Autumn Statement

November 2022

emery little
true wealth management

Introduction

The Chancellor Jeremy Hunt's Autumn Statement came against the background of a Spring Statement and a September 'mini-Budget' (which has now been substantially reversed). The overall context is a European recession and high inflation in the wake of the pandemic and the war in Ukraine.

The Autumn Statement was presented as a difficult and necessary exercise to restore confidence in the UK's financial position. In October, Mr Hunt spoke of "decisions of eye-watering difficulty" and ever since there has been a regular flow of rumours/leaks about which taxes may increase, how long existing tax allowance freezes could be extended and in which areas spending cuts would fall.

The steady supply of information felt like a pre-Budget kite-flying exercise, so that when the bad news arrived it was at least not a complete surprise. But that did not make the wide range of measures announced on 17 November any less significant.

Just under half of the £55 billion consolidation came from tax and the balance from spending. Mr Hunt described his strategy as a balanced plan for stability, following two broad principles: asking those with more to contribute more; and avoiding tax rises that most damage growth. Nevertheless, the tax increases announced are substantial, according to Mr Hunt, with tax as a percentage of GDP increasing by 1% over the next five years.

The Chancellor said he aimed to deliver a plan to tackle the cost of living crisis and rebuild the economy with stability, growth and public services as the priorities.

Economic update

The economic backdrop to the Autumn Statement was a challenging one, with the Chancellor confronted by a combination of over 11% inflation, recession and the need to re-establish the UK's financial credibility. The question remains, however, whether the UK economy will fulfil the relatively optimistic growth forecasts now implicit in the projections of the Office for Budget Responsibility (OBR).

The first Economic and Fiscal Outlook (EFO) of 2022 from the OBR was published on 23 March, shortly after the invasion of Ukraine. Three prime ministers, four chancellors and nearly nine months on from the beginning of Mr Putin's 'special military operation', the UK's (and much of the world's) economic prospects have changed significantly:

The new OBR forecast says inflation will be 9.1% in 2022, 7.4% in 2023 and just 0.6% in 2024. Inflation is a two-edged sword for the Treasury. On one positive side it has increased the extra revenue raised by the many tax allowance freezes announced in March 2021 from the original estimate of £8 billion to £30 billion now. On the negative side it has made spending cuts more difficult for the Treasury because last year's Spending Review set departmental budgets in cash terms, based on the low forecasts for inflation.

The outlook for economic growth in the short term is much lower. The OBR projected growth is −1.4% in 2023, 1.3% in 2024 and 2.6% in 2025, echoing the Bank of England's recent forecast for a recessionary 2023.

Interest rates have risen faster than the OBR expected in the Spring in response to the double-digit inflation, with rates averaging more than 4% through to the end of 2025/26.

The combination of higher inflation, poor growth and rising interest rates was destined to hit government borrowing even before the huge costs of energy price support were added to the mix. For 2022/23, government borrowing is projected to be £177 billion, £78 billion above the level the OBR projected in March. In the coming financial year, borrowing will only come down to £140 billion – £90 billion above the March 2022 forecast.

Personal tax

Income tax

The personal allowance will remain at £12,570 for an extra two tax years until 5 April 2028 and the higher rate threshold will stay at £50,270, the levels that first took effect in 2021/22.

From 2023/24, the 45% additional rate threshold will be reduced from £150,000 (the level set in 2010/11) to £125,140. In Scotland, the higher and top (additional) rate thresholds for non-savings, non-dividend income will be announced in the Scottish Budget on 15 December.

The blind person's allowance will be increased to £2,870 for 2023/24.

Dividend tax

The dividend allowance will be halved to £1,000 for 2023/24 and halved again in 2024/25 to £500.

National insurance contributions (NICs)

The class 1 primary threshold and class 2 lower profits limit will remain aligned with the personal allowance (£12,570) until April 2028.

The upper earnings limit and class 4 upper profits limit will remain aligned to the higher rate threshold at £50,270 through to April 2028. The lower earnings limit (£6,396) and the small profits threshold (£6,725) will remain unchanged in 2023/24.

For 2023/24, the class 2 rate will be £3.45 a week and the voluntary class 3 rate will be £17.45 a week.

Capital gains tax

In 2023/24, the annual exempt amount for individuals and personal representatives will be reduced to £6,000 and then halved to £3,000 in 2024/25. The annual exempt amount for most trusts will be cut to £3,000 (minimum £600) in 2023/24 and then halved in the following year.

Inheritance tax

The nil rate band for 2026/27 to 2027/28 will remain at £325,000, which was the level first set for 2009/10. The residence nil rate band (RNRB) will likewise stay at £175,000 and the RNRB taper will continue to apply where the value of the deceased's estate is greater than £2 million.

Stamp duty land tax (SDLT)

The SDLT cuts affecting residential property in England and Northern Ireland, which were introduced in the 'mini-Budget' on 23 September 2022, will be reversed from 1 April 2025.

Enveloped dwellings (ATED)

The annual chargeable amounts for the ATED will be increased by 10.1% for 2023/24.

