

INVESTMENT NEWS

THE CHANCELLORS SPRING STATEMENT

Chancellor Rishi Sunak has delivered his spring statement, which we have summarised for our clients. We **have only** commented on English taxes.

BACKGROUND

The Office for Budget Responsibility (OBR) warned in its economic and fiscal outlook, households are still on course for “the biggest fall in living standards in any single financial year since ONS records began in 1956/57.”

There is significant uncertainty around the global gross domestic product (GDP) outlook due to the Russia-Ukraine war, the OBR said higher global energy prices will weigh heavily on the UK economy. If wholesale energy prices remain as high as markets expect energy bills (which for many have already doubled) are set to rise by another 40% in October, pushing inflation to a 40-year high of 8.7% in the fourth quarter of 2022.

GDP is expected to grow by just 3.8% this year, down from the OBR’s October forecast of 6.0%. Inflation is exceeding the growth in nominal earnings and real living standards are set to fall by 2.2% in 2022/23 and not recover their pre-pandemic level until 2024/25.

SHORT TERM HELP

In an effort to soften the blow of spiralling prices, the chancellor announced that fuel duty would be reduced by 5p a litre. This measure came into effect from 6pm yesterday and will last for 12 months. In addition, VAT on the installation of energy saving materials will fall from 5% to 0% for five years from April.

NATIONAL INSURANCE

The predicted rate rise of 1.25% is being implemented as planned from 6th April 2022. The tax rise is as follows:

	EE	Self Employed	High Earner
Now	25.80%	9.00%	2.00%
Proposed	28.30%	10.25%	3.25%
	9.69%	13.89%	62.50%

To mitigate this the chancellor has raised the Employees tax free threshold from £9,568 to £12,570 which means both income tax and NI are aligned.

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For business owners you can pay approximately £9,100 with no NI tax. Small business owners benefit from a rise in the NI offset from £4,000 to £5,000.

The OBR noted that the increase in the rate of NI and the freezing of income tax thresholds mean that aggregate post-tax incomes will fall by more than the NI threshold increase raises them.

DIVIDEND TAX

Dividend Tax rates rise as follows:

	2021/2	2022/3	Change
Tax Free Allowance	£2,000	£2,000	-
Basic Rate	7.50%	8.75%	16.67%
Higher Rate	32.50%	33.75%	3.85%
Additional Rate	38.10%	39.35%	3.28%

CORPORATION TAX

The increase of corporation tax to 25% of profits is going to hit a lot of small family firms in April 2023. The Taper Relief calculations are complex so some forward planning may be sensible before the tax comes into effect.

Profits	<£50,000	£50,000 to £250,000	£250,000 +
Rate Of Tax	19.00%	26.50%	25.00%

PAIN TODAY

Most tax-free allowances are frozen until 2026. With inflation at 8% every taxpayer faces significant tax rises.

Your 2021/22 tax allowances have in real terms fallen to:

	2021/2	2022/3
Inflation		8.00%
Higher rate Threshold	£50,270	£46,248
IHT Property Allowance	£175,000	£161,000

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Inheritance Tax Threshold	£325,000	£299,000
Lifetime Allowance	£1,073,100	£987,252
Loss of Tax-Free Starts	£100,000	£92,000
Personal Tax Allowance	£12,570	£11,564
Tax Free Gains	£12,300	£11,316

In recent years, State Pensions have been uprated each year by the higher of CPI, 2.5% and the average increase in earnings (known as the 'triple lock'). However, for tax year 2022/23, the earnings element has been suspended. This means that, in 2022/23, State Pensions will increase by 3.1% (the September 2021 CPI figure).

JAM TOMORROW

In a surprise move, Sunak announced that the basic rate of income tax would reduce from 20% to 19% from April 2024. He claimed this would benefit more than 30 million people and represent a tax cut of over £5bn a year. He also said this wasn't a promise but a hope subject to economic conditions. He also said he was looking into a thousand tax allowances with a view to "simplifying" the tax system. What the chancellor giveth, the Chancellor can take away!

With the erosion of tax allowances it is a case of "use them or lose them". Please contact us if you require any help or forward planning for the future.

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