The 2022 Spring 'Budget' Statement

Haywards Health & District Probus Club

The Chancellor of the Exchequer

Rishi Sunak (below) has served as Chancellor of the Exchequer since 13th February 2020. A member of the Conservative Party, he was previously Chief Secretary to the Treasury from July 2019. He has been the Member of Parliament (MP) for Richmond in North Yorkshire since 2015.

Responsibilities

The Chancellor of the Exchequer is the government's chief financial minister - something akin to a Financial Director or Chief Financial Officer in a public company. He is responsible for raising revenue through taxation or borrowing and controlling public spending.

Picture Credit: "Rishi Sunak Covid-19 Presser" by UK Prime Minister is marked with CC BY-NC-ND 2.0

The Chancellor has overall responsibility for the work of HM Treasury and covers:

- fiscal policy (including the presenting of the annual Budget)
- monetary policy, setting inflation targets
- ministerial arrangements (in his role as Second Lord of the Treasury)
- overall responsibility for HM Treasury's response to COVID-19

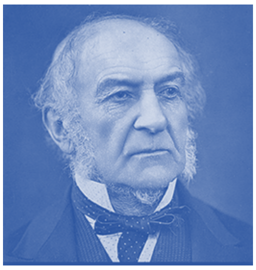
What is the Budget?

Each year, the Chancellor of the Exchequer - who is in charge of the Government's finances - makes a Budget statement to MPs in the House of Commons. It outlines the government's plans for raising or lowering taxes. It also includes big decisions on what the Government will spend money on - including health, schools, police and other public services. This year, the government's proposals were presented against raging inflation arising from Covid and supply issues arising from external events such as the events in Ukraine and rising prices in the fuel sector.

The government published the Spring Statement on 23rd March 2022 - you can read it HERE. After the Chancellor's speech, the independent Office for Budget Responsibility (OBR) - which monitors government spending - published a report on how the economy is doing – in a few words, 'not very well'.

The Long and Short of it

The Chancellor of the Exchequer usually takes about an hour to deliver a Budget speech. The longest Budget delivery in history was by William Gladstone in 1853 (below) – his speech lasted four hours and 45 minutes.



For brevity, you need to look to Benjamin Disraeli (below) whose Budget speech in 1867, took only 45 minutes.

Caution: No advice is implied or given in this articles. This guide is for general interest only - it is always essential to take relevant and professional advice on specific issues. The facts are believed to be correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

Executive Summary: Spring Budget 2022

The government published details of its Budget proposals online[1] in various formats, shortly after the Chancellor finished presenting it to MPs on 23rd March 2022. The Executive Summary says:

"The Spring Statement 2022 takes place following the unprovoked, premeditated attack [Russia[2]] launched on Ukraine. The invasion has created significant uncertainty in the global economy, particularly in energy markets.

The sanctions and strong response by the UK and its allies are vital in supporting the Ukrainian people, but these decisions will inevitably have an adverse effect on the UK economy and other economies too. Higher than expected global energy and goods prices have already led to an unavoidable increase in the cost of living in the UK. The repercussions of [Russia's[3]] invasion of Ukraine will add to these pressures and increase inflation further in the coming months, with the long-term consequences not yet being clear.

As a result, the uncertainty surrounding the Office for Budget Responsibility's (OBR) spring economic and fiscal forecast is higher than usual.

The UK economy has emerged from the pandemic in a strong position to meet these challenges. The success of the government's COVID-19 vaccine rollout and the Plan for Jobs have helped support a quicker than expected recovery and a strong labour market, with the total number of payrolled employees now over 600,000 above pre-pandemic levels. Tax receipts have been stronger than expected, which has contributed to borrowing falling this year and over the forecast period.

