

SPRING STATEMENT 2022

THE BELOW SUMMARY WAS TAKEN FROM
THE CHANCELLOR OF THE EXCHEQUER'S
SUMMARY ON 23 MARCH 2022.



SCOTT FYFFE WEALTH MANAGMENT
WWW.SCOTTFYFFEWM.CO.UK
INFO@SCOTTFYFFEWM.CO.UK
01382 721 191



INTRODUCTION

Against a backdrop of the extraordinary pressure of global conflict, supply chain issues and a subsequent cost of living crisis, Chancellor Of the Exchequer Rishi Sunak delivered a highly anticipated Spring Statement during a period where inflation sits at treble the target inflation rate.

Mr. Sunak introduced the statement by discussing the moral responsibility to support Ukraine by supplying military aid, supporting refugees, and setting unprecedented sanctions through coordination with the country's allies.

Although the reality of Russia's aggression will cause severe economic cost for the global economy, the Chancellor spoke fairly optimistically about the country's economic future.

Mr. Sunak forecasted up to 2027 and discussed a 3-part tax plan in to illustrate his (and the OBR's) belief in our country's future economic safety.

The aim for the tax plan announced is to reduce the cost of living, create conditions for higher growth and ensure the proceeds of the growth are shared fairly. To ensure people are left with more of their own money.

FORECAST

OFFICE FOR BUDGET RESPONSIBILITY (OBR) FORECAST

Despite the uncertain and in many cases unprecedented times we are facing globally, Mr Sunak ensured the nation that through fiscal resilience, the country is meeting all of our fiscal rules.

Underlying debt is expected to fall steadily from 83.5% of GDP in 2022-23, to 79.8% in 2026-2027.

Borrowing as a percentage of GDP is 5.4% this year, and is projected to decrease over the subsequent years as follows:

Year	Borrowing %
2022	5.4%
2023	3.0%
2024	1.9%
2025	1.3%
2026	1.2%
2027	1.1%

The OBR has said *“There is unusually high uncertainty around the outlook”*. With high global inflation and supply chain pressures as defining factors in the forecast, the OBR forecasts growth this year of 3.8%, with the subsequent projections listed below:

Year	Growth
2022	3.8%
2023	1.8%
2204	2.1%
2025	1.8%
2026	1.7%

The OBR did state that *“our fiscal headroom could be wiped out by relatively small changes to the economic outlook”*.

In Mr Sunak’s announcement he did go on to say that we must be cautious, as the OBR have not accounted for the full impact of Russia’s war with Ukraine.



TAX PLAN PART 1 – HOUSEHOLDS

COST OF LIVING

Covid-19, severe global volatility and other factors have meant that costs for goods and services were already high. Disruption to global supply chains combined with the economic response to Putin's aggression are evident in the OBR's projected inflation rate of 7.4% this year.

Mr. Sunak also announced a £9bn plan to reassure those suffering the effects of the energy price cap rise.

MOTORISTS

Fuel duty will be cut for the first time in 20 years by 5p per litre. The cut will come into force at 18:00pm (of the night of the announcement) and last until March next year. This is a tax cut worth more than £5bn

HOMEOWNERS

Mr. Sunak announced that for the next five years, homeowners will pay 0% VAT on energy saving materials, such as solar panels or heat pumps. In an aim to simplify the currently difficult and complicated eligibility process.

The average family having a solar panel set installed, will see tax savings worth £1000 and an annual energy bill saving of £300.

Due to the Northern Ireland Protocol, this will not immediately apply to Northern Ireland, but assurances were made that they will receive the value of the relief when it can be rolled out UK wide.

Further measures on the matter will be announced in the weeks to come.

HOUSEHOLD SUPPORT FUND

The Household Support Fund is being doubled to £1bn with 500mn of new funding being distributed to authorities from April.

NHS FUNDING

A dedicated funding source for the NHS. Providing funding over the long term as demand grows, Mr. Sunak acknowledges that the funding is needed now.

INCREASING THE NATIONAL INSURANCE CONTRIBUTION THRESHOLD

From this July people will be able to earn £12,570 without paying income tax or NIC. This is the largest single personal tax cut in a decade and equalises the Income tax and NIC threshold. Around 70% of all workers will have their taxes cut by more than the amount they will pay for the new levy.



TRAINING & INOVATION (PEOPLE)

The Chancellor focussed on the need for a new culture of enterprise through training and innovation. Highlighting that the UK is lagging behind our international peers in adult technical skills, with only 18% of 25 to 64-year-olds holding vocational qualifications, 1/3rd lower than the OECD average.

UK employers currently spend half the European average training their employees, so there will be consideration as to whether the tax system is doing enough to allow investment in the right kinds of training.

To expand on this, innovation drove around half of the UK's productivity growth over the last 50 years, but our lower rate of innovation explains our productivity gap compared with the United States. The amount our businesses spend on research & development as a % of GDP is less than half the OECD average despite us spending more on tax reliefs than most countries.

RESEARCH & DEVELOPMENT (IDEAS)

R&D tax credits will be reformed so they are better value for money, expanding the generosity of the reliefs to include data, cloud computing and pure maths. In Autumn, consideration will also be made as to whether to make the R&D Expenditure Credit more generous.

PRIVATE SECTOR INVESTMENT (CAPITAL)

Weak private sector investment is a longstanding cause of the productivity gap. Capital investment by UK businesses is considerably lower than the OECD average of 14% and it accounts for fully half of our productivity gap with France and Germany.

BUSINESS TAX RATES

Once the Super-Deduction ends next year, the country's overall tax treatment for capital investment will be far less generous than other advanced economies. As a result of this, In the autumn budget the tax rates on business investment will be cut. With Mr. Sunak seeking out ideas with UK businesses.

Business Rates discount will take effect in April for retail hospitality and leisure businesses. This will result in a 50% discount on business rates bill up to £110,000.

A typical pub will save £5,000. This is a tax cut worth £1.7bn in total.

HELP TO GROW MANAGEMENT SCHEME

Offers businesses mini-MBAs, 90% funded by the government.

HELP TO GROW DIGITAL

Gives businesses a 50% discount on buying new software up to £5,000

ANNUAL INVESTMENT ALLOWANCE

Has been increased to £1mn pounds so that small and mediums size businesses will feel the benefit of full expensing.

EMPLOYMENT ALLOWANCE

The Employment Allowance cuts small businesses tax bills, making it cheaper to employ workers.

For the second time in two years, the Chancellor increased the allowance so that from April, the employment allowance will be £5,000. This is a new tax cut worth up to £1000 for almost 500,000 small businesses.

Mr Sunak's plan will help people and business deal with rising costs and will help raise the future growth rate.



TAX PLAN PART 3 – ECONOMIC SECURITY

The 3rd objective of The Chancellor's Spring Statement tax plan is providing the foundations of reassurance that working hard will result in people being able to keep more of what they earn, which in turn will result in a greater economic security.

INCOME TAX

A goal for conservative governments has been to cut income tax. Covid and the war has added to the already difficult task of cutting income tax. By 2024 the OBR currently expects inflation to be back under control, debt falling sustainably and for the economy to be growing.

With this, the final announcement in Rishi Sunak's Statement was that before the end of this parliament, for the first time in 16 years, The Basic rate of income tax will be cut from 20p to 19p in the pound. This is roughly a £5bn tax cut for almost 30 million people.



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