Spring Statement 2022 – What this means to Individuals

Mar 31, 2022

An update on how individuals will be affected on changes announced this month.

The UK personal allowance tax rates and bands for the tax year 2022/23 were announced by the Chancellor in the October 2021 Budget.

Income Tax

The personal allowance is currently £12,570 and will be frozen at £12,570 for the tax years to 2025/26.

There is a reduction in the personal allowance for those with 'adjusted net income' over £100,000. The reduction is £1 for every £2 of income above £100,000. So there is no personal allowance where adjusted net income exceeds £125,140.

The marriage allowance

The marriage allowance permits certain couples where neither party pays tax in the tax year at a rate other than the basic rate to transfer £1,260 of their personal allowance to their spouse or civil partner.

Comment

The marriage allowance reduces the recipient's tax bill by up to approximately £250 a year. To benefit from the marriage allowance one spouse or civil partner must normally have no income or income below the personal allowance for the year. The marriage allowance was first introduced for 2015/16 and there are couples who are entitled to claim but have not yet done so. It is possible to claim for the four years back to 2018/19 where the entitlement conditions are met. The total tax saving for all years up until 2022/23 could be over £1000. A claim for 2018/19 will need to be made by 5 April 2023.

Tax bands and rates

The basic rate of tax is 20%. In 2022/23 the band of income taxable at this rate is £37,700 so that the threshold at which the 40% band applies is £50,270 for those who are entitled to the full personal allowance. The bands of tax are also frozen for the tax years to 2025/26.

Individuals pay tax at 45% on their income over £150,000.

Scottish residents

The tax on income (other than savings and dividend income) is different for taxpayers who are resident in Scotland to taxpayers resident elsewhere in the UK. The Scottish income tax rates and bands apply to income such as employment income self-employed trade profits and property income.

In 2022/23 there are five income tax rates which range between the starter rate of 19% and the top rate of 46%. The basic rate of tax is 20% and there is an additional intermediate rate of 21%. Scottish taxpayers are entitled to the same personal allowance as individuals in the rest of the UK. The two higher rates are 41% and 46% rather than the 40% and 45% rates that apply to such income for other UK residents. For 2022/23 the threshold at which the 41% band applies is £43,663 for those who are entitled to the full personal allowance. Savings and dividend income are taxed using UK rates and bands.

Welsh residents

From April 2019 the Welsh Government has the right to vary the rates of income tax payable by Welsh taxpayers. The UK government has reduced each of the three rates of income tax paid by Welsh taxpayers by 10 pence. The Welsh Government has set the Welsh rate of income tax at 10 pence which will be added to the reduced rates. This means the tax payable by Welsh taxpayers continues to be the same as that payable by English and Northern Irish taxpayers.

Tax on savings income

Savings income is income such as bank and building society interest.

The Savings Allowance applies to savings income and the available allowance in a tax year depends on the individual’s marginal rate of income tax. Broadly individuals taxed at up to the basic rate of tax have an allowance of £1,000. For higher rate taxpayers the allowance is £500. No allowance is due to additional rate taxpayers. Some individuals qualify for a 0% starting rate of tax on savings income up to £5,000. However the rate is not available if taxable non-savings income exceeds £5,000.

Taxon dividends

The first £2,000 of dividends are chargeable to tax at 0% (the Dividend Allowance). For 2022/23 and subsequent tax years the rate at which dividends received above the Dividend Allowance are taxed has increased across all rates by 1.25% to the following rates:

8.75% for basic rate taxpayers

33.75% for higher rate taxpayers

39.35% for additional rate taxpayers.

Dividends within the allowance still count towards an individual's basic or higher rate band and so may affect the rate of tax paid on dividends above the Dividend Allowance.

To determine which tax band dividends fall into dividends are treated as the last type of income to be taxed.

Making Tax Digital (MTD) for Income Tax

HMRC is looking at a scenario where income tax updates are made quarterly and digitally under the MTD for Income Tax Self-Assessment (ITSA) from April 2024. As soon as we know more we'll be in touch.

Capital Gains Tax (CGT)

The current rates of CGT are 10% to the extent that any income tax basic rate band is available and 20% thereafter. Higher rates of 18% and 28% apply for certain gains; mainly chargeable gains on residential properties with the exception of any element that qualifies for private residence relief.

There are two specific types of disposal that potentially qualify for a 10% rate:

- **Business Asset Disposal Relief (BADR)** which was formerly known as Entrepreneurs' Relief. This is targeted at working directors and employees of companies who own at least 5% of the ordinary share capital in the company and the owners of unincorporated businesses. BADR has a lifetime limit of £1 million for each individual.
- **Investors' Relief.** The main beneficiaries of this relief are external investors in unquoted trading companies who have newly-subscribed shares. This has a lifetime limit of £10 million for each individual.

CGT annual exemption

The CGT annual exemption is £12,300 for 2022/23 and will remain frozen until April 2026.

CGT reporting

New reporting and payment on account obligations for chargeable gains on residential property were introduced in April 2020.

From 27 October 2021 the deadline to report and pay CGT after selling UK residential property was increased from 30 days after the completion date to 60 days.

Inheritance tax (IHT)

The nil rate band has remained at £325,000 since April 2009 and is set to remain frozen at this amount until April 2026.

Make use of the annual IHT exemption of £3,000 per donor and small gifts exemption of £250 per recipient; could you be making exempt gifts out of your excess income.

Gifts to charities during lifetime and/or on death are exempt from IHT.

IHT residence nil rate band

The residence nil rate band (RNRB) was introduced in 2017 meaning that the family home can be passed more easily to direct descendants on death.

The rate of the RNRB is £175,000 for 2022/23.

There are a number of conditions that must be met in order to obtain the RNRB. For many married couples and registered civil partnerships the relief which is available following the second death can effectively be doubled as each individual has a main nil rate band and a residence nil rate band which passes on the death of the surviving spouse.

Charitable giving

A reduced rate of IHT applies where broadly 10% or more of a deceased’s net estate (after deducting IHT exemptions the 40% rate will be reduced to 36%.