Fiscal Statement **2022**

SEPTEMBER UPDATE

Straight out the gate: Kwarteng's not-so-mini Budget

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INTRODUCTION

Last week's fiscal statement, the 'mini-Budget' that the Government insisted wasn't, in fact, a Budget at all, came at 9:30am on Friday 23 September and brought with it some significant, unexpected and (in some cases) controversial measures.

Amid preceding uncertainty about if, when, or whether there'd even be a fiscal statement this month, recently appointed Chancellor Kwasi Kwarteng ushered in what he heralded as "a new era" for businesses and families across the United Kingdom.

If you were in any doubt that this wasn't your typical Budget, or a Budget at all, look no further than the absence of an economic outlook report from the Office for Budget Responsibility (OBR).

The Chancellor emphasised that, in light of this, there would be a fuller package of announcements to come later in the autumn.

But the measures announced last week, he deemed, were actions that needed to be taken without delay to prevent further economic decline.

As recently as August, the Office for National Statistics reported that inflation, as measured by the consumer price index, had risen by 9.9% in the 12 months to August 2022 – far above the 2% inflation target the Bank of England aims for.

UK energy prices, linked to global markets, have been the largest driver of inflation over the last year, following a contraction in supply in Europe after the pandemic and Russia's invasion of Ukraine.

And, while the relatively small pool of available labour has, along with record vacancies, helped push nominal total pay growth to 5.5%, inflation has wiped out those gains, decreasing real regular pay (excluding bonuses) by 3.9% in the three months to July.

In an attempt to curtail inflation, the Bank of England increased interest rates by 0.5 percentage points to 2.25% the day before the Chancellor took to the dispatch box, increasing the cost of Government, personal and business borrowing. It also made the concerning announcement that the country may already be in recession – and has been for months.

Amid high inflation, a slowing economy, financial burdens on households' budgets increasing, and more expensive borrowing, Kwarteng delivered his first major speech to Parliament as Chancellor of the Exchequer.

By reversing his predecessor's elevated National Insurance contributions (NICs), abolishing the additional rate of income tax, scrapping a planned rise to corporation tax, and outlining an extensive package of energy relief measures for both households and businesses, Kwarteng was adamant that the Government would not "apologise for managing the economy in a way that increases prosperity".

But the emergency measures have been met with scepticism, with the opposition citing that the tax cuts will benefit the richest 1% and make the next generation worse off.

Independent think tanks, too, like the Resolution Foundation, have criticised the measures, saying the package would see the richest's incomes grow by 2% next year, with 95% of the population getting poorer – and more than two million people falling below the poverty line during the cost-of-living crisis.

Torsten Bell, the foundation's chief executive, said that "virtually all households" will get poorer next year, as "Britain grapples with high inflation and rising interest rates".

And the director of the independent Institute for Fiscal Studies, Paul Johnson, said the plans amounted to a "big gamble", with Kwarteng "betting the house" – something the Chancellor firmly denies.

"What was a gamble, in my view, was sticking to the course we are on", the Chancellor insisted, expressing that the country needed "a reboot, a rethink" and that he was "being fair" by reducing taxes right across the income bracket.

Here's an overview of what was announced and what it means for you.

PERSONAL

Income tax

Reports before Kwarteng's fiscal statement suggested he intended changes to stamp duty to be his 'rabbit out of the hat' announcement, but the real shock came from his changes to income tax.

Insisting that "high tax rates damage Britain's competitiveness", the Government will abolish the additional rate of income tax (45%), which currently applies to income above £150,000, from April 2023. The additional rate for savings and dividends will also be removed from April 2023.

In addition, the Government is bringing forward the 1 percentage point cut to the basic rate of income tax to April 2023, reducing the rate from 20% to 19% 12 months earlier than planned.

This £5-billion-a-year tax cut will allow workers, savers and pensioners to keep an average of £170 of their income in 2023/24, according to the Treasury.

The cut applies to:

- the basic rate of non-savings and non-dividend income
- the savings basic rate (which applies to savings income for taxpayers across the UK)
- the default basic rate (which applies to any non-savings and non-dividend income that isn't subject to either the main rates or the Scottish rates of income tax).

Where rates are devolved in Scotland, the Scottish Government will receive funding through the agreed fiscal framework to allocate as they see fit.

National Insurance increase reversed

A significant portion of the new chancellor's agenda was devoted to undoing some of the biggest tax policy changes of his main predecessor Rishi Sunak.

The Government will reduce NICs rates by 1.25 percentage points from November and cancel the health and social care levy that was supposed to replace the rise from April 2023.

Former chancellor Rishi Sunak introduced the rise and corresponding levy to boost NHS and social care funding, but with a new Prime Minister at the helm, the policy has officially been killed.

