Consequential
PLANNING LTD

admin@cnsq.co.uk
01299 407128

Spring Forecast Statement 2022



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"People should know that we will stand by them, as we have throughout the last two years"

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Chancellor of the Exchequer, Rishi Sunak, delivered his 2022 Spring Statement on 23 March, confirming implementation of the politically contentious 1.25 percentage-point rise in most National Insurance contributions, though with revised thresholds to mitigate the impact. He declared that his overall plan *"builds a stronger, more secure economy for the United Kingdom."* The fiscal update included a number of specific measures and a new 'Tax Plan' which the Chancellor said would help families with the cost-of-living squeeze. Mr Sunak said, *"People should know that we will stand by them, as we have throughout the last two years."*

Economic forecasts

Mr Sunak began his Statement by paying tribute to the soldiers and citizens of Ukraine, and said it was the strength of our economy that would enable the UK to help fund the Ukrainian army and impose sanctions on Putin's regime. The Chancellor did, however, warn that actions against Russia *"are not cost-free for us at home"* and present a *"risk to our recovery"* before unveiling the latest economic projections produced by the Office for Budget Responsibility (OBR).

The Chancellor said the OBR had noted an *"unusually high uncertainty around the outlook"* as a result of Russia's invasion, with its revised growth figures pointing to a more sluggish recovery; the UK economy is now predicted to grow by 3.8% this year and by 1.8% in 2023, both downgrades from last autumn's forecasts of 6.0% and 2.1%, respectively. Growth is then expected to pick up in 2024, with OBR projections over the remaining three years of the forecast period stronger than last October's predictions.

Mr Sunak went on to say that the most significant impact of the war in Ukraine relates to the cost of living, with the latest OBR figures suggesting inflation will average 7.4% across the remainder of this year, and peak at 8.7% in the final quarter. This followed on from the morning's news that UK inflation had hit a 30-year high of 6.2% in the 12 months to February.

In terms of public finances, the forecasts show borrowing as a percentage of GDP falling from 83.5% in 2022/23 to 79.8% by 2026/27. However, the Chancellor said that in the next financial year the UK is forecast to spend a record £83bn on debt interest, and that the OBR has warned that the UK's *'fiscal headroom'* could be *'wiped out by relatively small changes to the economic outlook.'*

Living cost support measures

During his speech, Mr Sunak outlined three specific measures that he said would help households deal with the cost-of-living crisis. These were:

- Fuel duty for petrol and diesel would be cut by 5p per litre from 6pm on 23 March with the reduction lasting until March 2023
- Homeowners installing energy saving measures such as solar panels, heat pumps or insulation will pay no VAT on their purchases for the next five years
- The Household Support Fund will double from £500m to £1bn from April, allowing local authorities to help vulnerable families cope with rising living costs.

The government have said they are continuing to monitor developments impacting the cost of living and will be ready to take further steps if needed to support households.

Previous steps taken to support households include:

- Reducing the Universal Credit taper rate from 63% to 55%, and increasing Universal Credit work allowances by £500 a year to make work pay
- Increasing the National Living Wage (NLW) for workers aged 23 and over by 6.6% to £9.50 an hour from April 2022
- £9bn package announced in February 2022 to help households with rising energy bills.

Taxation

The Chancellor set out a three-part Tax Plan for a *'lower tax economy'* which will cover the remainder of the Parliament. The key elements of the plan are:

- The Spring Statement forms the first part of the plan – prioritising help for families with the cost of living – through the fuel duty cut (previously detailed) and an increase in National Insurance thresholds:

The Chancellor announced 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 is a tax cut of over £6bn and worth over £330 for a typical employee in the year from July

In addition, 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

- The second part of the plan is entitled 'Capital, People and Ideas' and focuses on creating the right conditions



for private sector led prosperity through growth and productivity. The government intends to work with industry over the remainder of 2022 and will announce its conclusions in the Autumn Budget

- In a tax break worth over £5bn a year, the final part of the Tax Plan, entitled 'Sharing Growth', confirms a cut in the basic rate of Income Tax from 20% to 19% in England, Wales and Northern Ireland in 2024. The Scottish government will receive their share of this funding which can be used to cut taxes or increase spending.

