spring statement 2022: what you need to know

BUSINESS INFORMATION UPDATE FROM **FINCH**

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What do small businesses need to know about the Spring Statement that Rishi Sunak, the Chancellor of the Exchequer, delivered on 23 March 2022?

In the March 2022 UK budget, Chancellor Rishi Sunak announced a number of support measures to help keep businesses in business. Small and medium-sized enterprises (SMEs) include changes to national insurance and employee allowance, a reduction in fuel duty and tax cuts.

1. national insurance

Despite hopes that the previously announced increase in National Insurance (NI) may be delayed, the Chancellor confirmed that it will be increased by 1.25% to pay for health and social care. This will be replaced by the Health and Social Care levy next year.

However, there is good news on National Insurance thresholds.

Employees will now need to earn more (£12,570) before they start to pay. While the previous threshold was £9,568, these will be raised by £3000 in July 2022 to bring them in line with the income tax personal allowance. This will come into effect from **July 2022.**

The self-employed who have lower earnings will also benefit. If they have small profits between threshold of £6,725 in 2022/23 and the lower profits limit of £12,570, they will not need to pay any Class 2 NICs but they will still build up NI credits.

2. employment allowance

The Employment allowance relief is being increased by £1,000 to £5,000 in April 2022. This is the amount eligible businesses can claim against employers' Class 1 National Insurance each year. With the Employment Allowance, employers pay less employers' Class 1 National Insurance each time they run their payroll until the allowance has gone or the tax year ends (whichever is sooner).

Around 495,000 businesses (30% of all businesses) will benefit from this increase including around 50,000 businesses (3% of all businesses) which will not need to pay NICs and the health and social levy at all.

3. fuel duty

If you have a business that requires you to drive a lot, the soaring fuel costs will have already impacted your business and profitability.

The announcement of a 5p a litre cut on fuel came into effect from 6pm on 23 March 2022 and will last until March 2023.

Fuel duty is included in the price of petrol and has been frozen at 57.95p a litre since 2011. Whilst motoring organisations had recommended a reduction in VAT, that would have automatically had to be passed on by retailers. However, the passing on of the reduction in fuel duty depends entirely on retailers reducing their prices and not using it as opportunity to take greater profit on every litre sold.

This reduction in fuel duty is the largest cut across all fuel duty rates ever. Combining the fuel cut, plus the freeze in 2022-23, represents a £5bn saving over the next 12 months.

In practical terms, according to RAC Fuel Watch, this reduces the cost of filling up by £3.30 on the average tank which has risen to £98.43 for diesel and £91.87 for petrol.

4. income tax cuts

Rishi Sunak indicated that he wants to reduce and reform taxes during Parliament, however, details and analysis on the proposed plan are not yet available. Although the proposal will not take effect until 2024 the plan is that the government will reduce the basic rate of income tax from 20% to 19%.

5. annual investment allowance

There is no change to the Annual Investment Allowance (AIA) of £1 million. This is the highest level of support for capital expenditure ever provided through the AIA and is a great incentive to invest for over a million SMEs, providing full expensing for all SMEs.

6. research & development (r&d) tax breaks

The Chancellor announced his commitment to improving R&D tax credits. Further details are to be announced later this year with the potential to make R&D expenditure credit more generous this autumn.

From April 2023, businesses will be able to claim relief on the storage of their vital data and pure maths research. This is set to accelerate sectors such as Artificial Intelligence (AI), robotics, manufacturing and design in which the UK is a world leader.

7. vat and energy saving materials

Making green technology, including solar panels and heat pumps, exempt from business rates from April 2022 will save an extra £35million in 2022-23. This is expected to be worth around £170m over the next 5 years to support the decarbonisation of buildings.

100% relief will be available for eligible low carbon heat networks which have their own rates bill.

This is in addition to reducing VAT on energy savings materials (ESM) from 5% to 0%. This is a further incentive for homeowners to buy ESMs from businesses as part of the wider government initiative targeted at improving efficiency. Homeowners will pay zero VAT to install energy savings products like solar panels and heat pumps for next five years.

other points to note:

Business rates

The previously announced discounted business rates scheme for retail, hospitality and leisure is starting in April. The relief will be 50% relief (the current 66% discount ends on 31 March).

The Business rates multiplier is frozen for 2022-23 and will be re-assessed in 2023 based on 2021 rental values which should see a reduction in bills for many businesses.

Plans for business rates reform to be announced in the Autumn 22 Budget with changes due to start in April 2023.

VAT for Hospitality and tourism businesses

During the challenging trading conditions imposed by the pandemic, VAT was initially reduced to 5% on certain supplies relating to hospitality, hotel and holiday accommodation and admission to certain attractions. This was then increased in September 2021 to 12.5%; from April 2022 it will return to 20%.

Capital allowances

Ahead of April 2023, the government are due to consider a series of potential policy changes to the existing UK capital allowances scheme. The aim is to encourage business investment once the super-deduction ends to drive forward productivity growth.

Temporary super tax deduction

From 1 April 2021 until 31 March 2023, a new super tax deduction will come into effect for businesses investing into 'qualifying' new plant and machinery. Launched to encourage firms to invest in productivity-enhancing plant and machinery assets that will help them grow, and to make those investments now, this super deduction initiative will enable companies to cut their tax bill by up to 25p for every £1 they invest.

It is believed that the super deductions will propel Britain's capital allowances system (where businesses pay lower tax depending on the assets purchased) to be one of the most competitive in the world.

Manufacturing and construction companies are likely to benefit most from the super deduction as they regularly need to spend significant amounts on purchasing or hiring-in new equipment and machinery. Fuller details on the scope for the super deduction are still to be specified.

About the author

Alison Wild BCom (Hons), MAAT, ATT, Taxation Technician is a highly respected industry professional who has been working with and advising SMEs in areas including tax, pensions, insurance and marketing for over 25 years. She is a member of the Association of Accounting Technicians (AAT) and Association of Tax Technicians (AAT) and also has considerable experience as a residential landlord.

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