The improvement seen in the public finances has created additional headroom against the government's fiscal rules, which the government has prioritised using to deliver tax reductions. The government has already taken significant steps to help with the cost of living. This includes a cut to the Universal Credit taper rate and increases to work allowances to make sure work pays; the £9 billion package announced in February [2022] to help households with rising energy bills this year; and freezing alcohol duties and fuel duty to keep costs down. The government is taking further action in the Spring Statement to help households. A significant increase to the National Insurance Primary Threshold and Lower Profits Limit will allow hard-working people to keep more of their earned income. A temporary 12-month cut will be introduced to duty on petrol and diesel of 5p per litre, representing a saving worth around £100 for the average car driver, £200 for the average van driver, and £1500 for the average haulier, when compared with uprating fuel duty in 2022-23. To help households improve energy efficiency and keep heating bills down, the government will expand the scope of VAT relief available for energy-saving materials and ensure that families with energy-saving materials installed pay 0% VAT.

Small and medium-sized enterprises (SMEs) are also affected by rising costs. The Spring Statement builds on previously announced support for SMEs, including business rates relief worth £7 billion over the next five years; increasing the Annual Investment Allowance from £200,000 to £1 million until March 2023; subsidising the cost of high-quality training through the Help to Grow: Management scheme; and helping firms to adopt new digital technologies with Help to Grow: Digital.

Businesses will also benefit from the cut to fuel duty, and the Employment Allowance will increase to £5,000 from April – a tax cut of up to £1,000 for around half a million small businesses.

The government has taken the responsible decisions needed ahead of the Spring Statement to strengthen the public finances, which has created the space to provide this extra support. The Spring Statement confirms that after providing this support, the government continues to meet its fiscal rules, with an increased margin of safety. Underlying debt is falling as a percentage of GDP, and the current Budget is in surplus in the target year. Preserving fiscal space is vital given the increasing risks from global challenges and the level of uncertainty in the economic outlook.

The Spring Statement sets out the government's plans to reform and reduce taxes. The Tax Plan – with its focus on helping families with the cost of living, creating the conditions for private sector-led growth, and sharing the proceeds of growth fairly with working people – will drive improvements in living standards and support levelling up across the UK.

[1] At: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1062708/Spring_Statement_2022_Print.pdf
[2] The Executive Summary says that Vladimir Putin launched the attack on Ukraine, implying that it was the Russian President alone that did so. In my opinion, this is clumsy and inelegant reporting.{Martin Pollins]
[3] Ibid

The Tax Plan will be delivered responsibly and sustainably, guided by the core principle that prudent levels of space should be maintained against the fiscal rules. It will depend on continued discipline on public spending and the broader macroeconomic outlook. The government will reform and reduce taxes in three ways:

1. Helping families with the cost of living. The Spring Statement increases the annual National Insurance Primary Threshold and Lower Profits Limit from £9,880 to £12,570 from July 2022. This aligns the Primary Threshold and Lower Profits Limit with the income tax personal allowance. This will help almost 30 million working people, with a typical employee benefitting from a tax cut worth over £330 in the year from July [2022].
2. Boosting productivity and growth by creating the conditions for the private sector to invest more, train more and innovate more – fostering a new culture of enterprise. To do this, the government intends to cut and reform business taxes, to create a culture of enterprise and the conditions for private sector-led growth.
3. Sharing the proceeds of growth fairly. 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. Alongside tax cuts, the government also wants to make the tax system simpler, fairer and more efficient and will confirm plans for reforms to reliefs and allowances ahead of 2024."

Tax Plan

The Tax Plan, referred to by the Chancellor, is set out in a separate paper[4] published on 23rd March 2022. It says:

Tax Plan: My vision for a lower tax economy

As part of Spring Statement 2022, I set out the government's Tax Plan. This three-part plan to strengthen our economy covers the remainder of the Parliament. It will help families with the cost of living, it will support growth in the economy, and it will ensure the proceeds of growth are shared fairly.

