Deloitte.

22 November 2023

Autumn Statement 2023

Contents

Introduction 1

Business tax 2

R&D and other investment incentives 3

Industry specific measures 4

Employment taxes and National Insurance 5

Other tax measures 6

1. Introduction

The Chancellor of the Exchequer, Jeremy Hunt, today delivered the UK's 2023 Autumn Statement. Against a backdrop of falling inflation and below-forecast borrowing figures, the Chancellor sought to encourage business investment through a package of targeted tax cuts and investment incentives, while focussing broader measures on individuals and the self-employed.

Business tax developments include permanent 'full expensing' for capital investment and the abolition of rules relating to the taxation of 'Offshore Receipts in respect of Intangible Property'.

Headline grabbing reforms of the UK's National Insurance Contribution regime will largely impact the self-employed and individuals, but UK employers will be required to administer a reduction in the main NIC rate for employees from 12% to 10% with effect from 6 January 2024.

In relation to the introduction of Pillar 2 legislation, the Government intends to apply the Undertaxed Profit Rule from 2025, but will "continue to monitor" international implementation.

This bulletin sets out the key tax measures for non-UK owned corporate groups. For detailed coverage and comment on the Autumn Statement 2023, visit Deloitte UK's dedicated website **here**.

2. Business tax

2.1 Full expensing of capital expenditure

In Spring Budget 2023, the Government introduced 'full expensing' for qualifying capital expenditure incurred between 1 April 2023 and 1 April 2026. The Government has now announced, as expected, that full expensing will be made permanent.

Under the full expensing rules, companies can claim 100% first-year capital allowances for qualifying plant and machinery expenditure, and a 50% first-year allowance for qualifying special rate assets. Cars, assets for leasing and second-hand assets continue to be ineligible for this relief. However, the Government is exploring the case for expanding the scope of full expensing to include assets for leasing and will publish a technical consultation in due course.

While this announcement was widely anticipated, it remains welcome news for companies and should provide greater certainty in planning long-term investments, for example in decarbonisation technology or in newer, greener plant and machinery. The Chancellor described this change as the "biggest business tax cut in modern British history" and the Government forecasts that the new permanent measure will benefit taxpayers by an average of £10bn per year.

The Government also announced that it will launch a technical consultation on wider changes to simplify the UK's capital allowances legislation in due course.

2.2 Repeal of UK ORIP rules

The Government has announced that it will repeal the Offshore Receipts in respect of Intangible Property (ORIP) rules in respect of income arising from 31 December 2024.

The ORIP rules were implemented in 2019 to discourage multinational groups from placing intangible property in low tax jurisdictions where income is subject to no or a low rate of tax.

The repeal of the ORIP rules will coincide with the introduction of the Pillar 2 Undertaxed Profits Rule, which the Government considers to more comprehensively discourage the behaviours that ORIP sought to counteract.

Whilst any income which was subject to ORIP will now potentially be subject to the Undertaxed Profits Rule, the repeal is a welcome simplification of the UK tax regime.

2.3 Pillar Two

The Government intends to introduce the Undertaxed Profits Rule, which forms part of the G20-OECD global minimum tax framework on Pillar 2, in an upcoming Finance Bill, to take effect for accounting periods beginning on or after 31 December 2024.

The Government noted in the documents published immediately after the Chancellor's speech that "it is important that the UK implements Pillar 2 to a similar timeline as other countries" and that the "Government will continue to monitor international developments on implementation".

The Government will also make technical amendments to the Multinational top-up tax and Domestic top-up tax legislation through the Autumn Finance Bill 2023. The Multinational top-up tax and Domestic top-up tax were introduced in the Finance (No.2) Act 2023. The proposed changes are comprised of amendments identified from stakeholder consultation and those necessary to ensure that UK legislation remains consistent with administrative guidance to the Pillar 2 model rules agreed by the UK and other members of the OECD Inclusive Framework.

3. R&D and other investment incentives

3.1 Merger of R&D tax reliefs

The Government has confirmed that it will proceed with merging the two UK R&D regimes, the SME and the Research and Development Expenditure Credit (RDEC) schemes, into one consolidated scheme. The merging of the two schemes was expected, following earlier announcements included in Spring Budget 2023.

Under the merged scheme, all claimants will now receive relief via an above-the-line, taxable credit at the current RDEC rate of 20%. Loss-making companies will suffer a lower notional tax charge of 19%, delivering a net benefit of 16.2% on qualifying spend, slightly higher than the 15% effective relief available to tax-paying claimants.

