Rishi Sunak, Chancellor of the Exchequer, presented the Spring Statement 23 March 2022.

Here are the key measures

Business investment rates cut – The Chancellor will cut rates on business investment this autumn 2022.

Business rates discount – A business rates discount is promised to come into effect in April 2022 for retail, hospitality, and leisure businesses. A typical pub will save around £5,000.

Employment Allowance – The Employment Allowance will be increased by £1,000 from 6 April 2022 to £5,000, which will benefit around 495,000 businesses

Energy bill discounts – A £200 discount will also be applied to household electricity bills in autumn 2022, repayable over 5 years.

Energy Bill Rebate – Households in council tax bands A to D will receive a £150 non-repayable Council Tax Rebate to offset rising energy bills.

Fuel duty cut – Fuel duty will be cut by 5 pence per litre, for 12 months. This will come into effect from 6pm today until March 2023, reducing the cost of living for families and the cost of operating a business.

Income tax threshold freeze – The income tax personal allowance and the threshold for the higher rate were to be frozen until 2026, as announced in the 2021 Spring Budget.

Income Tax threshold cut – The Chancellor promised to cut the basic rate threshold for income tax from 20p in the pound to 19p in the pound by 2024.

National Insurance Contributions rise (NIC) – National Insurance Contributions are set to rise by 1.25% from April 2022. An increase to the National Insurance Primary Threshold for Class 1 NICs and the Lower Profits Limit for Class 4 NICs from 6 July 2022, aligning it with the equivalent income tax personal allowance which is set at £12,570 per annum. As the increase only begins from 6 July 2022 the figure will only be £11,908 for the whole tax year 2022-2023.

National Insurance Contributions self-employed contributions - from April 2022, self-employed individuals with profits between the Small Profits Threshold (SPT) and the Lower Profit Limit will not pay Class 2 NICs, while allowing individuals to be able to continue to build National Insurance credits

R&D Tax Credit reform – Research and Development (R&D) tax credits will be reformed, and R&D expenditure credit may be boosted, a decision he will make in autumn 2022.

VAT cut on energy-efficient materials – 0% VAT on energy-saving materials, i.e., solar panels, insulation etc, to improve energy efficiency in homes

Below is an extract of the main points from the Spring Statement 2022 relevant to our clients

Spring Statement 2022 – 23 March 2022

Tax Plan

The Spring Statement sets out the government's plans to reform and reduce taxes. The Tax Plan – with its focus on helping families with the cost of living, creating the conditions for private sector led growth, and sharing the proceeds of growth fairly with working people – will drive improvements in living standards and support levelling up across the UK. The Tax Plan will be delivered in a responsible and sustainable way, guided by the core principle that prudent levels of space should be maintained against the fiscal rules. It will depend on continued discipline on public spending and the broader macroeconomic outlook.

The government will reform and reduce taxes in three ways:

- Helping families with the cost of living. The Spring Statement increases the annual National Insurance Primary Threshold and Lower Profits Limit from £9,880 to £12,570, from July 2022. This aligns the Primary Threshold and Lower Profits Limit with the income tax personal allowance. This will help almost 30 million working people, with a typical employee benefitting from a tax cut worth over £330 in the year from July.
- Boosting productivity and growth by creating the conditions for the private sector to invest more, train more and innovate more – fostering a new culture of enterprise. To do this, the government intends to cut and reform business taxes, to create a culture of enterprise and the conditions for private sector-led growth.
- Sharing the proceeds of growth fairly. The government will reduce the basic rate of income tax to 19% from April 2024. This is a tax cut of over £5 billion a year and represents the first cut in the basic rate of income tax in 16 years. Alongside tax cuts, the government also wants to make the tax system simpler, fairer and more efficient, and will confirm plans for reforms to reliefs and allowances ahead of 2024.

A new culture of enterprise

Improving productivity is the only way to deliver sustainable economic growth and increase living standards through higher real wages. The government has already taken important steps to meet its commitments to growth and to levelling-up through the super-deduction, the capital uplift and commitment to invest £20 billion per year in R&D (research and development) by 2024-25.