Spring Statement 2022 enacts the first part of the plan, with tax cuts on incomes and energy to help families with the cost of living. Fuel duty on petrol and diesel has been cut by 5p per litre for the next year. From July, taxes for working people will fall as National Insurance thresholds rise – so people can earn £12,570 free of tax, saving the typical employee over £330 a year. This tax cut means the UK now has some of the most generous tax thresholds in the world. These tax cuts will provide meaningful support to tens of millions of people in the United Kingdom.

The second part of our Tax Plan is to boost growth and productivity. For decades, the UK has lagged international peers in investment in capital, people and ideas. Once the super-deduction ends in April 2023, we will cut taxes and enact long-term reforms to incentivise businesses to invest more in these three critical areas. We will work with industry over the remainder of 2022 and plan to announce our conclusions at the Budget later this year.

The final part of our Tax Plan has a simple goal – to let people keep more of what they earn. To that end, I've announced a cut in the basic rate of income tax in 2024 – this is a £5 billion tax cut for workers, savers and pensioners and will be the first cut to the basic rate in 16 years.

This Tax Plan represents the biggest net cut in personal taxes in over a quarter of a century. It is only possible because of the difficult decisions taken by the government in the last twelve months. Cutting taxes sustainably requires prioritisation and a commitment to fiscal discipline. These are the foundations of this plan and our future low tax economy.

[signed]
Chancellor of the Exchequer, Rishi Sunak

[4] At: https://www.gov.uk/government/publications/spring-statement-2022-documents/spring-statement-tax-plan

The Chancellor also set out additional points under the *Cost of Living*[5] sub-heading:

Helping families with the cost of living
Global factors – such as supply chain issues and [Russia's[6]] invasion of Ukraine – are pushing up prices. The Chancellor said that support with the cost of living has been provided, including:

- Raising the National Living Wage to £9.50 an hour from April 2022 – an increase of over £1,000 a year for a full-time worker.
- Changing Universal Credit so that 1.7 million households will keep, on average, an extra £1,000 a year.
- Providing £350 for millions of households to help with their energy bills this year.

The first part of the Chancellor's Tax Plan sets out further steps to help working families and support businesses.

Increasing National Insurance Thresholds
From July 2022, the Primary Threshold (PT) and Lower Profits Limit (LPL) will be aligned with the income tax personal allowance. This will mean:

- the first £12,570 an individual earns will be completely tax-free
- almost 30 million working people will benefit
- a typical employee will save over £330 a year
- this is a tax cut worth over £6 billion

70% of workers pay less National Insurance even after the NHS and Care Levy.

Reducing Fuel Duty
From 6 pm on 23rd March 2022, fuel duty will be cut on petrol and diesel by 5 pence per litre for 12 months:

- It is the largest cut across all fuel duty rates ever
- This cut, plus the freeze in 22-23, represents a £5 billion saving over the next 12 months worth around: i. £100 for the average car driver, ii. £200 for the average van driver, and iii. £1,500 for the average haulier

To ensure the UK's continued success, we need to boost growth and productivity. The focus should be on three key areas: capital, people, ideas - this is the second part of the Tax Plan.

Capital
The UK has a long-standing issue with productivity, and one of the key underlying causes is a lack of capital investment. UK companies invest just 10% of GDP each year, compared with 14% in our competitor countries – our tax system doesn't reward investment as much as other countries do.

The government is investing £600 billion over the next five years - businesses should invest more too.

- The government introduced the super-deduction in 2021 – the biggest two-year business tax cut in modern British history – to encourage firms to invest in productivity-enhancing assets to help them grow.
- The government will cut and reform taxes on business investment – to build on the momentum of the super-deduction to drive business investment.
- The challenge now is to find the most effective way to cut taxes on investment while ensuring value for the taxpayer. The government will engage with businesses and confirm plans at the Autumn Budget.

[5] Published at: https://www.gov.uk/government/publications/spring-statement-2022-documents/spring-statement-tax-plan
[6] The Chancellor said Putin.

People
Workers and the skills they bring are vital to businesses. That's why businesses are encouraged to invest in training.