Further announcements relate to the ability to claim RDEC for contracted-out R&D, subsidised expenditure and externally provided workers (EPW). It has been clarified that payment of an RDEC credit must be made to the claimant company going forward, and that no new assignments of RDEC credits to nominee companies will be possible.

The merged scheme will be included in the Autumn Finance Bill 2023 and will apply for accounting periods beginning on or after 1 April 2024. This is a slight change from earlier plans, which were for the merged scheme to apply for expenditure incurred after 1 April 2024. This change should remove some complexity, as companies will not be required to split an accounting period into two notional periods to apply the merged and unmerged schemes.

Overall, while the Government has sought to simplify the R&D tax reliefs through the implementation of a merged scheme, claimants will still need to manage complex nuances. While large, profitable businesses may not materially benefit from these changes, loss-making companies and SMEs may do so.

3.2 Additional tax relief for R&D intensive loss-making SMEs

Notwithstanding that the Government will introduce a merged scheme, some rules will remain specifically relevant to SME claimants. For example, loss-making SMEs which meet the threshold to be considered a 'research and development intensive business' (RDIB) will be able to claim the repayable tax credit at a higher rate of 14.5%, equivalent to up to 27p in the pound. The Government today announced a change to the 'R&D intensity ratio', which is calculated based on qualifying R&D expenditure as a percentage of total expenditure. Businesses with an 'R&D intensity ratio' of at least 30% (previously 40%) will be eligible for the additional relief.

A grace period will apply to provide more certainty for companies who fall under the RDIB threshold, allowing them to maintain their status for two consecutive periods.

For RDIBs, a claim for qualifying expenditure incurred from 1 April 2023 can be made once the Autumn Finance Bill 2023 has received Royal Assent. The reduction in the R&D intensity ratio and the grace period will come into effect for accounting periods beginning on or after 1 April 2024.

3.3 Investment Zones and Freeports

The Government has announced plans to extend the Investment Zones programme originally announced at the Spring Budget 2023, from five to ten years. The measures will therefore extend the benefits available in English Freeports up to 30 September 2031, and will double the funding and tax

reliefs available in each Investment Zone from £80 million to £160 million over the duration of the programme. The Government hopes that by extending the duration of the programme, they will provide greater certainty to investors.

Four new Investment Zones were announced in England, in Greater Manchester, the West Midlands, the East Midlands, and Wrexham.

Investment Zones across the UK were first introduced with the goal of supporting high-growth, strategic industries in areas in need of levelling-up to increase productivity and growth. The incentives in each Zone include enhanced rates of Structures and Buildings Allowances; Stamp Duty Land Tax relief; Business Rates relief; and Employer National Insurance Contributions relief, alongside flexible grant funding.

The Government also announced that it was extending the duration of the tax reliefs available in Freeports from five to ten years to maximise the programme's impact, and is creating a new £150 million Investment Opportunity Fund, which will be available over five years to ensure that Investment Zones and Freeports can respond nimbly as investment opportunities arise.

4. Industry specific measures

4.1 Creative Industries and Audio-Visual tax relief

In Spring Budget 2023, the Government announced a new Audio-Visual Expenditure Credit, which will offer a 34% refundable tax credit for film and high-end TV production. This replaces a number of previously separate reliefs.

The Government announced at Autumn Statement that it will seek to further boost the international competitiveness of tax incentives by consulting with stakeholders with a view to increasing the generosity of this scheme for visual effects expenditure from April 2025.

As previously announced, uplifted relief for animated TV production will be extended to include animated feature films, which will benefit from a 5% uplift (up to 39%) in relief under the Audio-Visual Expenditure Credit, along with children's TV.

Separately, as announced, the Video Games Tax Relief will be replaced by the Video Games Expenditure Credit, also at a rate of 34%.

The new reliefs will be available to claim from 1 January 2024, and the Government intends that they will constitute Qualified Refundable Tax Credits for the purposes of Pillar 2 legislation.

4.2 Investment for other sectors

The Government continued a recent trend of announcing targeted measures designed to incentivise investment in specific industries and sectors that are considered to be important to the future success of the UK economy.

At Autumn Statement, this included funding of £4.5bn to help unlock private investment in strategic manufacturing sectors, over a five-year period starting in 2025-26, including the UK's space sector, life sciences, green industries, and aerospace, with an additional £500 million in funding for 'compute for AI' over the next two financial years.

5. Employment taxes and National Insurance

5.1 Changes to Class 1 employee NICs

The Government has announced that it will cut the main rate of Class 1 employee National Insurance Contributions (NICs) from 12% to 10%. This will provide a tax cut for 27 million employees with the average worker on £35,400 receiving a tax cut in 2024-25 of £450. Following the change, the combined rate of UK income tax and NICs for an employee paying the basic rate of tax is now 30% – the lowest since the 1980s.

