

# Mini budget 2022



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## **CIPP summary of mini budget 2022**

Following the appointment of new prime minister, Liz Truss, on 6 September 2022, it was announced there would be a 'mini budget' on 23 September 2022. This would be delivered by new chancellor of the Exchequer, Kwasi Kwarteng. As ever, rumours circulated as to what would be revealed, some of which were correct, others which never came to fruition. However, there were a few shock announcements which will have significant impacts on the work payroll professionals carry out.

We had confirmation the previous day (22 September 2022) that the increase to National Insurance (NI) rates of 1.25 percentage points would be reversed from 6 November 2022. This was a huge announcement, and means that individuals will have seen not one, not two, but three changes to NI in tax year 2022/23. This will have ramifications for software developers and payroll teams alike, who will need to deal with the additional change, and any anomalies which could arise as a result.

It's no secret we're currently experiencing a cost-of-living crisis, with spiralling energy bills and inflation placing strain on millions of households. The chancellor opened his speech by addressing the situation and confirming that measures would be implemented to help people through this turbulent time.

It was confirmed the government currently has three central priorities, which are:

- reforming the supply-side of the economy
- maintaining a responsible approach to public finances
- cutting taxes to boost growth.

Following this were multiple announcements regarding policy changes in these areas. Many of the changes will impact payroll professionals, so read on to find out more about the changes to off-payroll reforms, the abolition of the Office of Tax Simplification (OTS) and the massive news that the additional rate of income tax will be abolished, and the basic rate reduced from 20% to 19% from April 2023.

## Economic outlook

With rising inflation and the cost-of-living still at the forefront of the nation's mind, the economic outlook is more important than ever. Today's announcements are presented with the aim of growth. A broad range of measures that cut taxes and put more money in the hands of individuals.

In a break from the norm, the Office for Budget Responsibility (OBR) has not provided a financial outlook or breakdown of the proposals for this mini budget. The government has promised that OBR will publish a full economic and fiscal forecast before the end of the year, with an additional report coming in the new year.

Costings of the growth plan result in a £26.7 billion reduction in tax revenue for 2023/24. The costings provided use the spring statement 2022 economic forecast, unless other information is available, as this was the latest official data available.

## OTS abolishment

The government has made the decision to abolish the OTS, an arms-length body that oversees simplification of the tax systems.

Instead, tax simplification will be incorporated into the mandate of HM Treasury and HM Revenue & Customs (HMRC). As OTS is a statutory body, the closure will be effective from the date the next Finance Bill achieves Royal assent. We are keen to understand more about how this change will be implemented and its efficacy in the long-term.

## Changes to income tax

The announcement which has been referred to as the 'rabbit in a hat' revelation was the abolition of the additional rate of tax of 45%, from April 2023. This was then followed by the news that the basic rate of income tax would be reduced from 20% to 19% from April 2023. This means the change will be implemented a year earlier than promised by the previous chancellor of the Exchequer, Rishi Sunak, in his spring statement, in which he pledged to do this by April 2024.

Once the additional rate of tax is removed, there will no longer be a rate of tax of 45% placed on annual income above £150,000. Therefore, all annual income above £50,270 will be taxed at the higher rate of income tax (40%). According to the Growth Plan documents, this will cut tax for approximately 660,000 individuals from April 2023. The change to the main rates will apply to:

- non-savings, non-dividend income for taxpayers in England, Wales and Northern Ireland
- the savings rates applicable to savings income for taxpayers across the UK
- the default additional rate applicable to non-savings and non-dividend income of any taxpayer not subject to either the main rates or the Scottish rates of income tax.

Even though the basic rate of tax is reducing to 19% from April 2023, there will be a four-year transition period for Gift Aid relief, to maintain the income tax basic rate relief at 20%, until April 2027. There will also be a one-year transitional period for relief at source pension schemes to allow them to continue to claim tax relief at 20%.

It's of note that the rates and bands for Scottish income taxpayers for non-savings, non-dividend income are set by the Scottish government, so the income tax rate cuts announced do not apply to Scottish taxpayers. Additionally, the Welsh rates of income tax for non-savings, non-dividend income for Welsh taxpayers are set by the Welsh government, on top of the reduced UK rates. The income tax rate cuts apply to Welsh taxpayers, but don't provide additional funding for the Welsh government.