Employees earning between £1,048.01 and £4,189 a month will see their NICs reduce from 13.25% to 12% from November, while earnings above £4,189 will revert to from 3.25% to 2%.

The cancellation will save 28 million taxpayers an average of £330 a year, according to the Treasury. The NICs primary threshold and lower profits limit will remain at £12,570.

The seesaw of NICs rises and reversals may, however, cause accounting headaches for a lot of people, especially the self-employed. Don't hesitate to get in touch if you need some advice.

Dividends

From 6 April 2023, the Government is also reversing the recently implemented 1.25 percentage point increase in dividend tax rates, applied UK wide. The basic and higher rates of dividend tax will be reduced to the 2021/22 levels of 7.5% and 32.5% respectively.

Due to the abolition of the additional rate of income tax, dividends that were previously taxed at the additional rate will now instead be charged at the higher rate.

To work out how much dividend tax you pay, you need to add your dividends to all other sources of your income. After your other sources of income are taxed (taking personal allowances into account), your dividend payment will be taxed depending on which band(s) it falls into. You get £2,000 of dividend payments tax-free.

The Government says the reduction of dividend tax rates will benefit 2.6 million taxpayers, thus saving them an average of £345 in 2023/24, while the abolition of the additional rate of dividend tax will benefit more.

Stamp duty

As was rumoured days before the statement, the Government announced a permanent cut to stamp duty land tax (SDLT), effective immediately from 23 September 2022.

The tax, which only applies in England and Northern Ireland, affects people planning to buy a property, and the amount you pay depends on how much the property costs.

Before the announcement, no tax would be paid on transactions up to £125,000 (or £300,000 for first-time buyers), and from there it rose in bands to a maximum of 12% for the portion over £1.5m, raising just under £12bn for the Treasury pre-pandemic.

Now, the limit has been doubled to £250,000 – and £425,000 for first-time buyers – in an attempt, said Kwarteng, to help families aspiring to own their own homes and boost economic growth by stimulating the property market.

Over 200,000 people will now be exempt from paying the tax, the Government estimates, and first-time buyers will now benefit from discounted stamp duty on properties costing up to £625,000 – up from £500,000.

But, according to the Resolution Foundation, those who will benefit most will be in London and the South East, saying: "It will reduce the tax bill on the sale of the average first-time buyer home in London by £6,300 compared to no gain for the average first-time buyer in the North East."

In Scotland and Wales, where SDLT does not apply, Land and Buildings Tax and Land Transaction Tax apply respectively, with their own rates.

SLDT rate	Previous property value	New property value
Zero	Up to £125,000	Up to £250,000
2%	£125,001 to £250,000	n/a
5%	£250,001 to £925,000	£250,001 to £925,000
10%	£925,001 to £1,500,000	£925,001 to £1,500,000
12%	£1,500,000+	£1,500,000+

Universal credit

Kwarteng also announced the administrative earnings threshold (AET) will increase to 15 hours a week at the national living wage from January 2023 for universal credit (UC) claimants.

The policy will push around 120,000 claimants from the 'light touch' regime to the 'intensive work search' regime, under which they will be expected to secure more or better paid work or accept a reduction in their benefits payments.

Claimants will also have to abide by clearer work expectations, including applying for jobs, attending interviews or increasing hours to receive UC.

An increase to the AET came in on 26 September, which means that UC claimants have to earn 12 hours' worth of the national living wage. From January, it will be 15 hours.

These changes will apply across Great Britain, while the Government will work with the Northern Ireland civil service to determine the "most suitable arrangements for Northern Ireland".

BUSINESS SUPPORT

During the fiscal statement, the Chancellor announced a range of measures to ease the pressure on businesses across the country.

In addition to scrapping the 1.25 percentage point health and social care levy (as above), which the Treasury says will make it cheaper for businesses to employ more staff, Kwarteng went further to cut taxes on businesses as well as push for increased development in some regions of England.

Corporation tax rise cancelled

Previously, corporation tax was due to increase to 25% next year for company profits over £250,000, while the tax on profits between £50,000 and £250,000 would remain at 19%. But during the speech, Kwarteng confirmed that the increase would be cancelled. This means that the UK's corporation tax rate will remain at 19% for all UK companies, which the Government claims will bring almost £19 billion a year back into the economy.

The extra money, the Chancellor said, will allow businesses to reinvest, create jobs, raise wages or pay dividends that support pensions.

In line with this change, Kwarteng declared the cancellation of the scheduled change to the bank corporation tax surcharge rate – which would've seen an extra 8% charge on top of corporation tax.

This means banks and building societies will continue to pay 27% tax on profits. To promote the continued growth of the UK banking sector, the £100m increase in surcharge allowance will still go ahead.

