27 October 2021

Autumn Budget highlights

In Chancellor Rishi Sunak's second financial statement this year, there were few surprises as he looks to fix the economy following the pandemic.

With inflation climbing and interest rate rises on the horizon, Britain is at a critical period in terms of its economic future. Multiple lockdowns caused the UK economy to slump by 10% while the government spent more than £100 billion supporting jobs.

Now the economy is recovering the chancellor is under increasing pressure to balance the books and claw back money spent on fighting the Covid crisis. Policies include:

- The National Living Wage will rise for those aged 23 and over to £9.50 an hour.
- Planned rises in fuel duty have been cancelled amid the highest pump prices in eight years.
- A 50% business rates discount for firms in the retail, hospitality, and leisure sectors up to a maximum of £110,000.

Cost of living

After coming under pressure to help employees, especially younger workers who have been some of the worst hit by the pandemic, the government is raising the National Living Wage for those aged 23 and over to £9.50 an hour. The chancellor also ended the one-year freeze on public-sector pay, introduced in order to control the deficit at a time when the economy was shrinking.

The Universal Credit taper rate – the amount of every £1 lost when someone takes on work – will be reduced by 63% to 55%. This means those claiming the benefit will take home more money each month.

As previously announced, a £500 million Household Support Fund will be made available to local councils in England and distributed to members of the community. The fund aims to help the most vulnerable with basic household costs such as food, clothing and utilities.

A planned increase on spirits, beer and wines duty will be cancelled. The system of alcohol duties will also be simplified, with drinks taxed in proportion to their alcohol content. The planned fuel duty rise will be cancelled and will remain frozen at 57.95p a litre until next year.

Green energy surcharges will be moved from electricity bills on to gas bills to help nudge customers to lower-carbon alternatives. The move will affect customers who have traditional gas boilers and be phased in over the next 10 years.

The chancellor also said flights between England, Scotland, Wales and Northern Ireland will have a lower rate of Air Passenger Duty from April 2023.

Taxes and allowances

As previously announced, the national insurance contribution rate (NIC) will rise by 1.25% from April 2022. The plans are designed to help raise £12 billion for social care and the NHS. National insurance rates will return to their current levels in April 2023 and a social care levy of 1.25% will be introduced to replace it. Unlike national insurance this will also be paid by pensioners who are still working.

Dividend tax rates will also rise by 1.25% from April next year, which means investors will have to pay more on their earnings. Basic rate income taxpayers will pay 8.75% with higher rate taxpayers charged 33.7%. Despite fears of a shake-up of capital gains tax (tax on the profit you make when you sell an asset that has increased in value), this failed to materialise.

Business and investment

Firms in the retail, hospitality and leisure sectors will be able to claim a new 50% business rates discount on bills of up to a maximum of £110,000 for the next 12 months. A new business rates improvement relief will allow businesses to make property improvements from 2023 for 12 months at no extra charge. There will also be more frequent revaluations of business rates every three years from 2023 and relief for business owners who adopt green technology like solar panels.

The government will launch a £1.4 billion fund to attract more overseas investment into the UK economy, particularly in sectors such as life sciences and electric vehicle production. The chancellor also outlined investment plans to attract highly skilled foreign workers and change regulations to make it easier for foreign companies to relocate to the UK.

The tax surcharge on bank profits has been cut from 8% to 3% to help boost London's competitiveness as a financial centre. The change will come into effect in April 2023 and means banks will pay 28% tax. It is intended to act as a countermeasure to the planned hike in corporation tax for the UK's largest firms from 19% to 25%. The chancellor has also pushed back the goal of reaching £22 billion in annual research and development (R&D) spending by two years to 2026/27.

Housing and infrastructure

The government confirmed £11.5 billion would be set aside to build 180,000 affordable homes. This includes 160,000 new homes which will be built on derelict or unused land – also known as brownfield sites – in England. A further £65 million has been allocated to ramp up England's planning system, including digitisation to make local plans easier to access.

English regions have been given a total of almost £6.9 billion to improve urban transport across England. The money will go towards regions including Greater Manchester and the West Midlands, funding projects designed to boost sustainable transport, as well as improving bus and train services. The chancellor also announced the allocation in the first round of bids from the Levelling Up Fund, giving £1.7 billion to invest in the infrastructure, transport and regeneration of over 100 local areas.

What does this mean for investors?

While the budget is unlikely to have a huge impact on the UK's recovery it will allow room for the government to cut taxes before the next election.

Robert Jeffree, chief investment officer of Omnis Investments, says: "Today, Rishi Sunak received three gifts from the independently managed Office of Budget Responsibility (OBR). First up, the growth forecast for 2021 has been raised from 4% to 6.5%, and is expected to reach 6% in 2022. Secondly, the forecast for economic scarring from the pandemic has been downgraded from 3% to 2%. Last but not least, the OBR forecasts government borrowing to decrease from 7.9% this year to 3.3% next year and then fall further from there. This is positive for gilts (the UK's government bonds) and we have already seen yields on gilts fall following the budget (prices of bonds rise as yields fall).

"Overall, this felt like an upbeat Budget that attempted to tread a fine line between spending the three gifts granted to him by the OBR while, leaving enough room for the classic Conservative's strategy of cutting taxes before the next election. The Budget doesn't change the path of the UK's economic recovery, but at the margins attempts to level up the recovery in those harder hit areas.

"Finally, despite targeting universal credit, the Budget does little to address the increased cost of living we can expect in the UK going into next year, the sticky inflation and the expected interest rate hikes from the Bank of England."

Mike Morrow, chief commercial officer at The Openwork Partnership, says: "The good news from the Budget for advisers is very much about what was not announced.

"Capital gains tax was left alone for now and there were no major announcements on pensions despite speculation that the lifetime allowance and the annual allowance could have been cut as well as the usual rumours about higher rate tax relief being replaced by flat rate tax relief.

"There was some good news for savers with the launch of Green Savings Bonds from National Savings & Investments, which go on sale on Friday although the rate at 0.65% isn't that tempting. Low earners will benefit from the abolition of a tax anomaly, which means anyone earning less than the personal allowance threshold who save into a pension through a net pay arrangement doesn't receive a tax bonus on their contributions. From 2024/25 they'll be eligible for a 20% tax top-up from the Treasury at the end of the tax year which helps encourage saving.

"The chancellor stressed how he was committed to cutting taxes by the end of the Parliament, which is good to hear but we should not forget that he is raising taxes from next year with a 1.25% increase in national insurance for employed and self-employed people plus a rise in dividend tax too.

"On top of all of that he confirmed that inflation is set to hit 4% next year which will hit everyone's savings. Financial advisers will have their work cut out supporting clients but there will definitely be a lot of demand for their expertise."

theopenworkpartnership.com