## Health and social care levy abolished

The government is cancelling the health and social care levy – initially introduced as a 1.25 percentage point rise in National Insurance contributions (NICs) which took effect in April 2022.

Chancellor, Kwasi Kwarteng, confirmed in his speech: *“Yesterday, we introduced a Bill that means the Health and Social Care Levy will not begin next year... it will be cancelled... And the interim increase in the National Insurance rate, brought in for this tax year...will be cancelled.”*

This will be delivered in two parts:

- the government will reduce NI rates from 6 November 2022, in effect, removing the temporary 1.25 percentage point increase for the remainder of the 2022/23 tax year
- the 1.25% health and social care levy will not come into force as a separate tax from 6 April 2023 as previously planned.

The increased contributions people have paid from 6 April 2022 – 5 November 2022 will not be refunded. Refunds of NICs will be allowed for contributions after 6 November 2022, should software developers be unable to implement the changes in time.

This tax cut reduces 920,000 businesses’ tax liabilities by £9,600 on average in 2023/24. This is 60% of the UK’s businesses with employer NICs liabilities. It means 28 million people across the UK will keep an extra £330 a year, on average, in 2023/24.

## Reversing the dividend tax increase

The government is reversing the 1.25 percentage point increase in dividend tax rates applying across the UK from 6 April 2023.

From 6 April 2023 the ordinary and upper rates of dividend tax will return to 7.5% and 32.5% respectively. This will benefit 2.6 million dividend taxpayers with an average saving of £345 in 2023/24 and additional rate taxpayers will further benefit from the abolition of the additional rate of dividend tax. This will support entrepreneurs and investors across the UK to drive economic growth.

## Investment zones

The government has committed to working with local councils and devolved administrations to bring new investment zones across the UK. According to the government, these zones will bring tax incentives, simplify planning restrictions and drive growth. While similar in concept to freeport tax sites, they are distinct in operation and function.

Specified sites in England will receive time-limited tax incentives over the next ten years. In Scotland, Wales and Northern Ireland, the investment zones will be delivered with devolved administrations and local partners. Businesses within the zones will receive 100% relief on business rates for newly occupied premises and some existing business will also qualify if they expand within the zone. For 25 years, the local council will receive 100% of business rate growth above an agreed threshold.

Capital allowance and structures and buildings allowances are to be enhanced for businesses within the zones. As well as a full stamp duty land tax relief for land and property bought for commercial use or development or new residential developments. Importantly for payroll professionals, new employees who work in the tax sites will be eligible for zero-rate employer NI contributions up to £50,270. Employees need to work at least 60% of their time in the site. Employer NI contributions over £50,270, will be charged at the usual rate.

Investment zones are currently not included in the costings of the Growth Plan as insufficient data about their implementation is available.

## Repealing off-payroll working reforms

The Growth Plan sets out the first steps in taking complexity out of the tax system. The 2017 and 2021 reforms to the off-payroll working rules (also known as IR35) will be repealed from 6 April 2023.

From this date, workers across the UK providing their services via an intermediary, such as a personal service company, will once again be responsible for determining their employment status, and for paying the appropriate amount of tax and NICs. Kwarteng confirmed in his speech: “... *we will continue to keep compliance closely under review.*”

Payroll professionals will no longer be required to add ‘deemed employees’ to payroll software to account for income tax and employer NICs because this becomes the responsibility of the PSC once more. The CIPP will update further on the impacts as more information is provided by the government.

## Planned corporation tax increase cancelled

Under the previous government’s plans, the rate of corporation tax was due to increase from 19% to 25% from April 2023 for firms making more than £250,000 profit, around 10% of actively trading companies.

The government has now cancelled this planned increase. Rather than rising to 25% from April 2023, the rate will remain at 19% for all firms, regardless of the amount of profit made. At 19%, the UK corporation tax rate is the lowest in the G20.