To go further, as the Chancellor set out in the Mais Lecture on 24 February, the government will focus on three priorities:

- Capital — cutting and reforming taxes on business investment to encourage firms to invest in productivity-enhancing assets
- People — encouraging businesses to offer more high-quality employee training and exploring whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training
- Ideas — delivering on the pledge to increase public investment in R&D and doing more through the tax system to encourage greater private sector investment in R&D

Supporting households

The government has already taken significant steps that will help households with the cost of living. These measures ensure work pays and help people keep more of what they earn to support households through the challenge ahead. They include:

- reducing the Universal Credit taper rate from 63% to 55%, and increasing Universal Credit work allowances by £500 a year to make work pay
- increasing the National Living Wage (NLW) for workers aged 23 and over by 6.6% to £9.50 an hour from April 2022
- freezing alcohol and fuel duties to keep costs down
- the £9 billion package announced in February 2022 to help households with rising energy bills this year

The Spring Statement announces an increase in the annual National Insurance Primary Threshold and the Lower Profits Limit from £9,880 to £12,570 from July 2022, to align with the income tax personal allowance. This is a tax cut of over £6 billion and worth over £330 for a typical employee in the year from July. Around 70% of National Insurance contributions (NICs) payers will pay less NICs, even accounting for the introduction of the Health and Social Care Levy. This change will take 2.2 million people out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy altogether. It brings into alignment the starting thresholds for income tax and NICs, making the taxation of income fairer, and these thresholds will remain aligned.

The government is also taking steps to ensure that self-employed individuals with lower earnings fully benefit. Spring Statement announces that from April 2022 self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will continue to build up National Insurance credits but will not pay any Class 2 NICs. Taken together, these measures will meet the government's ambition to ensure that the first £12,500 earned is tax free.

In addition, in response to fuel prices reaching their highest ever levels, Spring Statement announces a temporary 12-month cut to duty on petrol and diesel of 5p per litre. This measure represents a tax cut of around £2.4 billion over the next year. When compared with uprating fuel duty in 2022-23, cutting fuel duty to this level delivers savings for consumers worth over £5 billion over the next year and will save the average UK car driver around £100, van driver around £200 and haulier around £1,500, based on average fuel consumption.

To help households improve energy efficiency and keep energy costs down – as well as supporting the UK's long-term Net Zero ambitions – the government is extending the VAT relief available for the installation of energy saving materials (ESMs). Taking advantage of Brexit freedoms, the government will include additional technologies and remove the complex eligibility conditions, reversing a Court of Justice of the European Union ruling that unnecessarily restricted the application of the relief. The government will also increase the relief further by introducing a time-limited zero rate for the installation of ESMs. A typical family having roof top solar panels installed will save more than £1,000 in total on installation, and then £300 annually on their energy bills. The changes will take effect from April 2022.

Supporting Small and Medium-Sized Enterprises

The government recognises that, as well as households, businesses – particularly small and medium-sized enterprises (SMEs) – are also struggling with rising energy costs, recruiting staff, and navigating turbulent supply chains as the world economy recovers from the pandemic. SMEs support 16.3 million jobs – 61% of total private sector employment– and a strong economy relies on the entrepreneurship of small businesses across the United Kingdom. That is why the government has and continues to prioritise support for SMEs. Spring Statement builds on measures previously announced and goes further.

The government has already reduced the burden of business rates in England. The business rates multiplier will be frozen in 2022-23, which is a tax cut for all ratepayers worth £4.6 billion over the next five years. Eligible retail, hospitality, and leisure businesses will also benefit from a new temporary 50% Business Rates Relief worth £1.7 billion. The package of changes is worth £7 billion over the next five years and means:

- the average pub, with a rateable value of £21,000, will save £5,200
- the average convenience store, with a rateable value of £28,500, will save £7,000
- the average cinema, with a rateable value of £95,500, will save £24,000

To help SMEs gain the skills they need to succeed, the government is subsidising the cost of high-quality training. Help to Grow: Management offers businesses 12 weeks of world class leadership training through the UK's top business schools, with government covering 90% of the cost. The cost of apprenticeship training is 95% subsidised for SMEs that do not pay the Apprenticeship Levy.

To support businesses to invest and grow, the temporary £1 million level of the Annual Investment Allowance has been extended to 31 March 2023. This is the highest level of support for capital expenditure ever provided through the Annual Investment Allowance and provides generous relief for investment across over a million SMEs. The government is also helping firms to adopt new digital technologies, with Help to Grow: Digital, offering eligible SMEs a 50% discount on approved software worth up to £5,000.

