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Autumn Statement 2022

Chancellor Jeremy Hunt delivered an Autumn Statement intended to bring stability, promote growth in the economy and protect public services. He raised funds largely by relying on threshold freezes and fiscal drag rather than tax increases. Investment in energy efficiency and independence, infrastructure and targeted support for businesses are intended to promote growth.

He said that we were dealing with, "*A global energy crisis, a global inflation crisis and a global economic crisis but the British people are tough, inventive and resourceful". He continued, "We have risen to bigger challenges before. We are not immune to these headwinds but with this plan for stability, growth, and public services, we will face into the storm. There may have been a recession made in Russia, but there is a recovery made in Britain*".

But will the plan work? I have no idea as my crystal ball stopped working many years ago. Only time will tell.

Ian Pascall FCA, senior partner.

Information regarding the measures introduced is set out below.

Office for Budget Responsibility (OBR) forecasts

The OBR has confirmed that the UK is now in recession, with the economy slowing for two consecutive quarters. Its latest forecasts show that the economy has contracted by 0.2% in the third quarter of 2022. The OBR predicts growth for this year overall of 4.2% but predicts that the size of the economy will shrink by 1.4% in 2023. Growth thereafter is predicted at 1.3% in 2024, 2.6% in 2025 and, 2.7% in 2026.

The OBR predicts that the rate of inflation in the UK will be 9.1% this year and 7.4% in 2023 with unemployment expected to rise from 3.6% to 4.9% by 2024.

The Plan for Stability, Growth & Innovation

The government has revised its goals to hit its debt and spending targets from three to five years. Two new "fiscal rules" have been added:

1. Underlying debt must fall, as a percentage of GDP, by the 5th year of a rolling five-year period
2. Public Sector borrowing must remain below 3% of GDP for the same period.

To tackle a deficit of £55bn, Jeremy Hunt said that he would have to raise taxes and reduce public spending. He stated that there would be two broad principles to the government's tax plans, that:

1. Those with more should contribute more.
2. We should avoid tax rises that damage growth.

He outlined his plans as follows:

Taxation

Personal Tax

- Apart from in Scotland, the income threshold at which the 45% income tax rate is payable will be lowered from £150,000 to £125,140.
- A freezing of all other personal allowance thresholds until April 2028.

- Freezing Inheritance Tax (IHT), nil rate bands at the current levels until 2027/28.
- The tax free dividend allowance will be cut next year, from the current level of £2,000 to £1,000 before being cut again to £500 from April 2024.
- The National Living Wage (NLW) for over 23-year-olds will increase by 9.7% to £10.42 per hour from April 2023.
- The Capital Gains Tax (CGT) allowance to be cut from April 2023, from £12,300 to £6,000 and then again from April 2024 to £3,000.
- Vehicle Excise Duty on electric cars from April 2025.
- Company car tax rates to remain lower for electric vehicles but will increase by 1% each year from 2025.

Housing

- Stamp Duty Land Tax (SDLT) cuts previously announced in the Mini Budget will remain in place but now only until 31 March 2025.

Business Tax

- The Employment Allowance will remain at the new higher level of £5,000 meaning 40% of businesses will pay no NICs.
- The Autumn Statement fixes the National Insurance Secondary Threshold at £9,100 until April 2028.
- The VAT threshold will remain at the current level until March 2026.
- Multi-national corporations, including large tech companies, will now have to pay their fair share of tax when operating in the UK.
- £20bn investment in R&D safeguarded for 2024-25.
- R & D tax relief cut to 86% in the production rate for the SME Scheme and the R & D credit rate cut to 10%.
- Windfall tax - an increase in the Energy Profits Levy from 25% to 35% from 1 January 2023 to March 2028. From January 2023, there will also be a temporary 45% levy placed on electricity generators.

Business Rates

- The government will proceed with plans to re-evaluate business properties from April 2023, but the blow will be softened with nearly £14bn tax cuts over the next five years meaning that nearly 2/3rds of businesses will not pay a penny more in 2023 under a new government funded Transitional Relief Scheme. It is suggested that this will benefit 700,000 businesses in retail, hospitality and leisure.

Public services

Mr Hunt stated that difficult decisions on public finances had to be made and he would therefore need to grow public spending more slowly than the growth of the economy. However, he committed to the Conservative party's vision of a stronger NHS and social care sector, together with a world-class education system. He said that for the next two years of the Spending Review the government would protect the increases in departmental budgets already set out and thereafter grow regional spending at 1% a year, in real terms, for the three years that follow.

He outlined his plans as follows.