The Growth Plan 2022 states, “*reversing the planned increase in the Corporation Tax rate is expected to increase investment. In turn these would be expected to have a positive impact on the size of the economy in the medium-term.*”

## Universal credit

The Growth Plan announces reforms to the Universal Credit (UC) conditionality to support claimants on UC to secure more or better paid work and provide more work coach support. The government will also set clear work expectations of claimants and provide more support to those over 50. These changes will give claimants the best possible chance to be financially independent of UC.

The government will raise the administrative earnings threshold (AET) to 15 hours a week at national living wage for an individual claimant (and 24 hours a week for couples) from January 2023. This builds on the increase due to come into effect from 26 September 2022, which will raise the threshold from 9 hours a week to 12 hours a week for an individual (and 19 hours a week for couples).

This latest change means that around 120,000 more UC claimants will be moved from the light touch labour market regime to the intensive work search labour market regime. This means they will be expected to actively search for work and attend weekly or fortnightly appointments at a jobcentre to secure more or better paid work, or they could have their benefits reduced. These changes will apply across Great Britain.

## Tackling the rising costs of energy

This has been an area of discussion and concern for a while now. The government has announced a range of measures designed to tackle the increasing costs of energy that are having an impact on so many people.

The energy price guarantee (EPG) will place a cap on the unit rate of electricity and gas, meaning the average household will pay no more than £2,500 per year for a period of two years, from October 2022. An additional payment of £100 will be given to compensate anyone who isn't able to receive additional support for heating costs through the EPG. All households will also receive £400 in additional support through the energy bills support scheme in winter 2022.

The energy bill relief scheme (EBRS) is a temporary six-month scheme in Great Britain, which will help businesses and other non-domestic energy users by offering a discount on wholesale gas and electricity prices. The government will review the scheme in three months to determine future support following March 2023.

## Other areas of interest

As always, there were a multitude of announcements that don't necessarily impact payroll but are areas of interest, nonetheless. Here are just a selection of them:

### ***Stamp duty land tax (SDLT)***

From 23 September 2022, the threshold above which the SDLT must be paid on the purchase of residential properties in England and Northern Ireland will increase from £125,000 to £250,000. From the same date, the threshold at which first-time buyers begin to pay SDLT will increase from £300,000 to £425,000. The maximum value of a property on which first time buyers can claim relief will also increase from £500,000 to £625,000.

### ***Scrapping the bankers' bonus cap***

The cap placed on bonuses to certain banking staff, of 100% of their fixed pay (or 200% where there's stakeholder approval) will be removed.

### ***Alcohol duty reform***

The duty rates for all categories of alcohol will be frozen from 1 February 2023. A government response to the consultation on the new alcohol duty system will soon be published, along with draft legislation to underpin the changes. The reforms will be implemented from 1 August 2023.

## CIPP comment

There was certainly nothing 'mini' about today's mini budget. The raft of changes announced will have massive impacts on not only payroll, but also the wider economy and society.

The amount of change that's coming just goes to demonstrate why payroll professionals are still most definitely 'key workers', as they were classed during the pandemic. Teams will need to work hard to understand and implement changes, in fast turnaround times, and will also need to be conversant in new rules to assist with employee pay queries.

We, at the CIPP, hope that the practice of introducing mid-year changes to NI rates and thresholds is an exception, and does not set a precedent for future tax years. Although payroll teams and software developers have dealt with, and will deal with, the changes adeptly, they have created additional work and much confusion for individuals when receiving their pay.

While the changes announced will hopefully and commendably put more money into the hands of individuals during the ongoing cost-of-living crisis, it is unfortunate we have not had a full economic and fiscal forecast from OBS. This review is imperative to maintaining the transparency required when proposing such wide impacting changes.

As always, the devil is in the detail, and the CIPP's policy team will be keeping an eye out for further information on all the new policies over the coming weeks and months. We will, of course, update you as soon as anything new is announced via the range of communication methods we use.

The CIPP would welcome a discussion with HM Treasury around changes that impact the payroll industry. In particular, the lead times involved with NI changes and how these can be smoothly implemented to achieve the required targets with minimal disruption.