto-assets in a standardised manner, with a view to automatically exchanging such information with the jurisdictions of residence of taxpayers on an annual basis.

Automatic exchange of information powers

The government has announced a technical amendment to primary legislation to consolidate existing powers to allow further Automatic Exchange of Information (AEOI) regulations to be laid under one piece of legislation. The existing AEOI powers to be consolidated are:

- (i) the Common Reporting Standard (CRS);
- (ii) Country by Country Reporting;
- (iii) UK DAC 6 (to be replaced by the MDR); and
- (iv) Reporting Rules for Digital Platforms.

The amendment will lay the groundwork for the UK to fully adopt the OECD's Mandatory Disclosure Rules (MDR) on 28 March 2023, which govern the mandatory disclosure of CRS avoidance schemes. The MDR requires promoters of such avoidance schemes and service providers involved in their implementation to inform tax authorities of any schemes they put in place for their clients to avoid

reporting under the CRS.

The adoption of the MDR is viewed as a continued divergence from EU law following Brexit, providing a lighter framework in the UK to report activities to the tax authorities compared to the EU's DAC 6. The MDR will replace the existing UK rules in the International Tax Enforcement (Disclosable Arrangements) Regulations 2020, which itself implemented certain hallmarks under Category D of DAC 6 following Brexit. DAC 6 required intermediaries who designed, marketed, organised or made available for implementation or managed the implementation of a reportable cross-border arrangement to report such details to the tax authorities.

The measure will have effect on and after the date of Royal Assent to the Spring Finance Bill 2023.

“The government is introducing changes requiring amounts in respect of cryptoassets to be separately identified”



Charitable tax reliefs

The Spring Budget 2023 has announced that the government will legislate in the Spring Finance Bill 2023 to restrict UK charity tax reliefs and exemptions to UK charities and Community Amateur Sports Clubs (CASCs). The taxes affected are income tax, Capital Gains Tax, corporation tax, inheritance tax, Stamp Duty, SDLT, Stamp Duty Reserve Tax, Annual Tax on Enveloped Dwellings (ATED) and Diverted Profits Tax.

The change will come into effect from 15 March 2023 and will apply UK-wide. Non-UK charities and CASCs that HMRC has accepted qualify for charity tax reliefs will have a transitional period until April 2024.

This measure is intended to ensure that UK taxpayer money only supports UK charities and CASCs, and support compliance activities for HMRC. Draft legislation has been published alongside the Budget.

Rendering void assignments of income tax repayment

As a general matter, and subject to statutory limitations, the right to receive a tax repayment from HMRC is assignable: that is, it can be transferred to another person.

Such assignments will no longer be lawful. This is to address perceived problems relating to 'repayment agents' – specialist tax advisers who claim repayment of tax on behalf of taxpayers. Evidence presented to the government suggests that a number of repayment agents, who tend to advise relatively modest earners, were as a matter of course requiring their clients to assign the right to repayment of tax claimed and setting that off against what were felt to be often disproportionate fees for their services.

The impact, because this change will be limited in scope to income tax, is likely to be modest.

Doubling maximum sentences for tax fraud

The government has announced that it will bring forward legislation to increase the maximum sentence for what it describes as the "most egregious cases of" tax fraud from 7 to 14 years. It is not yet clear what sort of conduct this is intended to capture, but it is noteworthy that this is a significantly higher penalty than for the non-tax-specific offences under the Fraud Act 2006 (10 years).



HM REVENUE & CUSTOMS TAX RATES AND ALLOWANCES FOR 2023/24

Income tax allowances	2022/23 (£)	2023/24 (£)
Personal allowance	12,570	12,570
Higher rate threshold	50,270	50,270
Income limit for personal allowance ¹	100,000	100,000
Transferrable marriage allowance	1,260	1,260
Blind person's allowance	2,600	2,870

(1) The individual's personal allowance is reduced where their income is above this limit. The allowance is reduced by £1 for every £2 above the limit.

