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CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISERS

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SPRING STATEMENT 2022

Two years to the day after the commencement of the first UK lockdown in response to the surge of COVID-19 cases throughout the country, Chancellor Rishi Sunak delivered his Spring Statement to Parliament.

Amid rising pressure to bring in significant relief measures to combat the current international emergency, the Chancellor implied ahead of time that he could only do so much. This year's Spring Statement was only ever intended to be an economic update, released alongside the Office of Budget Responsibility's new forecast.

Now, against the backdrop of the most turbulent period in recent European history, a soaring cost of living crisis with inflation hitting a 30 year high, we received slightly more than a brief update.

The Chancellor went on to announce three immediate measures designed to "help people right now", including cutting fuel duty, scrapping VAT on energy-efficient home improvements, and doubling the household support fund.

Further announcements included raising the National Insurance Contributions (NICs) threshold, increasing the employment allowance, and, perhaps most notably, cutting the basic rate of income tax to 19% from 2024.

Below is a summary of how the Chancellor's Spring Statement might impact you.

Income tax cut to 19% from 2024

In the biggest surprise announcement of the day, the Chancellor announced that the basic rate of income tax will be cut from 20% to 19% as of 2024.

While heralding the move as a "tax cut for workers, pensioners, and savers", he emphasised the fact that this will also represent the first time in 16 years that the basic rate has been cut. Under the new basic rate, the average taxpayer will be £175 a year better off before the end of this parliament, according to the Chancellor's tax plan, representing a £5bn total tax cut overall.

However, the logic and tangible impact of cutting income tax, while continuing to raise the rate of NICs as planned, is being questioned by some.

NICs threshold increase

Despite confirming that the 1.25% increase to NICs would go ahead as planned (and indeed this has now already taken effect), the Chancellor also announced that the threshold at which individuals have to start paying NICs will rise by just over £3,000 from the 2021/22 level.

The new annual NICs threshold will be set at the same level as the current UK personal allowance of £12,570 and will come into effect from July this year.

The Chancellor referred to this as a £6bn personal tax cut for 30 million people across the UK, worth over £330 a year for an employee, pointing to it as the "largest increase in a basic rate threshold ever, and the single largest personal tax cut in a decade."

There are also changes to the threshold levels for NICs that self-employed people will have to pay, with the Class 4 NIC lower profits limit increasing to £11,908 for 2022/23 (this is equivalent to 13 weeks at the previously announced rate and 39 weeks at the higher rate, from 6 July 2022, to be consistent with the employee NICs rates).

Furthermore, in respect of Class 2 NIC (which is also payable by self-employed individuals), a new 'zero-rate' has been introduced for profits between £6,725 and £11,908 per annum, with the weekly rate of £3.15 applying to profits over £11,908.

By 2023/24, the annual threshold at which employed and self-employed people start paying NICs and income tax will be aligned at £12,570.

Employment allowance increase

The Government is expanding support to small businesses by increasing the employment allowance from £4,000 to £5,000 per year, which will save employers an extra £1,000 in NICs. The £1,000 increase allows employers to save more and will benefit around 495,000 businesses, including 50,000 that will be taken out of paying NICs and the health and social care levy entirely.

In April 2020, the Government increased the employment allowance from £3,000 to £4,000. In total, the Government expects 670,000 businesses to pay no NICs and the health and social care levy because of the employment allowance.

Other announcements

After much speculation in the days leading up to the Statement, the Chancellor announced his intention to cut fuel duty by 5p per litre.

The fuel duty cut, which applies to both petrol and diesel fuels, will knock about £3.30 off the cost of filling a typical 55-litre family car, according to the RAC. The new duty came into effect from 6pm on Wednesday 23 March.

The Chancellor also set out in the Spring Statement, that for the next five years, homeowners installing energy-saving equipment, such as solar panels, heat pumps or insulation materials will pay no VAT on such products.

The above is for general guidance only and no action should be taken without obtaining specific advice.

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