Mini-Budget 2022 overview

Updated on 17 October 2022

On 17 October 2022, there was yet another new Chancellor and reversal of almost all of the fiscal changes announced in the initial mini-Budget. With an attempt to bring economic stability, the current position is as follows:

- The basic rate of income tax will remain at 20% until economic conditions allow this rate to be cut. This change doesn't apply to non-savings and non-dividend income for Scottish resident taxpayers.

- The planned 6% increase to corporation tax rates will now go ahead and take effect from April 2023. Companies with profits over £250,000 will pay corporation tax at 25%, companies with profits of £50,000 or less will pay the small profits rate of 19% and companies with profits between £50,000 and £250,000 will pay corporation tax at 25% but will benefit from a marginal relief.

- Dividend tax rates will now remain at the current rates of 8.75%, 33.75% and 39.35% and will no longer reduce by 1.25% from 6 April 2023.

- The changes to the off payroll working rules (otherwise known as IR35) that were made in 2017 and 2021 will no longer be reversed.

- The reversal of the 1.25% increase to employers and employee's National Insurance will still go ahead from 6 November 2022. A new health and social care levy will no longer be introduced from April 2023.

Updated on 3 October 2022

On 3 October 2022, the Chancellor reversed his proposal to scrap the 45% additional rate of income tax. This announcement changes our mini-Budget analysis as follows.

Dividend taxation

From 6 April 2023, the dividend tax rate will be reduced by 1.25%, meaning the tax rates will return to 7.5%, 32.5% or 38.1%, as we assume the additional rate of dividend tax will now no longer be abolished from April 2023.

Income tax – personal savings allowance

As the additional rate of income tax is no longer being scrapped, those who are additional rate taxpayers will continue not to qualify for a £500 personal savings allowance from April 2023.

Tax relief for pension contributions - additional rate tax relief

Individuals who pay additional rate tax at 45% may now be able to continue to benefit from additional rate tax relief in future tax years on their pension contributions depending on the total personal contributions paid and the individual's total income.

You can find a summary of the key points relating to pensions and investments announced by the Chancellor in the new Growth Plan on 23 September 2022 below.

Investments and tax

Dividend taxation

From 6 April 2023, the dividend tax rate will be reduced by 1.25%, meaning the tax rates will return to 7.5% or 32.5%. The additional rate of dividend tax will be abolished from April 2023.

Income tax

From 6 April 2023, the basic rate will be reduced from 20% to 19% and the 45% additional rate of tax abolished. These changes won't apply to non-savings and non-dividend income for Scottish resident taxpayers. Those taxpayers who would have otherwise been additional rate taxpayers will now qualify for a £500 personal savings allowance from 6 April 2023.

National insurance rates

National insurance rates for employers, employees and the self-employed will decrease by 1.25% from 6 November 2022 and the planned introduction of a separate social care levy from 6 April 2023 has been reversed.

Corporation tax

The planned 6% increase to corporation tax rates will no longer take effect from April 2023 and corporation tax rates will instead remain at 19% regardless of the amount of profits the company makes.

Off-payroll rule changes (also known as IR35)

The IR35 rule changes which came into effect in 2021 will be reversed and, as a result, from 6 April 2023 workers, such as contractors, who provide their services through an intermediary will resume responsibility for determining their employment status and accounting for income tax and national insurance.

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Pensions

Tax relief for pension contributions

Basic rate tax relief

The government brought forward the planned reduction in basic rate tax from 20% to 19% to 6 April 2023 (from 6 April 2024). Alongside this, they announced that there'll be a one-year transitional period for pension schemes operating the relief at source (RAS) method of claiming pension tax relief – schemes can continue to claim 20% tax relief on pension contributions until 5 April 2024.

This will benefit members of pension schemes operating RAS but means that those contributing to occupational pension schemes where the employer operates the net pay arrangement, such as Master Trusts, will get 1% less tax relief on their pension contributions for the 2023/24 tax year.

There's currently no information on how this transitional period will affect Scottish taxpayers, who currently get 20% tax relief on contributions where earnings are subject to the 19% tax band and who can claim a further 1% tax relief on contributions where they pay income tax at 21%.

Additional rate tax relief

Individuals who pay additional rate tax at 45% may be able to claim additional rate tax relief on their pension contributions. The extra tax relief available depends on the total personal contributions paid and the individual's total income. With the abolition of the additional rate tax band from 6 April 2023[1], it will no longer be possible to claim additional rate relief of 45% for pension contributions.

So it may be worth investigating making use of this additional rate of relief in the remainder of 2022/23. Our technical FAQs on claiming tax relief, carry forward rules and tapered annual allowance rules may help with understanding which of your clients might be able to top up their pension contributions before additional rate tax relief is gone for good.

From 6 April 2023, the maximum rate of tax relief available will reduce to 40%.

[1]in England, Wales and Northern Ireland.

Reform of regulatory charge cap for occupational DC schemes

The DWP's consultation on draft regulations to make changes to the regulatory charge cap for default funds of auto enrolment schemes was published on 30 March 2022.

Today the government announced that they were bringing forward the draft regulations 'to remove well-designed performance fees from the occupational defined contribution pension charge cap'. There's no technical detail on how this will work at the moment, although the consultation paper does give an indication of the direction of travel.

Salary sacrifice

The change in employer and employee National Insurance (NI) rates from 6 November 2022 will affect salary sacrifice calculations. The employer NI saving will change from 6 November 2022 from 15.05% of the sacrificed amount to 13.8%, and the employee NI saving will similarly reduce from 13.25% to 12%.

NHS pension scheme

While not mentioned in today's Growth Plan, the Secretary of State for Health and Social Care, Thérèse Coffey yesterday announced plans to reform the NHS Pension Scheme, and published this policy paper. The paper outlines proposals to help retain doctors, nurses, and other senior NHS staff by making changes to the NHS pension scheme.

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