Company cars and vans

The benefit-in-kind (BIK) appropriate percentages for electric and ultra-low emission cars will increase by one percentage point each year from 2025/26 to 2027/28 up to a maximum appropriate percentage of 5% for electric cars and 21% for ultra-low emission cars.

The BIK rates for all other vehicle bands will be increased by one percentage point for 2025/26 up to a maximum appropriate percentage of 37% and will then be fixed in 2026/27 and 2027/28.

For 2023/24 car and van fuel benefit charges and the van benefit charge will increase in line with CPI.

Electric vehicles

Electric cars and vans will become subject to vehicle excise duty (road tax) from 1 April 2025.

Fuel duty

While no comment was made on fuel duty by the Chancellor in the statement, the OBR did flag up that if the temporary 5p a litre reduction for 2022/23 is not rolled over into 2023/24 and, for once, automatic fuel duty indexation is allowed to take effect, then there will be a total duty rise of around 12p a litre.

State pensions and social security benefits

All UK-wide benefits, including state pensions (under the 'triple lock') and the standard minimum income guarantee in pension credit will increase by 10.1% from April 2023. Plans to create a new housing element of pension credit to replace pensioner housing benefit are now intended to take effect in 2028/29.

The benefit cap will be raised from £20,000 to £22,020 for families nationally and from £23,000 to £25,323 in Greater London. For single adults, the national cap will increase from £13,400 to £14,753 and the cap in Greater London will rise from £15,410 to £16,967.

Households on means-tested benefits will receive an additional £900 cost of living payment in 2023/24. Pensioner households will receive an extra £300 cost of living payment, and individuals on disability benefits will get an extra £150 disability cost of living payment.

UC claimants will be able to apply for a loan to help with mortgage interest repayments after three months, instead of the current nine months. The zero earnings rule will be abolished in Spring 2023 to allow claimants to continue receiving support while they are in work and on UC.

Energy price support

The domestic energy price guarantee (EPG) will increase to £3,000 for one year from 1 April 2023 and equivalent support will continue to be provided in Northern Ireland. However, the parameters of the EPG scheme may be revised.

The support for households that use alternative fuels, such as heating oil, to heat their homes will be doubled to £200 for 2022/23.

Social care funding in England

The implementation of the plans to reform the funding of social care in England, recently legislated for in the Health and Care Act 2022, will be deferred for two years until October 2025.

Council tax in England

Local authorities in England will be able to increase council tax by up to 3% a year from April 2023 without needing to hold a referendum. Authorities with social care responsibilities will also be able to increase the adult social care precept by up to 2% a year.

September 'mini-budget' MEASURES

Many of the proposals that emerged in Kwasi Kwarteng's 'mini-Budget' on 23 September 2022 have been reversed. However, some remain. The more notable surviving changes are:

National insurance contributions

The 1.25 percentage points increases to all 2022/23 class 1 and class 4 NIC rates initially introduced by Rishi Sunak as Chancellor were scrapped with effect from 6 November 2022. The revised rates are shown on page 12.

The 1.25% health and social care levy, which was due to replace the NIC increase from 2023/24, was also abandoned.

Stamp duties

From 23 September 2022, SDLT rates for residential property were revised, increasing the 0% band threshold from £125,000 to £250,000.

The government also increased relief for first-time buyers, raising the 0% band threshold from £300,000 to £425,000 and the maximum value of property on which they can claim the relief from £500,000 to £625,000. These changes only affect England and Northern Ireland.

The Welsh government has revised some of its land transaction tax (LTT) residential rates. From 10 October 2022, the starting threshold for paying main residential rates of LTT increased from £180,000 to £225,000. The first tax band will cover transactions from £225,000 to £400,000 and be taxed at 6%. The tax rates and bands for properties over £400,000 and for additional residential and all corporate residential properties are unchanged.

The Scottish Government has announced that it will set out its plans for land and buildings transaction tax (LBTT) in its Budget on 15 December.

Annual investment allowance

The current £1 million level of the annual investment allowance was made permanent.

Company share option plan (CSOP)

From April 2023, qualifying companies will be able to issue up to £60,000 of CSOP options to employees, doubling the current limit. The 'worth having' restriction on share classes within the CSOP will be eased, better aligning the scheme rules with the rules in the enterprise management incentive (EMI) scheme and widening access to CSOP for growth companies.

Venture capital schemes

From April 2023, companies will be able to raise up to £250,000 of seed enterprise investment scheme (SEIS) investment – a £100,000 increase on the current limit. At the same time: the gross asset limit will be increased to £350,000; the company age limit will be raised from two to three years; and the annual investor limit will double to £200,000.

The SEIS, enterprise investment scheme (EIS) and venture capital trust (VCT) scheme will be extended beyond 2025.

Office of Tax Simplification

The Office of Tax Simplification (OTS) will be abolished, to be replaced with a mandate to the Treasury and HMRC to focus on simplifying the tax code.

This summary isn't financial advice and we'd recommend seeking advice before taking action. If you are a client of Emery Little, we will discuss the implications at your next planning meeting. If you have any questions in the meantime, just get in touch.