

ACTIVE PRACTICE UPDATES

APRIL 2022

PERSONAL TAX CHANGES FOR 2022/23

Tax changes kicking in from 6 April.

By the time you're reading this, the new tax year is either just about to start or has already started.

Some of the changes have been public knowledge for months now and some of the rises have been anxiously awaited as the country continues to face a cost-of-living squeeze.

But the Government is intent on decreasing the national deficit and inflation after over £400 billion of quantitative easing by the Bank of England and global supply chain issues.

With these changes adding to the cost of living for many families, it's more important than ever to know what changes have been made so you can prepare.

Here are the key personal taxes and tax changes you need to know in 2022/23.

INCOME TAX AND PERSONAL ALLOWANCE

In Spring Budget 2021, Chancellor Rishi Sunak announced that the income tax thresholds, including the personal allowance, would be frozen until 2026.

This means income tax and the personal allowance will remain as they were in the 2021/22 tax year:

- personal allowance (tax-free) - up to £12,570 of income
- basic rate tax (20%) – further income up to £50,270
- higher rate tax (40%) – further income up to £150,000
- additional rate tax (45%) – income above £150,000.

How much income tax you pay in each tax year depends on how much of your income is above your personal allowance and how much falls within each tax band. Income above £100,000 will also see a reduction in your personal allowance.

The Government usually increases the bands and personal allowances with inflation to account for wage growth.

But by freezing the personal allowance and thresholds for the next four years any extra income individuals get may get taxed more harshly than had income tax continued to move with inflation – critics often refer to freezes as a “stealth tax”.

The income tax freeze is expected to raise an additional £6bn.

The Scottish income tax thresholds, on the other hand, are set to rise from April 2022, although the personal allowance remains frozen.

Income tax is devolved in Scotland, which is why there are different rates and thresholds to the other UK nations.

Specifically, the thresholds for the starter, basic and intermediate bands are increasing:

	2021/22	2022/23
Starter (19%)	Over £12,570- £14,667	Over £12,570- £14,732
Basic (20%)	Over £14,667- £25,296	Over £14,732- £25,688
Intermediate (21%)	Over £25,296- £43,662	Over £25,688- £43,662
Higher (41%)	Over £43,662- £150,000	Over £43,662- £150,000
Top (46%)	Above £150,000	Above £150,000

NATIONAL INSURANCE CONTRIBUTIONS

This means earnings above the lower earnings limit and up to the upper earnings threshold of £50,270 (which has also been frozen until April 2026) will be taxed at 13.25%, up from 12%.

The rise in NICs will only be in place for 2022/23, after which point it will be replaced by a 1.25% 'health and social care levy' that will be included on payslips.

As the name suggests, the Government plans to use the raised funds to increase NHS and social care spending by £11.4bn, according to the Institute for Government.

The other major change to be aware of is that from 6 July, the threshold at which workers start paying NICs will rise to £12,570, in line with the personal allowance.

DIVIDEND TAX

Tax on dividends will also increase for the 2022/23 financial year by 1.25 percentage points, only this time it will not be replaced in April 2023 like NICs.

The new rates for dividend tax are as follows:

- basic rate: 8.75% (up from 7.5%)
- higher rate: 33.75% (up from 32.5%)
- additional rate: 39.35% (up from 38.1%).

The rate at which you pay tax on your dividends above your dividend allowance depends on which income tax band you are in.

The tax-free dividend allowance is remaining at £2,000, meaning only the dividends you receive over this amount will be taxed.

The dividend allowance has been just £2,000 since the 2018/19 tax year, before which point it was £5,000.

There are a number of ways to manage the rise of dividend tax, such as the use of a stocks and shares ISA, where the income is not subject to tax.

If you're a director who pays yourself with dividends, you could alternatively consider moving more of your profits into a pension instead, which will lower your taxable income.

INHERITANCE TAX

The inheritance tax nil rate (£325,000) and residential nil rate band (£175,000) are also both frozen for the next four years, as is the pensions lifetime allowance at £1,073,100.

With rising house prices, it's likely a lot of estates will be caught in the inheritance tax net.

A new rule also recently kicked in for anyone that dies on or

after 1 January 2022 in that you need to know about if you're planning your estate.

Estates of someone who dies after this date can be classed as 'excepted' and will not require heirs to report the estate's value – as long as there's no inheritance tax to, or any other reason why the estate should be reported.

To count as an excepted estate, it must:

- have a value below the inheritance tax threshold
- be worth £650,000 or less and any unused threshold is being transferred from a spouse or civil partner who died first
- be worth less than £3 million and the deceased left everything in their estate to their surviving spouse or civil partner who lives in the UK, or to a qualifying registered UK charity
- have UK assets worth less than £150,000 and the deceased had permanently been living outside the UK when they died.

CAPITAL GAINS TAX

The capital gains tax allowance has also been frozen at its current amount (£12,300 a year for individuals) until 2026.

The allowance will not rise with inflation, which means that gains on the sale of a second home or shares that are not in an ISA, are more likely to face a tax charge in the future.

There is another change to capital gains tax that came into effect immediately after the Autumn Budget 2021 speech that individuals might need reminding of.

Rather than 30 days, the deadline to report and pay capital gains tax is now 60 days on UK residential property disposals that are not your main residence.

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