The change will take effect from 6 January 2024, giving employers and their payroll providers limited time to administer the changes part-way through the UK income tax year.

5.2 Reform of self-employed NICs

In an announcement which will grab the headlines for the self-employed, the Government announced that Class 2 NICs for the self-employed will be abolished from 6 April 2024. This change is another example of the Government seeking to simplify areas of the UK tax system in the announcements.

The Government will set out next steps on how to implement this Class 2 reform in the new year.

The main rate of Class 4 self-employed NICs will also be reduced from 9% to 8% from 6 April 2024. This is expected to benefit around 2 million UK individuals.

5.3 IR35

Following consultation, the Government has announced that businesses that are subject to the IR35 rules as a 'deemed employer' will be permitted to off-set certain taxes paid in relation to the arrangement from any PAYE obligations owed in respect of a deemed employer liability.

Off-set will not be available in relation to employer NICs paid by any personal service companies (PSCs) on salary paid to the worker, or for income tax or NIC paid by any other employees, directors, or shareholders of the PSC.

The changes will provide welcome relief to any public sector or medium/large private organisations with off-payroll workers who are found to have been incorrectly determined as self-employed.

Legislation will be enacted in Autumn Finance Bill 2023 to take effect from 6 April 2024, and will apply to deemed direct payments made from 6 April 2017, where settlement has not already been reached.

6. Other tax measures

6.1 Business rates

The Government has announced further business rate benefits to both small businesses and those in the retail, hospitality, and leisure industries.

Specifically, the Government announced that the small business multiplier in England will be frozen for a fourth consecutive year at 49.9p. Larger businesses will not benefit from this announcement, as the standard multiplier for larger business will be uprated in line with inflation to 54.6p.

The current 75% relief available for eligible Retail, Hospitality and Leisure (RHL) properties will be extended for tax year 2024-25. RHL properties in England will be eligible to receive support up to a cash cap of £110,000 per business.

6.2 Promoters of tax avoidance schemes

The Government is legislating to introduce tougher consequences for promoters of tax avoidance schemes. The measures will include a new criminal offence for promoters who continue to promote tax avoidance after having received a notice to stop, as well as a new power that will enable HMRC to apply to the court to disqualify directors of companies involved in promoting tax avoidance.

Authors

Reading – Christie Buck
Tel: +44 118 322 2525
Email: cbuck@deloitte.co.uk

Reading – Andrew Surrell
Tel: +44 118 322 2021
Email: asurrell@deloitte.co.uk

Reading – Jonny Tatham
Tel: +44 118 322 2951
Email: jptatham@deloitte.co.uk

Contacts

Tax Policy – Amanda Tickel
Tel: +44 20 7303 3812
Email: ajtickel@deloitte.co.uk

London – Sarah Heselton
Tel: +44 1727 88 5833
Email: sheselton@deloitte.co.uk

Manchester – Stephen Nuttall
Tel: +44 161 455 8573
Email: stephennuttall@deloitte.co.uk

London – Geoff Brand
Tel: +44 20 7007 2251
Email: geoffreybrand@deloitte.co.uk

London – Simon Cooper
Tel: +44 20 7007 0982
Email: sjcooper@deloitte.co.uk

Gatwick – Tim Matthews
Tel: +44 1293 76 1298
Email: timatthews@deloitte.co.uk

London – Zubin Patel
Tel: +44 20 7007 1293
Email: zpatel@deloitte.co.uk

Leeds – Nick Marsden
Tel: +44 113 292 1588
Email: nmarsden@deloitte.co.uk

Bristol – Adam Powell
Tel: +44 20 7007 0346
Email: apowell@deloitte.co.uk

London – Matt Batham
Tel: +44 20 7007 2737
Email: matbatham@deloitte.co.uk

Birmingham – James Bland
Tel: +44 121 695 5022
Email: jdbland@deloitte.co.uk

Glasgow - Douglas Farish
Tel: +44 141 304 5751
Email: dfarish@deloitte.co.uk

London – Mark Saunderson
Tel: +44 20 7007 7018
Email: marksaunderson@deloitte.co.uk

Manchester – Andrew Wilde
Tel: +44 161 455 8556
Email: awilde@deloitte.co.uk

New York - Fran Stewart
Tel: +1 212 436 7739
Email: fstewart@deloitte.com

London – Anne-Mari Davidson
Tel: +44 20 7303 5135
Email: andavidson@deloitte.co.uk

Manchester – Helen Chadwick
Tel: +44 161 455 6034
Email: hchadwick@deloitte.co.uk

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2023 Deloitte LLP. All rights reserved.