Mini-Budget 2022

The country has faced significant change over the last few years and the last few weeks has been no exception. After a period of national mourning and the state funeral for Queen Elizabeth II, who died only two days after swearing in our new prime minister, Liz Truss and her Cabinet, all eyes were on the newly appointed Chancellor of the Exchequer, Kwasi Kwarteng, as he delivered the mini-budget on 23 September.

This was not however the usual autumn red box budget, which is still expected to take place later this year, but rather a mini-budget entitled "The Growth Plan 2022". Despite the name and lack of red box the Chancellor still had plenty of announcements to make.

Economy and Public Finances

As this was not a red box budget the Office of Budget Responsibility (OBR) did not issue their normal economic forecasts, which are expected later in the year. What we do know is that inflation was 9.9% in August and most commentators expect this to continue to increase over the coming months. To combat this, the Bank of England increased interest rates on 22 September to 2.25%, the highest rate since 2008 and the sixth increase this year. They are set to make the next interest rate decision on 3 November.

In this financial year to August 2022 public sector net borrowing reached £58.2billion. This is reported to be £21.4billion lower than the same period last year, but increased interest rates mean interest costs on borrowing are growing. In August the cost of interest was reported at £8.2billion.

The government's Growth Plan sets a mission over the medium term, to target a trend rate of economic growth of 2.5%. This is, per the growth plan, to be achieved by reforming the supply-side of the economy, maintaining a responsible approach to public finances and cutting taxes to boost growth.

In October last year, as reported in our Autumn Budget 2021 summary, the OBR predicted growth in the next three years to be 2.1%, 1.3% and 1.6%, we'll have to wait for their next report to see how quickly the 2.5% growth target is likely to be reached.

Taxation and Spending

With the increasing cost of energy, it is no surprise that an energy support package was top of the Chancellor's agenda. The package includes an energy price cap of £2,500 per annum for two years plus £400 payable over the winter to all households. He also announced a reduction on wholesale energy prices for businesses, charities and the public sector. The cost of this support package for the six months from October is forecast to be £60billion.

The Chancellor announced a streamlining in the planning system, an acceleration of infrastructure projects, the disposal of surplus public sector land to allow more house building, a £500million fund for Technology and Science and support for those over 50 to get back into work. He also announced the introduction of new Investment Zones, which will benefit from additional tax reliefs.

Business Tax Announcements

The previously planned increase in the corporation tax rate from 19% to 25% in April 2023 has been cancelled. Companies will continue to pay corporation tax at 19%.

The temporary £1million Annual Investment Allowance that was due to end on 31 March 2023 is now permanent. It was set to be reduced to £200,000 from 1 April 2023 and will now remain at £1million.

The off-payroll working reforms set in 2017 for the Public Sector and 2021 for the Private Sector will be repealed from 6 April 2023. IR35 will now go back to the pre off-payroll working rules where the onus for determining employment status on providing services through an intermediary is determined by the personal service company.

From April 2023 companies will be able to raise up to £250,000 of investment under the Seed Enterprise Investment Scheme (SEIS). So that more companies can qualify for the scheme, the gross asset limit will increase to £350,000 and the age limit from 2 to 3 years. The annual investor limit will be doubled to £200,000.

From April 2023, qualifying companies will be able to issue up to £60,000 of share options to employees under a Company Share Option Plan (CSOP), double the current £30,000 limit.

Personal Tax Announcements

The Health and Social Care levy, which saw Class 1 and Class 4 National Insurance increase from 6 April 2022 by 1.25%, will be abolished. The additional 1.25% in these National Insurance rates will be removed from 6 November 2022.

The introduction of the Health and Social Care levy as a separate tax from 6 April 2023 will also be abolished.

The basic rate of income tax will be cut from 20% to 19% from 6 April 2023, a year earlier than planned. The additional 45% rate of income tax for those earning over £150,000 will also be removed from 6 April 2023.

As a result of the abolition of the additional rate of tax, from 6 April 2023 current additional rate taxpayers will benefit from the £500 savings allowance.

The rate of dividend tax will reduce by 1.25% from 6 April 2023 in line with the reversal of the Health and Social Care levy. The basic and higher rate of tax on dividends will be 7.5% and 32.5% respectively. The removal of the additional rate of tax also applies to dividends.

Property Tax Announcements

The Stamp Duty Land Tax (SDLT) threshold on the purchase of residential property in England and Northern Ireland has been increased from £125,000 to £250,000 from 23 September 2022.

From the same date, the residential SDLT threshold for first time buyers also increased from £300,000 to £425,000. The maximum value of a property on which first time buyer relief can be claimed increased from £500,000 to £625,000.

What Else…..

Alcohol duty will be frozen from 1 February 2023. VAT free shopping is to be introduced for overseas visitors. The cap on bankers' bonuses has been removed and The Office of Tax Simplification is to be abolished.

Despite being labelled a mini budget, the amount of change was significant, in fact, according to The Institute of Fiscal Studies, it is the biggest tax-cutting event since 1972.

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