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Spring Budget 2023

Enterprise, everywhere all at once

The Chancellor's Spring Budget 2023 speech was based on the four Es, that is, "enterprise, education, employment and everywhere", with a clear focus on encouraging investment and productivity.

The big-value item was the change to the capital allowances rules with the introduction of three-year "full expensing" for qualifying main rate plant and machinery. The Spring Budget 2023 also included proposals for 12 UK investment zones, and reforms to personal pensions designed to incentivise older workers to stay in work.

Other key announcements included the news that the proposal to narrow the scope of the UK's sovereign tax exemption would not be taken forward. Perhaps less welcome, although not unexpected, was the confirmation that the regime requiring large multinationals operating in the UK to maintain a transfer pricing master and local file, both in a prescribed format, will apply for accounting periods beginning on or after 1 April 2023. There was also confirmation that certain ongoing consultations such as the reform of the VAT treatment of fund management and of financial services will continue, with updates to be given later in 2023.

Capital allowances

In the lead up to the Spring Budget 2023 there had been some pressure on the Chancellor to reconsider the increase in the corporation tax main rate to 25% but the louder call from some quarters, particularly the energy and infrastructure sectors, was for reform to the capital allowances regime as the two-year "super deduction" regime draws to an end. Those making that call have not been disappointed: the surprise was perhaps in the scale of the relief. From 1 April 2023 to 31 March 2026, investments in qualifying main rate plant and machinery will qualify for 100% first-year allowances meaning that companies will be able to write off the full cost of expenditure in the year of investment.

The increase in the corporation tax rate to 25% means that the after-tax value of the relief is broadly aligned with that of the 130% super deduction applying between April 2021 and April 2023. While generous, any company looking to dispose of assets in respect of which they have claimed full expensing would be required to bring in an immediate balancing charge equal to 100% of the disposal value, so this is not full expensing in the way that might be understood. While this relief will be introduced for three years initially, the Chancellor has stated that he intends to introduce full expensing on a permanent basis. This was the largest cost in terms of revenue for the government by quite some margin, although it is essentially a timing advantage as allowances will reverse out over time.

There is an exclusion for expenditure on assets for leasing, due to government concerns over the potential for abuse, but the government has said that it will work with the leasing industry to identify potential solutions.

In addition to the new full expensing regime, the Chancellor announced the continuation of 50% first year capital allowances for special rate assets, which were originally introduced at the same time as the super deduction, for a further three years.

No changes were announced to the intangibles regime or to allowances for structures and buildings, meaning that the gap between the levels of relief for different expenditure is now even more pronounced.

Research and development

In the Autumn Statement 2022, the Chancellor announced changes which, essentially, reallocated reliefs to large businesses: increasing the research and development (R&D) expenditure credit; and reducing the additional deduction and credit rate available to SMEs. He has now announced the introduction of a new R&D scheme for loss-making "R&D intensive" SMEs. From 1 April 2023, loss-making SME companies for which qualifying R&D constitutes at least 40% of total expenditure will be able to claim a higher payable credit rate of 14.5%. This will have the effect, for these R&D intensive SMEs, of retaining the level of relief at that available before the Autumn Statement 2022 changes take effect.

The Chancellor also announced that the restrictions on claiming R&D relief on some overseas expenditure will be delayed until 1 April 2024, to give the government additional time to consider the introduction of a single merged R&D relief from April 2024.

Special investment zones

At the Autumn Statement 2022, the Chancellor announced that the government would launch a refocused investment zones programme as part of its goal to encourage investment. He has now provided further detail of the proposal for the introduction of 12 investment zones. Special tax sites can be designated in relation to these zones and will benefit from a package of tax reliefs including stamp duty land tax relief, enhanced capital allowances for plant and machinery, enhanced structures and buildings allowances and secondary Class 1 National Insurance contributions relief for eligible employers on the earnings of eligible employees up to £25,000 each year. The overall value available to each site will be limited to £80 million over five years, so it appears that the aim is for the investment zones to offer sufficient incentive to companies to establish within the zone instead of somewhere else in the UK, rather than to incentivise large multinationals to invest in the UK in the first place.

Energy profits

There were two key developments relating to energy. The energy profits levy introduced in May 2022 applies a levy to in-scope UK profits from extracting North Sea oil and gas. Changes were made at Autumn Statement 2022 to increase the levy to 35% from 1 January 2023, and to restrict the favourable 80% rate of allowance for investment expenditure to decarbonisation expenditure only; other expenditure will qualify for a 29% rate of deduction from the levy profits. The Spring Budget 2023 has provided further guidance on what will constitute decarbonisation expenditure, and has confirmed the 80% allowance rate for this expenditure. Decarbonisation expenditure will include capital expenditure on powering oil and gas production facilities from non-fossil fuel sources, and on the reduction or elimination of flaring and venting of greenhouse gases.

The Chancellor also announced that a new tax regime will be introduced for payments made by oil and gas companies into decommissioning funds where the payments are in respect of the repurposing of assets within the ring fence for use in carbon capture, usage and storage activities. The date that the regime will start has not yet been announced.

Personal taxes

Changes to the taxation of pensions savings had been heavily trailed ahead of the Spring Budget 2023 but the Chancellor’s announcement was more generous than anticipated. The pension savings annual allowance will increase to £60,000 from £40,000 from April 2023 and the lifetime allowance charge will be removed. Further changes were also announced to increase the minimum tapered annual allowance and money purchase annual allowance from £4,000 to £10,000.

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