However, only 18% of 25 to 64-year-olds hold a vocational qualification, which is a third lower than the OECD average. UK companies spend less than half the European average on training their employees. The government is increasing skills funding significantly over the life of this Parliament but wants businesses to do the same.

The government will encourage businesses to offer more high-quality employee training and explore whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training.

Ideas
Success for the economy should mean success for everyone. The third part of the government's Tax Plan is to ensure the proceeds of our growing economy are shared fairly. The basic rate of income tax will be cut from 20% to 19% from April 2024.

Managing our public finances will be key to achieving this. It will take a determined effort to maintain spending discipline across government but will need the economic outlook to hold up.

Cutting income tax
The government will cut the basic rate of income tax from 20% to 19% from 2024. This will:

- reduce tax for over 30 million workers, pensioners and savers
- be the first cut to the basic rate of income tax in 16 years
- make the average taxpayer £175 a year better off

This is a tax break worth over £5 billion a year. The Scottish government will receive their share of funding, which they can use to cut taxes or raise spending.

Timeline

- March 2022: Cutting fuel duty on petrol and diesel by 5p per litre
- April 2022: Cutting taxes on small businesses by up to £1,000 - by raising the Employment Allowance to £5,000
- July 2022: Aligning the annual National Insurance Primary Threshold and Lower Profits Limit with the income tax personal allowance, making the first £12,570 of earnings tax-free
- April 2023: Cutting taxes on business investment - by reforming Capital Allowances and R&D tax reliefs
- April 2024: Cutting the basic rate of income tax from 20% to 19%

R&D Reform

- The Spring Statement announces improvements to the R&D tax reliefs, setting out support for data and cloud computing costs, refocusing relief on R&D undertaken in the UK, and allowing businesses to claim relief on R&D supported by pure maths
- The government will continue to reform and improve the R&D tax reliefs at the next Budget

Creativity, scientific breakthroughs, innovation – British people are famous across the world for their ideas and discoveries. These new ideas are vital to support growth in the UK economy, and we need more of them. The Chancellor said the government is taking what it spends on Research and Development to a new level, with plans to spend £20 billion a year by 2024, an increase of £5 billion, but businesses are urged to do the same, investing more in their own transformative R&D, developing new products and solutions to the biggest problems.

Published on 24th March 2022

Press and Other Commentary

Accounting Web

"The Chancellor announced a cut in the basic income tax rate and raised all NIC payment thresholds, but where is the money coming from?" asked the well-respected tax commentator Rebecca Cave. She expressed delight at the alignment of NIC with tax threshold but noted that the secondary class 1 NIC threshold, where employers start paying Class 1 NIC, will not be raised to align with the primary threshold. Employers will pay class 1 NIC at 15.05% on most employees' pay above £9,100 from 6 April 2022. To complicate matters, different secondary class 1 NIC thresholds apply for apprentices and freelance employees.

CITY A.M.

The critical comments:

Labour's Shadow Chief Secretary to the Treasury, Pat McFadden, said the Chancellor *"hasn't got a clue. He has left households and businesses to fend for themselves in the middle of a devastating cost of living crisis. Even after the changes today, Britain faces the highest tax burden in 70 years. Rishi Sunak is raising taxes again and again, only to offer crumbs just before an election. This is a cynical Chancellor who is asking struggling families to pay for the Tory election campaign."*

Christine Cairns, a tax partner at PwC, *commented* that *"increasing the threshold was one of the only options left to try and soften the blow for those who will feel it most. While it might seem curious to be effectively both increasing and cutting NI at the same time, today's change is clearly targeted at helping those with the lowest earnings who may already be below the income tax threshold. The true impact of this cut, as well as of the future decrease of the basic rate tax rate, for middle-income earners will need to be assessed against the impact of the freezing of the income tax bands until 2026."*