Martin McTague, national chair of the Federation of Small Businesses (FSB), said:

"It's good that the planned corporation tax increase has been scrapped. The £50,000 threshold for the main rate would have captured many small firms, so keeping tax on profits over £50,000 at 19% is welcome.

"This will free up funds for small businesses to invest, and mitigate the impact of continuing high inflation levels."

IR35 rules repealed

IR35, which was first introduced in 2000, was brought in to tackle tax avoidance from contractors and their employers.

In his speech, the Chancellor announced that the IR35 rules introduced in 2017 and 2021 would be repealed, helping to simplify off-payroll working, which has added extra costs for businesses that use contractors and subcontractors.

This means that it is no longer the responsibility of the employer to decide whether an employee is inside or outside IR35. Instead, the onus will be on the employee to declare and pay their tax obligations to HMRC, directly after invoicing the company.

Low-tax investment zones

In a bid to support growth across the entire country, the Chancellor announced new low-tax investment zones.

Currently in discussion with 38 areas of England, including Teesside, Norfolk and the West Midlands, the plan would see tax breaks to encourage businesses to set up and develop in these regions.

Not only will these tax zones support businesses, but new sites will also be designated for housing development, aiming to support the wider communities.

In these specific areas, newly occupied business premises will benefit from a 100% business rates cut. This will also extend to some businesses expanding into the new low-tax investment zones.

Councils hosting the investment zones will receive 100% of the business rates growth in designated sites above an agreed baseline for 25 years.

A new allowance will also be brought in for buildings and enhanced structures, which will allow businesses to reduce their taxable profits by 20% of the cost of qualifying non-residential investments per year, relieving 100% of their cost of investment over five years.

Businesses in these zones will benefit from an enhanced capital allowance scheme which means a 100% first-year allowance for qualifying expenditure on plant and machinery assets.

Employers will have zero-rate employer NICs on salaries of any new employees working in the tax sites for at least 60% of their time on earnings up to £50,270 per year. Anything above this threshold will incur employer NICs as usual.

VAT

Although there was speculation that VAT rates would be cut for businesses from 20% to 15%, this was not the case. Instead, the Chancellor announced that a new shopping scheme would be brought in which will get rid of VAT for tourists. Anyone visiting the UK will pay no VAT on products bought from the high street, airports and other departure points and exported in their luggage.

The Government has not yet announced in full detail how this system will work, but has said it will modernise the scheme that currently operates in Northern Ireland and introduce a digital scheme in Great Britain. Any further announcements will follow a consultation on the design of the scheme.

Currently, it is uncertain whether the onus of declaring the VAT on these sales will be on the customer or the business owner.

Capital investment

To further support and develop businesses, the Chancellor said the Government will make the temporary cap of £1m for the annual investment allowance (AIA) permanent.

Originally expected to expire on 31 March 2023 and return to its previous level of £200,000, the allowance allows businesses to invest in plant and machinery assets worth up to £1m. This means that businesses will be able to reclaim 100% of qualifying costs in the year of purchase.

Shevaun Havilland, director general of the British Chambers of Commerce (BCC), said:

"Firms will be glad to see the AIA made permanent. It is a crucial tool which gives them the confidence to push ahead with investment, and will add greater certainty to their plans, now we know it is guaranteed to remain."

The Government will also expand accessibility to the seed enterprise investment scheme (SEIS) and the company share option plan (CSOP).

And, although no official announcements were made, the Government has said it would support an extension of the enterprise investment scheme (EIS) and venture capital trusts (VCT) past their scheduled end date in 2025.

As part of the Government's growth plan, it will also introduce a long-term investment for technology & science (LIFTS) competition, providing £500m of investment. This will go live as soon as possible next year.

One measure that was only briefly mentioned in the Chancellor's speech, but discussed further in the official documents, was a reform of the pensions regulatory charge cap. In the growth plan paper, it states:

"The Government will bring forward draft regulations to remove well-designed performance fees from the occupational defined contribution pension charge cap, ensuring that savers benefit from higher potential investment returns."

The hope is that this will provide "clarity for institutional investors to help unlock investment into the UK's most innovative businesses and productive assets."

Banker bonus cap

One of the most controversial announcements delivered by Kwarteng was the removal of the banker bonus cap.

Currently, the bonus cap is set at 100% of a banker's annual salary, with an option of being doubled to 200%, dependent on shareholder approval.

During the speech, Kwarteng said:

"All the bonus cap did was to push up the basic salaries of bankers, or drive activity outside Europe.

It never capped total remuneration, so let's not sit here and pretend otherwise.

"So we're going to get rid of it. And to reaffirm the UK's status as the world's financial services centre, I will set out an ambitious package of regulatory reforms later in the autumn."