Other allowances/thresholds	2022/23 (£)	2023/24 (£)
Capital gains tax annual exempt amount for individuals etc.	12,300	6,000
Inheritance tax threshold	325,000	325,000

Income tax bands	2022/23 (£)	2023/24 (£)
Starting savings rate 0% ²	5,000	£5,000
Basic rate 20%	1 – 37,700	1 – 37,700
Higher rate 40%	37,701 – 150,000	37,701 – 125,140
Additional rate 45%	Over £150,000	Over £125,140

(2) If non-savings taxable income exceeds the starting rate limit, the starting savings rate will not apply to savings income.

Corporation tax profits³

Main rate	2022/23 (£)	Main rate	2023/24 (£)
19%	Whole of profits	25%	Whole of profits

(3) From 01 April 2023, the main rate of corporation tax will increase to 25% for profits in excess of £250,000. From the same date, a 'small profits rate' of 19% will apply to profits up to £50,000. For businesses with profits between £50,000 and £250,000, tax will be charged at the main rate, subject to marginal relief provisions which will provide a gradual increase in the effective corporation tax rate. The bank corporation tax surcharge will reduce from 8% to 3% from the same date, so that the overall corporation tax rate payable by banks will be 28%.

Stamp duty land tax

Rate	Residential ^{4 5 7}		Non-residential or mixed use property	
	2022/23 (£)	2023/24 (£)	2022/23 (£)	2023/24 (£)
Total value of consideration				
0%	0 – 125,000 ⁸	0 – 125,000	0 – 150,000	0 – 150,000
2%	125,001 – 250,000		150,001 – 250,000	150,001 – 250,000
5%	250,001 – 925,000	250,001 – 925,000	Over 250,000	Over 250,000
10%	925,001 – 1,500,000	925,001 – 1,500,000	N/A	N/A
12%	Over 1,500,000	Over 1,500,000	N/A	N/A
15% ⁶	Over 500,000	Over 500,000	N/A	N/A

(4) Stamp duty land tax is charged at a rate of 3% above the current stamp duty land tax residential rates from 01 April 2016 on purchases by individuals of additional residential properties (such as second homes and buy-to-let properties), and by non-natural persons (companies, partnerships including companies or collective investment schemes) of a residential property, even if they do not own another residential property.

(5) For purchases by first-time buyers of property worth £625,000 or less from 23 September 2022, the stamp duty land tax rate for a property valued £0 – 425,000 is 0% and for a property valued £425,001 – 625,000 is 0% on the consideration up to £425,000 and 5% on the remainder.

(6) The 15% rate applies to certain acquisitions of residential property by "non-natural persons" (a company, a partnership including a company or a collective investment scheme).

(7) A 2% surcharge applies from 01 April 2021 on non-UK residents purchasing residential property in England and Northern Ireland (when combined with the additional 3% rate (see note 5 above), a 5% surcharge applies on non-UK residents purchasing additional residential properties).

(8) The nil rate band for residential property increased from £125,000 to £250,000 from 23 September 2022.

Contact us



Darren Oswick

Partner

darren.oswick@simmons-simmons.com

T +4420 7825 3546



Zoë Arnautov

Partner

zoe.arnautov@simmons-simmons.com

T +4420 7825 3091



Nick Cronkshaw

Partner

nick.cronkshaw@simmons-simmons.com

T +4420 7825 4289



Jo Crookshank

Partner

jo.crookshank@simmons-simmons.com

T +4420 7825 3554



Tomoko Ikawa

Partner

tomoko.ikawa@simmons-simmons.com

T +4420 7825 4030



Martin Shah

Partner

martin.shah@simmons-simmons.com

T +4420 7825 4638



Mark Sheiham

Partner

mark.sheiham@simmons-simmons.com

T +4420 7825 4146



Nick Skerrett

Partner

nick.skerrett@simmons-simmons.com

T +4420 7825 3975

For additional information on our firm, please visit our website at simmons-simmons.com.

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