To support the decarbonisation of non-domestic buildings, the government is introducing targeted business rates exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill. Spring Statement announces that these measures will now take effect from April 2022, a year earlier than previously planned.

Finally, the government is supporting small businesses to do what they do best: create jobs. In April 2020, the government increased the Employment Allowance from £3,000 to £4,000. Spring Statement announces a further increase from April 2022, meaning eligible employers will be able to reduce their employer NICs bills by up to £5,000 per year – this is a tax cut worth up to £1,000 per employer. As a result, businesses will be able to employ four full-time employees on the NLW without paying employer NICs. This measure will benefit around 495,000 businesses, including around 50,000 businesses which will be taken out of paying NICs and the Health and Social Care Levy entirely. In total, this means that from April 2022, 670,000 businesses will not pay NICs and the Health and Social Care Levy due to the Employment Allowance.

Details of policy decisions

Increasing National Insurance thresholds – The annual National Insurance Primary Threshold and Lower Profits Limit, for employees and the self-employed respectively, will increase from £9,880 to £12,570 from July 2022. This increase will benefit almost 30 million people, with a typical employee saving over £330 in the year from July. Around 70% of NICs payers will pay less NICs, even after accounting for the introduction of the Health and Social Care Levy. Around 2.2 million people will be taken out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy entirely, on top of the 6.1 million who already do not pay NICs. July is the earliest date that will allow all payroll software developers and employers to update their systems and implement changes.

Reducing Class 2 NICs payments for low earners – From April, self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will not pay class 2 NICs, meaning lower-earning self-employed people can keep more of what they earn while continuing to build up National Insurance credits. Over the year as a whole, the Lower Profits Limit, the threshold below which self-employed people do not pay National Insurance, is equivalent to an annualised threshold of £9,880 between April to June, and £12,570 from July. This change represents a tax cut for around 500,000 self-employed people worth up to £165 per year.

Increasing the Employment Allowance – The Employment Allowance will increase from April 2022, meaning eligible employers will be able to reduce their employer NICs bills by up to £5,000 per year – a tax cut worth up to £1,000 per employer. As a result, businesses will be able to employ four full-time employees on the NLW without paying any employer NICs. This measure will benefit around 495,000 businesses, including around 50,000 businesses which will be taken out of paying NICs and the Health and Social Care Levy entirely. In total, this means that from April 2022, up to 670,000 businesses will not pay NICs and the Health and Social Care Levy due to the Employment Allowance.

Basic rate of income tax – The government will reduce the basic rate of income tax to 19% from April 2024. This is a tax cut of over £5 billion a year and represents the first cut in the basic rate of income tax in 16 years. A three-year transition period for Gift Aid relief will apply, to maintain the income tax basic rate relief at 20% until April 2027.

Temporary cut to fuel duty – The government will cut the duty on petrol and diesel by 5p per litre for 12 months. This will take effect from 6pm on 23 March on a UK-wide basis. This is the largest cash-terms cut across all fuel duty rates at once ever and is only the second time in 20 years that main rates of petrol and diesel have been cut.

Extending the Household Support Fund – The government is continuing to provide targeted support for the most vulnerable. To help households with the cost of essentials such as food, clothing and utilities, the government is providing an additional £500 million for the Household Support Fund from April, on top of the £500 million already provided since October 2021, bringing total funding to £1 billion.

VAT relief for energy saving materials – The government will reverse a Court of Justice of the European Union ruling that restricted the application of VAT relief on the installation of ESMs. This will mean wind and water turbines will be added to the list of ESMs and the complex eligibility conditions will be removed. The government will also increase the relief further by introducing a time-limited zero rate for the installation of ESMs. The changes will take effect from April 2022.

Green reliefs for Business Rates – At Autumn Budget 2021 the government announced the introduction of targeted business rate exemptions from 1 April 2023 until 31 March 2035 for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill, to support the decarbonisation of non-domestic buildings. The government is bringing forward the implementation of these measures and is announcing that they will now take effect from April 2022.