As part of the Tax Plan, the Chancellor has reaffirmed plans for tax reform to make the tax system *'simpler, fairer and more efficient.'* This will be done by continuing the review of over 1,000 tax reliefs and allowances in the tax system by 2024.

Key allowances

No changes were made to personal tax allowances for the forthcoming 2022/23 tax year, which include:

- Inheritance Tax (IHT) nil-rate band remains at £325,000 and the residence nil-rate band at £175,000, until April 2026
- Capital Gains Tax (CGT) annual exemption remains at £12,300 for individuals and £6,150 for most trusts
- Lifetime Allowance for pensions remains at £1,073,100 until April 2026, the Annual Allowance remains at £40,000
- New single-tier State Pension will increase to £185.15 per week in April 2022, the older basic State Pension will increase to £141.85 per week
- Individual Savings Account (ISA) allowance remains at £20,000 for the 2022/23 tax year
- Junior Individual Savings Account (JISA) allowance and Child Trust Fund (CTF) annual subscription limits remain at £9,000
- Most National Insurance contributions (except for certain employee categories and Class 2 self-employed) and Dividend Tax rates will increase by 1.25 percentage points from April 2022.

Business support

The Chancellor announced measures to help smaller businesses with rising energy costs, recruitment and training, as well as to close what he termed the *"productivity gap"* between UK businesses and those in other member countries of the Organisation for Economic Cooperation and Development (OECD). To this end, he pledged:

- A £1,000 increase to the Employment Allowance, providing smaller businesses with relief of up to £5,000 on National Insurance contributions from April 2022
- Two new business rates discounts, brought forward by a year to April 2022, which will reduce rates to 0% for businesses investing in eligible green technology and heat networks.

He reiterated previous measures announced in the Autumn Budget 2021:

- A 50% discount (up to £110,000) on business rates for eligible retail, hospitality and leisure businesses, coming into effect in April 2022
- An extension of the temporary £1m Annual Investment Allowance to 31 March 2023.

Mr Sunak also re-emphasised the government's commitment to reforming the research and development (R&D) tax system, as previously outlined in 2021. Measures include increasing the generosity of R&D reliefs and expanding the qualifying criteria to include data, cloud computing and pure mathematics. Furthermore, he announced that the government would be investigating how the tax system – including the operation of the Apprenticeship Levy – could be reformed to further encourage employers to invest in adult training.

Other key points

- The government has announced that it will phase out the import of Russian oil by the end of 2022
- The government will be setting out an energy security plan, including measures across hydrocarbons, nuclear and renewables, to support energy resilience and security
- Funding of £48.8m over three years to support the creation of a new Public Sector Fraud Authority and enhance counter-fraud work across the British Business Bank and the National Intelligence Service
- A new Efficiency and Value for Money Committee will be set up to cut £5.5bn of cross-Whitehall waste, with savings to be used to fund public services
- Investing £12m in HMRC to help prevent error and fraud in tax credits
- NHS efficiency commitment will double from 1.1% to 2.2% a year to free up £4.75bn to fund NHS priority areas
- The government is launching the second round of the Levelling Up Fund, inviting bids to come forward from all eligible organisations across the UK – this Fund provides £4.8bn for local infrastructure projects.

Closing comments

Rishi Sunak signed off his announcement saying, *"We can deliver for the British people today and into the future. We have a plan... A plan that reforms and improves public services, a plan to grow our economy, a plan to level up across the United Kingdom, a plan that helps families with the cost of living. And yes, a tax plan... My Tax Plan delivers the biggest net cut to personal taxes in over a quarter of a century. And I commend it to the House."*

Make the most of your money

before the end of the tax year

As the end of the 2021–22 tax year approaches it's worth ensuring you have your financial affairs in order and to double check that you've taken advantage of all the tax-efficient allowances available to you

Make some tax-smart moves before it's too late

Get in touch to discuss any aspect of your end of tax year planning



It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding of taxation and HMRC rules and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. **Some rules may vary in different parts of the UK**; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

All details are correct at the time of writing (23 March 2022)