Department for Work & Pensions (DWP)

- The Work & Pensions Secretary to conduct a review to look at the reasons for the increases since the Covid pandemic of over 630,000 economically inactive working adults, to drive more people back to work and lessen staff shortages.
- Over 600,000 people claiming Universal Credit will need to work with a work coach to get support to increase their hours or their earnings.

- An investment of £218m over the next couple of years to the DWP to enable them to crack down on benefit fraud and error.
- The government's review on State Pension Age will be published in early 2023.

Defence

- In recognition of a need to increase defence spending following the invasion of Ukraine, the government will revise and update the Integrated Review, with work to be completed before the next Budget so that spending on defence can be reviewed.
- In the meantime, the government has committed to spend at least 2% of GDP on defence in accordance with its NATO commitment.

Overseas Aid/Climate change

- In view of OBR forecasts, overseas aid spending has been reduced to 0.5% from the current level of 0.7%.
- However, the Chancellor has recommitted to the Glasgow Climate Pact agreed at COP26 to reduce all UK emissions by 68% by 2030.

Education

- The government will invest a further £2.3bn into the core schools' budget for 2023/24 and 2024/25, and has appointed Sir Michael Barber to manage the Skills Reform Programme.

NHS & Social Care

- The NHS budget to increase by £3.3bn for the next two years. However, the government will be, looking at ways to make greater efficiencies within the NHS whilst retaining a high quality of service.
- An additional £4.7bn of funding to be provided for social care. The main purpose of this is to free up hospital beds.
- A delay to the implementation of the Dilnot Report reforms for the next two years.

Devolved Nations

The "Barnett formula" impact of today's decision on public spending will provide an extra £1.5bn for the Scottish Government, £1.2bn for the Welsh government and £650m for the Northern Ireland Executive.

Economic growth

As well as the growth factors announced previously by Prime Minister Rishi Sunak, Chancellor Hunt announced three further growth priorities as energy, infrastructure, and innovation.

Energy

- The government will proceed with plans to open a nuclear power plant at Sizewell C.
- The government wants the UK to reduce energy consumption from buildings and industry by 2030 by 15%.
- Plans announced amount to £6.6bn with an additional £6bn being made available from 2025.
- The Energy Secretary will publish further details of plans and will launch a new task force shortly.

Infrastructure

- No cuts to capital budgets for infrastructure for the next three years. Thereafter spending maintained for the following three years, meaning an increase from £63bn four years ago to £114bn next year and £115bn the year after. Thereafter, remaining at that level.
- Projects such as the Core Northern Powerhouse Rail, HS2 to Manchester, the East West Rail, the New Hospitals Programme and the Gigabit Broadband rollout would all still go ahead.

- Round 2 of the Levelling Up Fund to proceed, matching at least the £1.7bn value of round 1.
- New devolution deal will bring elected mayors to Suffolk, Cornwall, Norfolk and an area in the northeast, yet to be confirmed.

Innovation

- By the end of 2023, the government will decide and announce changes to the EU Regulations affecting our five growth industries – Digital, Life Sciences, Green Industries, Financial Services and Advanced Manufacturing. Chief Scientific Officer Sir Patrick Vallance is to lead this work.
- The government will legislate to give the Digital Markets Unit new powers to challenge monopolies to increase competitive pressure to innovate.
- With immediate effect, the government will be scrapping import tariffs on over 100 goods used by UK businesses in their production processes.
- There will be a change to the approach to Investment Zones, which will now focus on providing services from centres based in universities in left behind areas.

Help for the most vulnerable

- From April 2023, the Energy Price Guarantee will continue for a further 12 months but will rise from £2,500 to £3,000 thereby providing less of a subsidy.
- Additional cost of living payments of £900 for households on means tested benefits, £300 for pensioner households and £150 for individuals on Disability Benefits.
- An extension to the Household Support Fund to help local authorities assist individuals who may otherwise fall through the cracks.
- Doubling of support to £200 for households using alternative energies such as heating oil and LPG. This support will be delivered as soon as possible before winter.
- By the end of this year, a new targeted approach to support businesses with their energy costs from April 2023.
- A cap to social rent increases to a maximum 7% in 2023/24.
- An uplift of 10.1% from April 2023, for those claiming Working Age & Disability Benefit.
- Pension Credit will also increase by 10.1% in April 2023.
- The government confirmed that the Pensions Triple Lock will be protected, increasing the State pension by 10.1% from April 2023.

The above is designed to provide an overview of the Autumn Budget 2022 and should not be solely relied upon in making any personal or business decisions. Many of these details contained herein should therefore only be used for guidance purposes, and you should seek the help of a professional who will consider your own unique circumstances, and the best approach for you. For more help please contact your local MFW office http://bit.ly/MFWGetintouch.