Spring Statement 2022

23 March 2022

The Chancellor, Rishi Sunak, was keen to emphasise that this was a **Spring Statement** and not a **Budget**, there being a subtle difference.

In his relatively short statement, he did make some changes in an attempt to soften the blow of high inflation, rocketing energy prices, interest rate increases and the 1.25% increase in national insurance contributions (NIC) from April. Yes, lower paid workers will benefit from the announcements but, net, they still remain much worse off than they were.

The Chancellor blamed the Ukraine crisis, on top of the pandemic, for increased costs and a reduced UK economy growth forecast. Both events have had, and continue to have, effects around the globe and, even with uncertainty as to the outcome, he still promised a drop in income tax from 20% to 19% by the end of this Parliament (2024).

He announced plans to talk with businesses between now and the Autumn Budget, with a view to introducing changes which would benefit businesses, but not until April 2023.

Could he have done more? Probably. The Shadow Chancellor, Rachel Reeves, in responding to the Statement, accused the Chancellor of making the" wrong choices", leaving pensioners and those relying on benefits much worse off, and the 1.25% extra NIC not being paid by landlords and similar investors. Her 13-minute speech, incorporating analogies with "Alice in Sunakland", was cleverly drafted.

So, I think that 2022 will be a tough year for everybody – and will not settle down until the Ukraine position is resolved – whenever and however that might happen. Where are James Bond or Ethan Hunt when you need them?

Comment from Ian Pascall, FCA, Senior Partner

For the detail of what was said by the Chancellor, please read on.

The Economy

Chancellor Rishi Sunak started his Spring Statement by outlining the impact on the UK (together with the worldwide economy) not only of the impact of the Covid pandemic but also other key factors including global inflation, rising energy prices, supply chain issues and the impact of the war in Ukraine amongst other global factors. Before the crisis he stated that the UK economy was growing faster than any other country in the G7, but Mr Sunak warned that the impact of all of these pressures, together with the actions the UK government has taken to sanction Putin's regime, have not come without a cost.

The full extent of cost of the war in Ukraine is still unknown but the Office of Budget Responsibility (OBR) has warned of unusually high uncertainty about the outlook of the UK economy. The OBR now forecasts that the UK economy will grow by 3.8% this year and to by 1.8% in 2023 and for the following three years by 2.1%, 1.8% and 1.7%.

Unemployment

Despite this the jobs growth rate remains unaffected with employment figures now forecasted to be lower in every year of the forecast. The unemployment rate is already at 3.9%, back to pre-pandemic rates.

Cost of living

The most significant domestic impact, the Chancellor said, was to the cost of living. Statistics published today revealed that in February the rate of inflation rose to 6.2%. The OBR now expects the rate of inflation to average out to 7.4% this year before falling back under control again in 2024.

Mr Sunak promised the government's support to UK people as they cope with the rise in costs of energy. He said, "We will stand behind them as we have done so for the last two years. That's why we have announced a £9bn plan to help around 28 million households pay for half the increase in the energy price cap and people should be reassured that the energy price cap will protect their energy bills between now and the autumn, but I want to help people now, so I am announcing three immediate measures today".

1. **Help for motorists – Fuel Duty 5p cut**

For only the second time in 20 years, the main rates of Fuel Duty is cut from 6pm today by 5p per litre, the biggest cut in Fuel Duty ever. The cut to Fuel Duty will remain in place until March 2023.

2. **Energy efficiency installations– zero rate tax**

To make the UK more energy efficient, and the removal of implications of EU legislation following Brexit, the government have dropped the 5% tax surcharge for homeowners on installing items such as solar panels, heat pumps or insulation installed for the next five years. These items will now be zero rated, as will the installation of wind and water turbines. There is currently a disparity for individuals and businesses in Northern Ireland, as due to the Northern Ireland Protocol the zero rate cannot be immediately applied. The government will seek to rectify this with the Northern Ireland Executive as a matter of urgency. In the meantime, people in Northern Ireland will receive a Barnett share of the value of the relief.

In addition, the red tape formerly imposed by the EU will be abolished to simplify the process. Mr Sunak also stated that the Prime Minister is set to bring forth other measures in the coming weeks to reinforce the UK's longer-term energy security.

3. **Support for the most vulnerable**

Finally, to help the most vulnerable households with rising costs the government will double the Household Support Fund to £1bn. Local authorities will be in charge of facilitating the extra funds for the most vulnerable families and will receive funds in April.

Underlying Debt is expected to fall steadily from 83.5% of GDP in 2022/23 to 79.8% in 2026/27.

Borrowing as a percentage of GDP is forecast to be 5.4% this year, 3.9% next year and then 1.9%, 1.3%, 1.2% and 1.1% in the following years.

