

The Chancellor's Spring Statement March 2022

VAT

The government is extending the VAT relief available for the installation of energy saving materials (ESMs). The government will include additional technologies and remove the complex eligibility conditions, reversing a Court of Justice of the European Union ruling that unnecessarily restricted the application of the relief. The government will also increase the relief further by introducing a time-limited zero rate for the installation of ESMs. Applies to GB only (excludes Northern Ireland).

The changes will reverse the 2019 legislative changes and widen the scope of the relief as set out below for installations of ESMs in Great Britain:

- The relief will no longer be restricted by the social policy conditions or the 60% test
- Wind and water turbines will be added back to the list of ESMs
- A temporary zero rate will be introduced with effect from 1 April 2022 until 31 March 2027
- Unless the government introduces further legislation to extend the period of the zero rate, the installation of ESMs will revert back to the 5% reduced rate from 1 April 2027

Income Tax

The government will reduce the basic rate of income tax to 19% from April 2024. This is a tax cut of over £5 billion a year, and represents the first cut in the basic rate of income tax in 16 years. This will apply to the basic rate of non-savings, non-dividend income for taxpayers in England, Wales and Northern Ireland; the savings basic rate which applies to savings income for taxpayers across the UK; and the default basic rate which applies to a very limited category of income taxpayers made up primarily of trustees and non-residents. The change will be implemented in a future Finance Bill. The reduction in the basic rate for non-savings-non-dividend income will not apply for Scottish taxpayers because the power to set these rates is devolved to the Scottish Government.

Gift Aid

A three-year transition period for Gift Aid relief will apply, to maintain the income tax basic rate relief at 20% (25% on top of the net donation) until April 2027.

National Insurance Contributions

The Spring Statement announces an increase in the annual National Insurance Primary Threshold and the Lower Profits Limit from £9,880 to £12,570 from July 2022, to align with the income tax personal allowance. This change will take 2.2 million people out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy altogether. It brings into alignment the starting thresholds for income tax and NICs, making the taxation of income fairer, and these thresholds will remain aligned. However there is no change to the starting rate for employers to pay National Insurance.

Spring Statement announces that from April 2022 self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will continue to build up National Insurance credits but will not pay any Class 2 NICs.

Employment Allowance

In April 2020, the government increased the Employment Allowance from £3,000 to £4,000. The Spring Statement announces a further increase from April 2022, meaning eligible employers will be able to reduce their employer NICs bills by up to £5,000 per year. This measure will benefit around 495,000 businesses, including around 50,000 businesses which will be taken out of paying NICs and the Health and Social Care Levy entirely.

Fuel Duty

The Spring Statement announces a temporary 12-month cut to duty on petrol and diesel of 5p per litre (plus a further 1p for VAT on this). It applies from 6pm 23 March 2022.

R&D tax relief reform

The government set out in the Tax Administration and Maintenance Command Paper that R&D tax reliefs would be reformed to include some cloud and data costs and refocus support on R&D carried out in the UK. The government says it has listened to stakeholders and can confirm that from April 2023, all cloud computing costs associated with R&D, including storage, will qualify for relief. The government say they remain committed to refocus support towards innovation in the UK, ensuring that the UK more effectively captures the benefits of R&D funded by the reliefs. The government recognises that there are some cases where it is necessary for the R&D to take place overseas and will, therefore, legislate so that expenditure on overseas R&D activities can still qualify where there are:

- material factors such as geography, environment, population or other conditions that are not present in the UK and are required for the research – for example, deep ocean research
- regulatory or other legal requirements that activities must take place outside of the UK – for example, clinical trials