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# BUDGET 2020

Overview



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## Introduction

So was it the Coronavirus Budget, or the Infrastructure Budget? Or was it, as the Chancellor declared at the end of his speech, the 'people's Budget from a people's government?' It was certainly a Budget that was high on spending commitments and one that the Chancellor declared would 'get things done.' Now where have we heard that before..?

Almost three months to the day after the General Election, new Chancellor Rishi Sunak delivered his first Budget speech. He delivered it, not as he might have expected, against a backdrop of optimistic economic forecasts and the opportunities of Brexit, but against the growing threat of the coronavirus outbreak, and the impact it might have on the UK economy.



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## The political background

On 12th December 2019, Boris Johnson won a decisive 80 seat majority for the Conservatives in the UK General Election. He promised to 'unlock Britain's potential' and 'level up opportunity' through a huge programme of investment in the country's infrastructure, covering road, rail and 5G connectivity.

The man charged with paying for all this and honouring the Conservative election pledge not to raise the rates of income tax, national insurance or VAT, was Chancellor (and former leadership rival) Sajid Javid. He duly announced that the first Budget of the new 'People's Government' would be on Wednesday 11th March.

And then, in the cabinet reshuffle of February 2020, Javid dramatically resigned. He was swiftly replaced by his effective second in-command, Rishi Sunak, the Chief Secretary to the Treasury.

For a while there were rumours that the Budget might need to be delayed but, with Sunak impressing officials with his grasp of the details, 11th March was confirmed and, after the usual Prime Minister's questions, the new Chancellor stood up to deliver his first Budget.

## The economic background

When Sajid Javid announced the date of the Budget in early January, virtually no one had heard of coronavirus. When he resigned in mid-February, it was something largely confined to China – there were just two cases in Italy. At the time of writing, there are more than 9,000 known cases in that country, with a mortality rate of nearly 5%.

Chinese exports are down 17% in the first two months of the year as the impact of the virus is felt and, closer to home, the airline Flybe collapsed last week. It is simply impossible to say what the economic consequences of the virus will be: it could, for example, deal a significant blow to the already fragile Italian economy with a knock-on effect throughout Europe. It may do further damage to the UK high street, which saw a 7.8% drop in footfall in February.

The Federal Reserve had cut US interest rates early in the month and, on the morning of the Budget, the Bank of England followed suit, cutting the UK base rate from 0.75% to 0.25% in a bid to shore up the economy amid the virus outbreak.

So Rishi Sunak could hardly have delivered his first Budget in more difficult circumstances. Never mind coronavirus, there was also a looming oil price war: the two together had meant that Monday 9th March was the worst day on world stock markets since the economic crisis of 2008, with the UK's FTSE100 index down by nearly 8% on the day. The US S&P 500 was down by more than 7% on the day and there were similar falls in other major world markets.

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## The economic background continued

The new Chancellor faced a very difficult balancing act, described as 'like juggling water,' according to the BBC's Laura Kuenssberg. He had to react to the crisis, protecting the UK economy against the worst impact of it and giving the NHS the money to cope with it, while at the same time presenting a vision of life after the coronavirus has passed.

He also needed to honour the Conservative manifesto pledge to borrow only to invest, and to limit public sector net investment to 3% of GDP. Many commentators, however, suggested that he might loosen the 'fiscal guidelines' to give himself some 'wiggle room.'

Speaking ahead of the Budget statement, Sunak said, 'This is a Budget for people right across the country – no region will be left behind.'

He added that he would 'not let coronavirus cripple the UK economy, but we simply do not know what impact it will have.' The usual slew of forecast growth rates in the Budget will certainly need to be taken with a very large pinch of salt. Equally, you would not rule out a second Budget in the Autumn, when the economic consequences of the virus and the steps needed for recovery can be more accurately assessed.