The Chancellor stated that it was right to be cautious with any new measures to meet the government's fiscal rules with a margin of safety, until we know the full impact of the war in Ukraine. He also warned that we should be prepared for the economy and public finances to worsen potentially significantly and of the increases in the cost of borrowing.

He said, "In the next financial year we are forecast to spend £83bn on debt interest, the highest on record and four times the amount we spent last year. We must continue to carefully weigh the calls for additional spending as more borrowing is not cost or risk free. Our response to the immediate crisis in Ukraine has been unwavering but we must be equally bold in response to the deeper and more fundamental challenges Putin poses to our values. We must show the world that freedom and democracy remain the best route to peace, prosperity and happiness. We will do so by strengthening our economy here at home".

Reduce and Reform Taxes

The Chancellor stated his "overarching ambition to reduce taxes by the end of this parliament and we will do so in a way that is responsible and sustainable". He has today published a tax plan to reform and review the current UK tax system to build a stronger economy, which will help in three ways:

- Help families with the cost of living

- Create conditions for higher growth
- Share proceeds of growth fairly ensuring people are left with more of the money that they earn

The Chancellor will be speaking to businesses this summer with a view to introducing new tax reforms in the Autumn Budget later this year.

Health & Social Care Levy/National Insurance

The 1.25% National Insurance (NI) increase in April will go ahead as planned, to provide a dedicated NHS and social care fund with the Chancellor stating, "It is right that the Health & Care Levy stays but a long-term funding solution is not compatible with reducing taxes for working families".

To address this the Chancellor will, **effective from April 2022 but not implemented until July 2022, raise the NI "personal allowance" by £3,000 to £12,570 in line with Income Tax**. This represents a £66bn tax cut which would affect 30 million people resulting in 70% of all workers having their taxes cut by more than the amount they will pay for the new levy.

People, Capital, Ideas

The Chancellor stated that, "to lift growth and productivity, we need the private sector to train more, invest more and innovate more. **People. Capital. Ideas.** That's how we will create a new culture of enterprise, the second part of our tax plan".

The Chancellors plan will set out tax cutting options on business investment and innovation will also be announced in the Autumn Budget. However, he did outline what he referred to as the direction of track as follows:

People

Rishi Sunak said, "We lag international peers in adult technical skills. Just 18% of 25-64 year-olds hold a vocational qualification, a third lower than the Organisation for Economic Co-operation and Development (OECD) average. In addition, UK employers spend only half the European average on training their employees. Therefore, we will consider whether the current UK tax system, including the operation of the Apprenticeship Levy, is doing enough to incentivise businesses to invest in the right kind of training".

Ideas

The Chancellor continued, "Over the last 50 years innovation drove around half the UK productivity growth but since the financial crisis the rate of increase has slowed more than any other country and our lower rate of innovation explains our entire productivity gap with the United States. We know that the amount that UK businesses spend on R&D is less than half the OECD average and that is despite us spending more on tax reliefs than almost every other country. Something is not working. So, we will reform R&D tax credits, so that they are effective and better value for money. We will expand the generosity of the reliefs to include data, cloud computing and pure maths and we will consider, in the Autumn Budget, whether to make the R&D expenditure credit more generous".

Capital

"Weak private capital investment is a long-standing cause of our productivity gap internationally", Mr Sunak said. "Capital investment by UK businesses is considerably lower than the OECD average of 14% and it accounts for half of our productivity gap with France and Germany. Once the super deduction ends next year, our overall tax treatment for capital investment will be less generous than other advanced economies. We are going to fix that; in the Autumn Budget we will cut the tax rates on business investment and discussions with businesses will take place to ascertain the best ways of doing this, but I want to help smaller businesses right now".

He took this opportunity to remind us of previously announced measures:

The Business Rate Discount

This will take effect in April for businesses in the Retail, Hospitality and Leisure sectors. They will receive a 50% discount on their business rates bill up to £110,000 with a typical pub set to save £5,000.

Help to Grow Management Scheme

This scheme helps businesses offer mini-MBAs to their employees which are 90% funded by the government.

Help to Grow Digital

This scheme provides businesses with a 50% discount on buying new software up to a value of £5,000.

Increased Annual Investment Allowance (AIA)

The AIA has previously been increased to £1m so that small to medium sized businesses will feel the benefit of full expensing.

Enterprise Allowance

The annual allowance that employers can claim as a reduction of the national insurance that they have to pay has been increased from £4,000 to £5,000 from April 2022.

And finally – Income Tax basic rate decrease from 2024

Mr Sunak ended his Spring Statement with suitable rhetoric and an announcement that the government's Tax Plan includes plans to reduce the basic rate of income tax by the end of this parliament, in 2024, from 20 pence to 19 pence in the pound. A £5bn tax cut he said which would affect 30 million people and which he had fully costed and paid for in the plans announced today.