Shadow Chancellor Rachel Reeves said the plans didn't help those facing a "real-terms cut" to their income, telling the Commons: *"At the weekend, the Chancellor was asked about fuel poverty, and he didn't even know the numbers. It is shameful that he doesn't because when Martin Lewis predicts that 10 million people could be pushed into fuel poverty, the Chancellor should sit up and listen. We know that pensions and social security are not going to keep up with inflation. Pensioners and those on social security are being given a real-terms cut in their incomes. So, what analysis has the Chancellor done of the impact of benefits being up-rated by less than inflation? How many more children and pensioners will drift into poverty because of… this Government? Now the Chancellor has the audacity to come to British taxpayers asking them to pay more to fill his blackhole."*

UK households are set to be saddled with the heaviest tax burden since the 1940s, even when Chancellor Rishi Sunak's income tax cut and national insurance tweaks are baked in.

Britain's fiscal watchdog is forecasting the tax burden to hit 36.3% in four years' time, it said in fresh forecasts published on 23rd March 2022.

Our most vulnerable households need help with rising costs - they need targeted support. The Chancellor said he was doubling the Household Support Fund to £1bn. Local Authorities are best placed to help those in need in their local areas - they will receive this funding from April.

The Telegraph

- The Chancellor announced that fuel duty will be cut by 5p from 57.95p per litre following the surge in petrol prices, with the reduction lasting for 12 months.
- He also raised the National Insurance threshold by £3,000 to cushion the blow of his planned tax hike in April 2002. It will mean workers can earn £12,570 without paying the tax, a £6bn tax cut worth over £330 a year for employees.
- Mr Sunak unveiled a new "Tax Plan" that will aim to help families with living costs, create the conditions for higher growth and share the benefits of growth fairly.
- The household support fund was doubled to £1bn with local authorities delivering the extra £500m from April.
- The Chancellor has already announced a £9bn package to help families with their energy bills. Around 80pc of households will receive a £150 council tax rebate, while Britons will also get £200 off their energy bills in October 2022. However, the latter will have to be paid back over time.

Published on 24th March 2022

The Office for Budget Responsibility (OBR) has delivered a mixed set of economic forecasts for the Chancellor:

- The OBR downgraded its growth forecasts for the UK economy as soaring living costs, and the Ukraine crisis has dampened the outlook. Growth is set to slow to 3.8% in 2022 and 1.8% next year, sharply down from previous predictions of 6% and 2.1%, respectively.
- Inflation is expected to average 7.4% this year, much higher than previous estimates. Annualised inflation is forecast to hit 8.7% in Q4 2022. However, unemployment will be lower and has already fallen to 3.9%.
- While government borrowing for 2021/22 was better than expected at £127bn compared to the watchdog's previous prediction of £183bn, it lifted its deficit forecast for next year. Borrowing is expected to fall to £99bn in 2022/23, but this is higher than the £83bn predicted at October 2021's Budget.
- Borrowing as a percentage of GDP will be 5.4% this year and 3.9% next year with the Chancellor still on course to hit his fiscal rules. Debt interest costs will be the highest on record at £83bn in 2022/23.
- Underlying debt as a share of GDP will fall from 83.5% in 2022/23 to 79.8% in 2026/27.

Other policies:

- The Chancellor pledged to cut taxes on business investment when the "Super Deduction" ends next year while research and development tax credits will be reformed.
- The Employment Allowance will increase by £1,000 to £5,000, making it cheaper for firms to hire workers.
- Homeowners installing energy saving materials, such as heat pumps and solar panels, will no longer pay 5% VAT.

Spring Statement 2022: Rishi Sunak delivers budget update to the House of Commons 23rd March 2022
Screen Clip from Video at: https://youtu.be/Kpc1QjcFJcU

Spring Statement 2022 tax-related documents

At the Spring Statement 2022, the Chancellor announced measures related to National Insurance contributions (NICs) and income tax.

