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FINANCIAL ADVICE | INVESTMENT MANAGEMENT

The Growth Plan 2022

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23 September 2022

A day after Bank Rate rose from 1.75% to 2.25%, Chancellor Kwasi Kwarteng delivered his first statement on 23 September, outlining a series of tax cuts and measures aimed at boosting economic activity and growth.

Moving straight to the pressing matter of energy costs, Mr Kwarteng reiterated steps taken to support families and businesses, including the Energy Price Guarantee, the Energy Bill Relief Scheme and the Energy Markets Financing Scheme.

With a keen growth focus, the Chancellor professed, “We need a new approach for a new era,” before announcing a Growth Plan built around three key priorities: reforming the supply-side of the economy, maintaining a responsible approach to public finances and cutting taxes to boost growth. A ‘Medium-Term Fiscal Plan’ will be outlined in the coming months and the Office for Budget Responsibility (OBR) will be publishing an economic and fiscal forecast before the end of 2022. In the meantime, the government has set a target of reaching a 2.5% trend growth rate for the UK economy, with a tax simplification theme front and centre.

The key announcements were:

National Insurance

A reversal of last April’s National Insurance contribution rise was confirmed by the government on 22 September. The 1.25 percentage point increase will be reversed from 6 November. The planned Health and Social Care Levy, due to replace the National Insurance rise as a new standalone tax from April 2023, has also been cancelled.

Stamp Duty Land Tax (SDLT)

The Chancellor announced a reduction in SDLT in England and Northern Ireland, raising the residential nil-rate threshold from £125,000 to £250,000, with immediate effect, and First Time Buyers’ Relief from £300,000 to £425,000. He also increased the maximum amount that an individual can pay for a home, while remaining eligible for First Time Buyers’ Relief, from £500,000 to £625,000. As SDLT is devolved in Scotland and Wales, the Scottish and Welsh Governments will receive funding through an agreed fiscal framework to allocate as they see fit.

Income Tax

The basic rate of Income Tax will be cut to 19% in April 2023 – one year earlier than previously planned. At present, people in England, Wales and Northern Ireland pay 20% on annual earnings between £12,571 and £50,270; different rates apply in Scotland. The highest rate of Income Tax (the ‘additional rate’ paid at 45% by those earning over £150,000) will be abolished. From April 2023 there will be a single higher rate of Income Tax of 40%.

Dividend Tax

The government is reversing the 1.25 percentage point increase in Dividend Tax rates applying UK-wide from 6 April 2023, so the ordinary and upper rates of Dividend Tax will revert to 7.5% and 32.5% respectively.

Business measures

- The planned rise in Corporation Tax to 25% in 2023 will not go ahead; the rate will remain at 19%
- The Annual Investment Allowance, which is the amount that companies can invest tax free, will be made permanent and remain at £1m
- The IR35 rule reforms which govern off-payroll working will be repealed from 6 April 2023
- The government intends to establish new Investment Zones in 38 areas in England, providing businesses with tax incentives and reduced regulation, such as fast-tracked planning applications, to drive growth and encourage investment. There are plans to expand investment zones across Scotland, Wales and Northern Ireland
- The cap on bankers' bonuses has been lifted
- Increasing the generosity and availability of the Seed Enterprise Investment Scheme (SEIS) and Company Share Option Plan (CSOP) from April 2023.

Other announcements included

- Bringing forward reform of the pensions regulatory charge cap
- Alcohol duty rates will be frozen from 1 February 2023
- Plans to reform the infrastructure planning system and to prioritise 138 key projects
- Universal Credit rules will be tightened, leading to a reduction in benefits if people don't fulfil job search commitments
- VAT-free shopping scheme to be introduced for overseas visitors – currently in consultation
- Tightening union legislation, implementing Minimum Service Levels for transport services and forcing unions to put pay offers to a vote by their members.