This announcement was met with heavy criticism by Shadow Chancellor Rachel Reeves, as well as others, who lambasted the prioritisation of the private sector over the NHS. Pat Cullen, general secretary and chief executive of the Royal College of Nursing, said the decision to cut the cap on bankers' bonuses shows the Government is focusing on "the wrong priorities".

"Nurses will be dismayed by the decision to prioritise well-off bankers over NHS and social care staff, some of whom are using food banks and live on a financial knife-edge," she said.

Alcohol duties

Alcohol duty, one of the so-called 'sin taxes', will be reformed too, as the Government will freeze duty rates for all categories from 1 February 2023. Any reforms to the system will be implemented on 1 August 2023 following a consultation.

An 18-month transitional period will begin for wine duty. There will also be an extension to draught relief to cover smaller kegs of 20 litres and above to help smaller breweries.

ENERGY SUPPORT

One of other areas of focus was to elaborate on the Government's relief package to help businesses and households tackle the catastrophic rise in energy prices. Kwarteng announced three key measures.

First, he discussed the previously announced **Energy Price Guarantee** for households, which Liz Truss brought in two days after becoming Prime Minister. The guarantee, which will last for two years, will mean the typical household – using 12,000 kWh of gas and 2,900 kWh of electricity – will pay no more than £2,500 a year (though this is dependent on usage).

The Government will also offer a one-off £400 fuel bill discount to all households this winter, and anyone who doesn't use mains gas and electricity – like those using heating oil – will receive an additional £100 on top. The 'most vulnerable' will be offered additional support, with a total saving of up to £2,200.

Truss also announced earlier in September that green levies would be removed from domestic energy bills for two years, saving the average household £150.

The newly introduced **Energy Bill Relief Scheme**, aimed at supporting businesses (which aren't covered by the energy price cap), will cap wholesale energy prices for six months from 1 October for all organisations. It will apply to all non-domestic energy customers in England, Scotland and Wales. There are plans to offer an equivalent scheme in Northern Ireland.

The cap will limit prices to 7.5p per kWh for gas and 21.1p per kWh for electricity – a move the Government says will mean less than half the wholesale price organisations would otherwise face this winter.

If you entered into a fixed price contract that started after 1 April 2022, you'll still be eligible for the scheme, and anyone on a variable energy tariff will receive an automatic discount for each unit of energy used.

In three months' time, a review identifying organisations that need further support after March 2023 will be published. As with the energy price guarantee for households, customers do not need to take action or apply to the scheme to access the support.

Finally, the Chancellor introduced a £40bn **Energy Markets Financing Scheme** to combat the "volatile and erratic energy prices" that are "rising and falling every hour". Under the scheme, which opens for applications on 17 October, there will be a 100% guarantee to commercial banks covering additional lending extended to firms.

The intention is to provide short-term financial support to help energy firms continue to operate while facing extraordinary liquidity requirements.

The Government's hope, that these measures will reduce peak inflation by 5%, has been met with scepticism from critics, who argue that the cost of the package – estimated to be between £130bn and £150bn – will ultimately hit individuals and taxpayers harder than large corporations.

OTHER ANNOUNCEMENTS

Research & development tax credits

Throughout the speech, there was no mention of further reforms to R&D tax credits, which were one of the main focuses of the Spring Statement earlier in the year.

Upcoming reforms are expected to be announced in the next Budget. In the official statement documents released by the Government, it states R&D reforms are still "under review."

Closing the Office of Tax Simplification

In a huge change to its plan to simplify the tax code, the Government is winding down the Office of Tax Simplification and setting a mandate for both HMRC and the Treasury to focus on simplifying the tax codes themselves.

Watch out for more details on

- The Government plans to bring in new legislation – **the Planning and Infrastructure Bill** – to accelerate infrastructure delivery.
- The Chancellor plans later this autumn to repeal and **replace EU regulations** on the UK to strengthen the country's financial sector.
- The Government promised to bring reforms to improve access to affordable and **flexible childcare**.
- An independent review into delivering the UK's **net zero commitment** while maximising economic growth and investment will be conducted by the end of 2022.
- The Government will "rapidly review" the **agricultural sector frameworks** for regulation, innovation and investment that impact farmers and their land in England.

What wasn't mentioned

- There was previous speculation that **inheritance tax and marriage** allowances would also be mentioned in the speech, but they didn't make up part of the fiscal statement.
- Reforms to **capital gains tax** have long been rumoured, but the tax was not mentioned in the speech or supporting documents.
- Previous **promises made during the Prime Minister's leadership campaign,** including tax changes to make it easier for people to care for their family from home, bringing a target spend of 2.5% for defence forward, and diverting healthcare spend towards social care, also received no mention.

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The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. The information in this report is based upon our understanding of the Chancellor's 2022 Autumn fiscal statement, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

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