

AUTUMN BUDGET AND SPENDING REVIEW

2021

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"AN ECONOMY FIT FOR A NEW AGE OF OPTIMISM"

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Chancellor of the Exchequer, Rishi Sunak, delivered his third Budget and the results of his Spending Review on 27 October, declaring that it begins “the work of preparing for a new economy post-COVID.” The Chancellor struck an upbeat tone during the key fiscal event, as he outlined his vision of “an economy fit for a new age of optimism, where the only limit to our potential is the effort we are prepared to put in and the sacrifices we are prepared to make.”

ECONOMIC FORECASTS

The Chancellor began his statement by revealing updated projections from the Office for Budget Responsibility (OBR), which predict that recovery from the depths of the pandemic will be quicker than previously thought. The revised figures suggest that the UK economy will grow by 6.5% this year, a significant upgrade from March’s 4% figure. The forecast implies the economy will regain its pre-pandemic level by the turn of the year, six months earlier than previously expected.

Medium-term GDP predictions were also upgraded as the OBR now estimates that long-term pandemic-related economic scarring will be 2% rather than the 3% assumed in March. As a result of this, along with a number of government policy changes, public sector net borrowing is now projected to be equivalent to 7.9% of economic output, down from the previous forecast of 10.3%. In addition, borrowing figures across each of the subsequent four financial years have also been lowered.

The Chancellor did, however, acknowledge that the cost of living is rising. The OBR predictions suggest the CPI measure of inflation will average 4% over the next year, peaking at 4.4% in the second quarter of 2022. Mr Sunak said, “The pressures caused by supply chains and energy prices will take months to ease” adding “it would be irresponsible for anyone to pretend that we can solve this overnight.”

SPENDING REVIEW

Prior to Budget Day, the Treasury had released a series of funding announcements including statements setting out spending plans for transport, health and education. During his speech, Mr Sunak stated that his Budget “increases total departmental spending over this Parliament by £150bn, with spending growing by 3.8% a year in real terms.” He added, “As a result of this Spending Review, and contrary to speculation, there will be a real terms increase in spending for every government department.”

The specific spending pledges mentioned during the Chancellor’s speech include:

- £21bn on roads and £46bn on railways, with a guarantee to spend £5.7bn on London-style transport systems across city regions
- £3.8bn on skills and training over the course of this Parliament



- £1.7bn in grants from the Treasury’s Levelling Up Fund for towns and cities including Stoke-on-Trent, Leeds, Sunderland, Doncaster and Leicester
- £5.9bn in funding for the NHS to tackle the immediate backlog of patients awaiting treatment
- Scottish government funding will rise by £4.6bn; Welsh government funding by £2.5bn, and £1.6bn more for the Northern Ireland Executive.

PERSONAL TAXATION, WAGES AND PENSIONS

Following the recommendations of the independent Low Pay Commission, the government will increase the National Living Wage for individuals aged 23 and over by 6.6% from £8.91 to £9.50 an hour, effective from 1 April 2022.

The taper rate that applies in Universal Credit will be reduced from 63% to 55% by 1 December 2021 and the Work Allowance will be increased by £500 a year.

The Chancellor announced that the year-long freeze on public sector pay will be lifted as the economy recovers from the pandemic, with the government seeking recommendations from Pay Review Bodies where applicable.

The new Health and Social Care Levy, announced in September, will be introduced across the UK from April 2022. The tax will initially begin as a 1.25 percentage point increase in National Insurance contributions, paid by both workers and employers. From April 2023, it will become a separate tax on earned income, calculated in the same way as National Insurance and ring-fenced as a Health and Social Care Levy. Tax on share dividends that are outside tax-free allowances is also scheduled to increase by 1.25 percentage points from April 2022.

As previously announced and following the government’s decision to suspend its triple lock guarantee for one year, September’s CPI rate will be used to calculate the uplift in the State Pension. As a result, the value of the basic State Pension will increase in April 2022 from £137.60 to £141.85 per week, while the full new State Pension will rise from £179.60 to £185.15 per week.

The 2022/23 tax year ISA (Individual Savings Account) allowance will remain at £20,000. The JISA (Junior Individual Savings Account) allowance and Child Trust Fund annual subscription limit will stay at £9,000.

Many tax allowances remain unchanged, as previously announced in the March Budget:

- The Income Tax Personal Allowance and higher rate threshold are to remain at current levels – £12,570 and £50,270 respectively – until April 2026 (rates and thresholds may differ for taxpayers in parts of the UK where Income Tax is devolved)
- Inheritance Tax nil-rate bands continue to remain at existing levels until April 2026 – £325,000 nil-rate band, £175,000 residence nil-rate band with taper starting at £2m

- The Capital Gains Tax annual exemption remains frozen at £12,300 for individuals, personal representatives and some types of trusts, and £6,150 for most trusts
- The Dividend Allowance remains at £2,000
- The Lifetime Allowance for pensions will remain at its current level of £1,073,100 until April 2026.