The Personal Tax Factsheet[7] provides an overview of the announcements:

- National Insurance contributions: The National Insurance Primary Threshold (PT) and Lower Profits Limit (LPL) from £9,880 to £12,570. This is a tax cut worth over £330 for a typical employee in the year from July 2022.
- Taxpayers will gain £175 on average thanks to a 1% cut in the basic rate of income tax in 2024, the first cut to the basic rate in 16 years.
- Alignment of Tax and National Insurance: the Primary Threshold and Lower Profits Limit – the point at which employees and the self-employed start paying National Insurance contributions (NICs) will be brought in line with the income tax personal allowance of £12,570. It will mean working people can earn £12,570 tax-free, an increase of £2,690 in cash terms, benefitting almost 30 million working people. This is a tax cut for a typical employee worth over £330 in the year from July 2022 from when it will be implemented; the equivalent saving for a typical self-employed person would be worth over £250.
- From July, around 70% of workers who pay NICs will pay less NICs than they otherwise would have, even after accounting for the introduction of the Health and Social Care Levy. Due to this measure, 2.2 million people will be taken out of paying Class 1 (Employee NICs) and Class 4 NICs (Self-employed NICs) and the Health and Social Care Levy entirely, on top of the 6.1 million workers who already do not pay NICs.
- Class 2 NICs payments will be reduced for lower-earning self-employed individuals. From April 2022, self-employed individuals will not pay Class 2 NICs on profits between the Small Profits Threshold (£6,725) and Lower Profits Limit, but they will continue to be able to build up National Insurance credits. It will benefit around half a million self-employed people by up to £165 a year.
- The cut in the basic rate of income tax by 1%, from April 2024, is the first cut to the basic rate of income tax in 16 years.
- There will be a three-year transition period for Gift Aid relief to maintain the income tax basic rate relief at 20% until April 2027. This will support almost 70,000 charities and is worth over £300m.
- There may be some individuals who continue to pay NICs even if annually they earn less than £12,570, for example, someone whose earnings all fall in a single week or month. This is because NICs is charged on a pay period basis and is not annualised, cumulative or aggregated.
- The cut of 1% will apply to the basic rate of tax which applies to 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 self-employed pay NICs on an annual basis, and at the end of the tax year. For the 2022-23 tax year, the self-employed will be able to earn £11,908 before paying Class 4 NICs and the Levy. The annual figure for the self-employed is £11,908, because this accounts for 13 weeks of £9,880 and 39 weeks of £12,570. That means the benefit the self-employed receive in 2022-23 is in line with that of employees.
- From April 2023 onwards, the self-employed will be able to earn £12,570 before paying any NICs. The LPL will then remain aligned with the income tax personal allowance. Further, for 2022-23, the point at which the self-employed start paying Class 2 NICs will increase to £11,908. This means that those with profits between the Small Profits Threshold (£6,725) and the LPL (£11,908) will not need to pay Class 2 NICs from April 2022 but will still be able to access entitlement to contributory benefits.

[7] At: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1062562/Personal_Tax_factsheet_FINAL.pdf

Published on 24th March 2022

BBC

The BBC (as usual) delivered a detailed analysis of the Chancellor's proposals. Many are covered elsewhere in this paper.

- The Office for Budget Responsibility said inflation and higher taxes from April meant households face the biggest fall in living standards since records began in 1956.
- Just before the Spring Statement, official figures from the OBR showed prices rose by 6.2% in the 12 months to February - the fastest for 30 years.
- Despite today's tax concessions, the fine print of the Chancellor's plans suggests that he is way off being the lower-tax Chancellor he ultimately wants to be. By 2027, 36.3% of the nation's income is set to be siphoned off to HMRC - the biggest tax burden since the late 1940s when we were still paying for the costs of World War II.
- The concessions the Chancellor has unveiled only offset a sixth of the tax rises introduced since the start of the Covid pandemic.
- Eateries complain that the higher prices they now must charge make them unpopular with customers and that the reduction in fuel costs of 5p a litre barely benefits them at all.

Sources and Further Reading

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