## The speech

### *Opening remarks*

Rishi Sunak rose to speak at 12:35 and immediately addressed the issue of coronavirus which would, he said, have a 'significant impact' on the UK economy. The government needed to deliver 'stability and security' and he wasted little time in promising that the NHS would have whatever resources it needed to tackle the threat from the virus.

However, while coronavirus was a 'key challenge facing our country today,' it was 'not the only challenge,' as he promised a Budget that would deliver 'economic change and geographical change' as well as 'security today and prosperity tomorrow.' It would be, he declared, 'a Budget from a government that gets things done.'

### *The response to coronavirus*

The Chancellor conceded that the virus would have a significant temporary impact on the UK economy, disrupting both the supply chain, confirming the forecast that up to 20% of people could be off work at any one time at the height of the virus, and demand in the economy, as people stayed at home. That meant he would need to deliver a 'bridge for business' and he confirmed that he was working closely with the Bank of England to deliver a response that was 'temporary, timely and targeted.'

The response would come via a £30bn 'three point plan,' the first part of which was effectively a blank cheque for the NHS to give it the resources it needed to tackle the threat.

His second point was a 'safety net for people,' bringing forward the payment of statutory sick pay for all those advised to self-isolate, making it quicker and easier for the self-employed to access benefits if they were ill and removing the requirement for those receiving benefits to attend a job centre. There would also be a £500m hardship fund for local authorities to support vulnerable people in their local area.

## Economic growth and the numbers

The Chancellor conceded that coronavirus would have a significant impact on the UK economy, with the Office for Budget Responsibility expecting that growth would be 1.1% in 2020, down from an earlier OBR forecast of 1.4%. However, as the economy recovers, growth should be 1.8% in 2021 (from an earlier forecast of 1.6%) followed by 1.5% in 2022 and then 1.3% in 2023 and 1.4% in 2024.

By 2025, it is expected that there will be an extra 500,000 people in work, with inflation forecast to be 1.4% this year and 1.8% next year. He said it will “remain at target” for the next three years, which presumably means the Bank of England’s target rate of 2%.

As you would expect, the Chancellor was bullish on the UK economy. There were more people in work than ever before, inflation was stable, and the economy was growing. Essentially, that was the whole point of the Budget. How are we going to pay for the significant investment in infrastructure? The economy will grow and tax revenues will go up.

Let’s hope the Chancellor is right: his Budget committed to the ‘largest sustained fiscal boost in 30 years’ as he outlined a 2.8% increase in public spending in real terms. The OBR expects a budget deficit of 2.1% of GDP in 2019/20, increasing to 2.4% in the next financial year.

## Personal taxation and allowances

- What** Entrepreneurs' Relief reduced back to £1m from current £10m.
- When** The measure will take effect for Entrepreneurs' Relief qualifying disposals made on or after 11th March 2020.
- Comment** Many had expected Entrepreneurs' Relief to be fully abolished but Sunak has stopped short of this. The relief gives business owners a lower capital gains tax (CGT) rate of 10% on the sale of businesses over their lifetime. The lifetime limit, on which the 10% is eligible, reduces from £10m to £1m. The standard rate of CGT is 20%.
- What** Increase in National Insurance threshold for employees and the self employed to £9,500.
- When** From April 2020.
- Comment** This will save all workers earning more than £12,600 around £100 a year. Currently, employees pay 12% of their earnings in National Insurance contributions once they earn between £8,632 and £50,000 a year.



## Pensions and savings

**What** The Junior ISA allowance will rise from £4,368 to £9,000. The same limit will apply to Child Trust Funds (CTFs). The adult ISA allowance remains unchanged.

**When** From 6th April 2020.

**Comment** There is a considerable increase in the amount that can be invested in a tax efficient way for children.

Until April 2017, the adult ISA allowance increased each year, but since then it has remained unchanged at £20,000.