BUSINESS TAXES

Business rates will be reduced by a total of over £7bn over the next five years:

- Up to 400,000 eligible retail, hospitality and leisure properties can claim a new 50% business rates discount (max £110,000) for one year – worth £1.7bn of business rates relief (2022/23 tax year)
- The business rates multiplier will be frozen in 2022/23, a tax cut worth £4.6bn over the next five years
- From 2023, a new business rates relief will support investment in property improvements so that no business will face extra business rates for 12 months after making qualifying improvements to a property they occupy
- Also from 2023, exemptions will be introduced for eligible plant and machinery used in onsite renewable energy generation and storage as well as a new 100% relief for eligible heat networks.

The government also intends to support UK businesses by extending the temporary £1m limit of the Annual Investment Allowance to 31 March 2023, providing businesses with upfront support, encouraging them to bring forward investment and simplifying tax for businesses investing between £200,000 and £1m.

CHILDREN AND EDUCATION

“The evidence is compelling that the first 1,001 days of a child’s life are the most important,” the Chancellor said as he moved onto the government’s spending plans for childcare and education. Mr Sunak therefore announced additional funding to support young families, help schools recover from the pandemic and improve education across the UK, including:

- £300m for the ‘Start for Life’ scheme to fund Family Hubs, perinatal mental health support, breastfeeding services and parenting programmes
- An extra £200m for the Supporting Families Programme
- An additional £170m for childcare providers by 2024-25
- £150m to support training and development for early years workers
- £200m per year to continue the holiday activities and food programme for disadvantaged children
- An extra £4.7bn for schools by 2024–25, restoring real-terms investment in schools to 2010 levels
- A £1.8bn package across the Spending Review period to help schools and colleges recover from the effects of the pandemic
- £2.6bn provision for children with Special Educational Needs and Disabilities (SEND), to help fund 30,000 new places, improve existing buildings and add new facilities

- £560m for the new Multiply programme to improve basic maths skills among UK adults.

HOUSING

In his speech, Mr Sunak commented, *“We are investing more in housing and homeownership with a multi-year settlement totalling nearly £24bn.”* This includes £1.8bn of funding announced in this Budget (helping meet the government’s commitment to £10bn for new housing) to be spent on housing developments on brownfield land. The Chancellor also reconfirmed the government’s £11.5bn investment in the Affordable Homes Programme (2021-26) to deliver 180,000 units.

He pledged £5bn for the removal of unsafe cladding from high-risk buildings, to be partly funded by the Residential Property Developer Tax, which will be levied at a rate of 4% on profits in excess of a £25m threshold.

OTHER KEY POINTS

- Green measures include – £3.9bn to decarbonise buildings, including £1.8bn to support low-income households to make the transition to net zero while reducing their energy bills
- Community – 20,000 new police officers, an extra £2.2bn for courts and rehabilitation facilities and £3.8bn for prison-building
- R&D investment – £20bn by 2024–25
- Alcohol duty reform – the planned increase in alcohol duty that was due to take effect from midnight on Budget Day will be cancelled. A new five-point plan, which takes effect in 2023, will restructure duty to tax drinks in direct proportion to their alcohol content (including a new ‘Draught Relief’ policy set to cut duty on beer and cider sold in pubs). Consultation will close on 30 January 2022
- Tobacco duties – duty rates on all tobacco products increased by RPI+2% from 6pm on Budget Day
- Fuel duty rates – frozen UK-wide for the 2022/23 tax year
- Company vehicles – from 6 April 2022, the van benefit charge and the car and van fuel benefit charges will increase in line with CPI
- Tonnage Tax reform – a package of measures to reform the UK’s Tonnage Tax regime will be introduced from April 2022
- Aviation tax reform – from 1 April 2023 a new domestic band for Air Passenger Duty (APD) will be introduced. For 2023-24, the economy rate for the domestic band will be set at £6.50 and rates for the short and long-haul bands will increase in line with RPI. A new ultra-long-haul rate will be introduced
- Capital Gains Tax (CGT) property payment window – from Budget Day the deadline for residents to report and pay CGT (where applicable) after selling UK residential property increases from 30 days after the completion date to 60 days.

CLOSING COMMENTS

Rishi Sunak signed off his announcement saying, *“This Budget helps with the cost of living. This Budget levels up to a higher-wage, higher-skill, higher-productivity economy. This Budget builds a stronger economy for the British people. And I commend it to the House.”*

There's no time like the present

Autumn is a time of change and of preparation for the long winter months ahead



As we've passed the midpoint in the 2021–22 tax year, it's the perfect time to hunker down and get your finances in order

Don't fall into the trap of leaving it until the new year to review your finances, putting you on the back foot with your planning

Ticking this task off during the autumn months gives you time to tweak your plans if necessary

It's time to get organised – planning always pays

Financial planning involves taking sensible steps to reduce the amount of tax you pay



We can help you put in place plans for your future to safeguard your wealth

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 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 (27 October 2021)