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FINANCIAL ADVICE | INVESTMENT MANAGEMENT

# Autumn Statement 2022



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On 17 November, Chancellor of the Exchequer Jeremy Hunt delivered his fiscal plan to “*tackle the cost-of-living crisis and rebuild our economy*” stating that the government’s three priorities are “*stability, growth and public services.*” The Chancellor struck a defiant tone during the key fiscal event, saying he was “*taking difficult decisions*” that would deliver a “*balanced path to stability*” before outlining a package of measures equating to a consolidated total of around £55bn in spending cuts and tax rises.

## Economic forecasts

Mr Hunt began his statement by stressing that the country is facing “*unprecedented global headwinds,*” before unveiling updated economic projections from the Office for Budget Responsibility (OBR) which confirm the UK is now officially in recession. The Chancellor did, however, point out that the independent public finance analyst believes the downturn will be relatively shallow, if comparatively long. The revised GDP figures suggest the UK economy will grow by 4.2% this year, but then shrink by 1.4% next year before returning to growth in 2024.

The Chancellor also announced revised OBR forecasts which suggest inflation will peak in the current quarter and then drop sharply over the course of next year. The OBR’s updated forecast though does suggest the eroding impact of inflation will reduce living standards by 7% over the two financial years to 2023–24, wiping out the previous eight years’ growth, while unemployment is expected to rise from 3.6% today to 4.9% by the third quarter of 2024.

## Public finances

During his speech, Mr Hunt announced he was introducing two new fiscal rules and that the plan he was announcing met both of them. His first rule states that underlying debt must fall as a percentage of GDP by the fifth year of a rolling five-year period, while the second states that annual public sector borrowing, over the same time period, must be below 3% of GDP.

The Chancellor went on to reveal updated public finance forecasts, which predict government borrowing in the current fiscal year will rise to £177bn before falling back to £69bn (2.4% of GDP) in 2027–28. This means the medium-term fiscal outlook has materially worsened since the previous OBR forecast produced in March, which had predicted borrowing of £32bn by 2026–27. The OBR said this deterioration in the public finances was due to a weaker economy, higher interest rates and higher inflation.

## Personal taxation, wages and pensions

The Chancellor went on to make a raft of key personal taxation, wages and pension announcements.

The government will increase the National Living Wage for individuals aged 23 and over by 9.7% from £9.50 to £10.42 an hour, effective from 1 April 2023.

The commitment to the pensions Triple Lock remains, which will increase the State Pension in line with September’s Consumer Prices Index (CPI) rate of 10.1%. This means that the value of the basic State Pension will increase in April 2023 from £141.85 per week to £156.20 per week, while the full new State Pension will rise from £185.15 to £203.85 per week.

The Income Tax additional rate threshold (ART) at which 45p becomes payable will be lowered from £150,000 to £125,140 from 6 April 2023. The ART for non-savings and non-dividend income will apply to taxpayers in England, Wales and Northern Ireland. The ART for savings and dividend income will apply UK-wide.

The Dividend Allowance will be reduced from £2,000 to £1,000 from April 2023, and to £500 from April 2024.

The annual Capital Gains Tax exemption will be reduced from £12,300 to £6,000 from April 2023 and then to £3,000 from April 2024.

The change to Stamp Duty Land Tax threshold for England and Northern Ireland, which was announced on 23 September 2022, remains in place until 31 March 2025. The nil rate threshold is £250,000 for all purchasers and £425,000 for first-time buyers.

In addition:

- The Income Tax Personal Allowance and higher rate threshold are to remain at current levels – £12,570 and £50,270 respectively – until April 2028 (rates and thresholds may differ for taxpayers in parts of the UK where Income Tax is devolved)
- Inheritance Tax nil-rate bands remain at £325,000 nil-rate band, £175,000 residence nil-rate band, with taper starting at £2m – fixed at these levels for a further two years until April 2028
- National Insurance contributions (NICs) Upper Earnings Limit (UEL) and Upper Profits Limit (UPL) frozen for a further two years until April 2028
- The 2022–23 tax year ISA (Individual Savings Account) allowance remains at £20,000 and the JISA (Junior Individual Savings Account) allowance and Child Trust Fund annual subscription limits remain at £9,000
- The Lifetime Allowance for pensions remains at its current level of £1,073,100 until April 2026.

## Business measures

- The National Insurance Secondary Threshold is frozen at £9,100 until April 2028
- The VAT registration threshold is fixed at £85,000 for two years from April 2024
- R&D tax credits to be reformed to ensure public money is spent effectively and best supports innovation
- Businesses making extraordinary profits due to external factors are required to contribute more, including those in the oil and gas sector – the Energy Profits Levy is now extended to the end of March 2028, and the rate is increased by 10 percentage points to 35% from 1 January 2023
- A new temporary 45% levy will be introduced for electricity generators from 1 January 2023
- A package of targeted support to help with business rates costs worth £13.6bn over the next five years
- The Annual Investment Allowance (AIA) is to be set at its highest ever permanent level of £1m from 1 April 2023.



## Cost-of-living support

The Energy Price Guarantee (EPG) per unit will be maintained through the winter, in effect limiting typical energy bills to £2,500 per year. From April 2023 the EPG will rise to £3,000 per year, ending March 2024. The government will double to £200 the level of support for households that use alternative fuels, such as heating oil, liquefied petroleum gas, coal or biomass.

The Chancellor announced that there will be targeted cost-of-living support measures for those on low incomes, disability benefits and pensions. In 2023–24 an additional Cost of Living Payment of £900 will be provided to households on means-tested benefits, £300 to pensioner households and £150 to individuals on disability benefits. Rent increases in the social housing sector will be capped at 7% in the next financial year.

## Education, health and social care

To promote education and boost the UK's health and social care system, Mr Hunt announced:

- An additional £3.3bn per year for the NHS in the 2023–24 and 2024–25 tax years
- Up to £2.8bn in 2023–24 and £4.7bn in 2024–25 for the social care sector
- An additional £2.3bn per year for England's core schools budget in 2023–24 and 2024–25
- An extra £1.5bn, £1.2bn and £650m have been pledged for hospitals and schools in Scotland, Wales and Northern Ireland, respectively.

## Priorities for growth

Next, the Chancellor moved on to outline his three priorities for economic growth: energy, infrastructure and innovation. Key announcements included:

- A new Sizewell C nuclear power plant in Suffolk
- New funding of £6bn from 2025 to meet the government's objective to reduce energy consumption from buildings and industry by 15% by 2030
- Northern Powerhouse Rail and HS2 to go ahead as planned
- A commitment to proceed with round two of the levelling up fund, at least matching the £1.7bn value of round one
- The removal of import tariffs on over 100 goods used by UK businesses
- An increase in public funding for R&D to £20bn by 2024–25.

## Other key points

- Vehicle Excise Duty chargeable on electric cars, vans and motorcycles from April 2025
- Local authorities in England given additional Council Tax flexibility by modifying the referendum limit for increases
- Review of the Energy Bill Relief Scheme, findings to be published by 31 December 2022
- The Secretary of State for Work and Pensions will publish the government's Review of the State Pension Age in early 2023
- Defence spending to be at least 2% of national income
- Overseas aid spending to be kept at 0.5% for next five years.

## Closing comments

Jeremy Hunt signed off his announcement saying, *"There is a global energy crisis, a global inflation crisis and a global economic crisis, but the British people are tough, inventive and resourceful. We have risen to bigger challenges before. We aren't immune to these headwinds but with this plan for stability, growth and public services, we will face into the storm... I commend this statement to the House."*



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All details are believed to be correct at the time of writing (17 November 2022)