R&D tax relief reform – The government set out in the Tax Administration and Maintenance Command Paper that R&D tax reliefs would be reformed to include some cloud and data costs and refocus support on R&D carried out in the UK. The government has listened to stakeholders and can confirm that from April 2023, all cloud computing costs associated with R&D, including storage, will qualify for relief. The government remains committed to refocus support towards innovation in the UK, ensuring that the UK more effectively captures the benefits of R&D funded by the reliefs. The government recognises that there are some cases where it is necessary for the R&D to take place overseas. The government will, therefore, legislate so that expenditure on overseas R&D activities can still qualify where there are:

- material factors such as geography, environment, population or other conditions that are not present in the UK and are required for the research – for example, deep ocean research
- regulatory or other legal requirements that activities must take place outside of the UK – for example, clinical trials

To support the growing volume of R&D underpinned by mathematical advances, the definition of R&D for tax reliefs will be expanded by clarifying that pure mathematics is a qualifying cost.

Where required, legislation will be published in draft before being included in a future Finance Bill to come into effect in April 2023.

Additional compliance resource for HMRC – The government is investing £161 million over the next five years to increase compliance and debt management capacity in HMRC. This investment is forecast to bring in more than £3 billion of additional tax revenues over the next five years, by funding additional HMRC staff to provide greater support to taxpayers seeking to pay off accrued tax debts, and to tackle the most complex tax risks, ensuring large and mid-sized businesses pay the tax they owe.

DWP: investment in compliance – As announced in December 2021, the government is investing an additional £510 million to increase DWP's capacity and capability to prevent and detect fraud and error and collect more debt. This is forecast to deliver savings of £3.15 billion by 2026-27.

Tax credits: addressing error and fraud – The government is investing £12 million to help claimants keep their tax credits claims accurate through regular health-check calls, compliance activity, and the use of SMS nudges. This will help prevent or correct error and fraud, and in turn support a smooth transition to Universal Credit.

Tackling Fraud – The government is providing £48.8 million of funding over 3 years to support the creation of a new Public Sector Fraud Authority and enhance counter-fraud work across the British Business Bank and the National Intelligence Service. The investment enables government and enforcement agencies to step up their efforts to reduce fraud and error, bring fraudsters to justice, and will recover millions of pounds.

Capital

In March 2021, the government announced the super-deduction – temporary enhanced first year capital allowances that will end in April 2023. It is the biggest two-year business tax cut in modern British history, announced in extraordinary circumstances.

Ahead of April 2023, the government is considering reforms to best support future business investment. The super-deduction is expected to cost around £10 billion a year at its peak. The government's priorities are to ensure that any future support aligns with the government's fiscal objectives and that taxpayer money is effectively targeted. As part of this the government will look at how reforms could best support economic growth, and ensure the UK remains a competitive place to invest.

The super-deduction allows companies to write-off the costs of qualifying plant and machinery investments against taxable profits (excluding cars, second-hand assets and assets held for leasing). It provides a deduction of 130% of qualifying main rate plant and machinery expenditure (instead of 18% through normal writing down allowances), and 50% of qualifying special rate plant and machinery (instead of 6%).

Once the super-deduction has ended, the UK's capital allowances regime will include:

- the Annual Investment Allowance: this allows businesses to deduct in-year the full value (100%) of qualifying plant and machinery investment (excluding cars) in one go, up to a limit of £200,000. That limit has been temporarily increased to £1 million until 31 March 2023. It is available to sole traders and partnerships, as well as to incorporated companies, covering the qualifying plant and machinery expenditure of over 99% of businesses
- Writing Down Allowances: these allow businesses to make deductions of the value of plant and machinery investments at a deemed rate, in calculating their taxable profits. There are two rates: 18% for main rate assets and 6% for special rate assets (those that are integral features of buildings; typically have usable lives over 25 years; and cars with CO_2 emissions above a set threshold)
- Structures and Buildings Allowance: this allows businesses to deduct 3% a year of the cost of construction and renovation of non-residential structures and buildings
- allowances for specific assets or activities: including 100% First Year Allowances for zero-emission cars; and 100% in-year deduction for qualifying capital expenditure on R&D. The UK's regime is relatively simple. For plant and machinery capital investments, there are generally only two rates of Writing Down Allowances; businesses may pool assets in order to write down the total value; and under the Annual Investment Allowance, businesses may claim 100% of their qualifying expenditure, up to a limit, in the year in which it is incurred.