**What** The lifetime allowance (LTA) will increase in line with CPI for 2020-21, rising to £1,073,100.

**When** From 6th April 2020.

**Comment** The LTA is the maximum amount an individual can accrue in a pension scheme whilst retaining the tax benefits. The LTA has been progressively whittled away since it was introduced in 2006. But in 2017, when the LTA stood at £1m, it was announced that it would from now on be increased each year in line with inflation.

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## Pensions and savings continued

- What** An increase in the pensions annual allowance taper thresholds of £90,000 each. The minimum annual allowance is decreased from £10,000 to £4,000.
- When** Benefits accrued on or after 6 April 2020.
- Comment** The threshold income for high earners, after which their annual allowance is reduced, will be increased to £200,000. The annual allowance will only begin to taper down for individuals who also have an 'adjusted income' above £240,000.
- Those with an adjusted income of £312,000 or more will now have a tapered annual allowance of £4,000.
- Primarily, this is the government's response to concerns from doctors and hospital consultants that they were penalised for working extra hours. The move will help reassure some doctors they can take on additional work without worrying about unexpected tax bills.

## Business investment and taxation

The Chancellor unveiled a raft of measures to support UK business, both in the short term as they deal with the impact of coronavirus and in the medium to long term.

Companies employing fewer than 250 employees can reclaim the first 14 days of Statutory Sick Pay (SSP) from the government.

The Chancellor announced a £2.2bn grant scheme to support small businesses. In addition, HMRC will scale up its 'time to pay' service and there will be a new £1bn business loans scheme for small businesses, with 80% of the loans guaranteed by the government.

There was also the promise of a £3,000 cash grant for any firm that is currently eligible for small business rates relief or rural rate relief. 'This is a £2bn cash injection direct to 700,000 of our smallest businesses,' said the Chancellor.

The Chancellor also announced an £18bn 'fiscal loosening,' better understood as 'more credit.' Like many other countries, it appears that he will encourage the banks to be more flexible with loans for small business during the current crisis.

He stated that there will be the largest and fastest increase in R&D spending in decades, with investment increasing to £22bn a year by 2024-25.

<b>What</b>	Corporation tax will remain at 19%.
<b>When</b>	N/A.
<b>Comment</b>	The government had previously promised to reduce the level of corporation tax from 19% to 17%. The headline rate of 19% remains one of the lowest in the G20.

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## Business investment and taxation continued

- What** Employment Allowance (EA) increased from £3,000 to £4,000.
- When** April 2020.
- Comment** Businesses with a Class 1 National Insurance bill below £100,000 in the previous tax year will be eligible, a measure that the government says will benefit around 500,000 businesses.
- What** Changes to off-payroll working rules (IR35) to go ahead.
- When** From 6th April 2020.
- Comment** Measures already announced will come into force. The new legislation will affect contractors working through a Personal Service Company, recruitment agencies and with end clients who are a large or medium sized company.
- What** Changes in business rates for smaller businesses and additional measures in response to coronavirus.
- When** From 1st April 2020.
- Comment** The government had already announced that the business rates retail discount would be increased to 50% for properties with a rateable value below £51,000 in England. In light of coronavirus, they are increasing this to 100% for 2020-21.
- The relief will also be extended to include the leisure and hospitality sectors. In addition, the government had announced the introduction of a £1,000 Business Rates discount for pubs in England with a rateable value of less than £100,000. In response to the coronavirus, this will be increased to £5,000.

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## Business investment and taxation continued

- What** Structures and buildings allowance (SBA) rate change increasing from 2% to 3%.
- When** The change will take effect from 1st April 2020 for corporation tax and 6th April 2020 for income tax.
- Comment** An increase in the annual rate of the structures and buildings allowance to 3% will provide over £1 billion in additional relief for businesses by the end of 2024-25.
- Together with measures to incentivise spending on R&D, this will unlock new investment and further enhance the international competitiveness of the UK tax system.
- What** An extension in funding of the British Business Bank's Start-Up Loans programme to the end of 2021-22.
- When** Immediately.
- Comment** This will reportedly support up to 10,000 further entrepreneurs across the UK to access finance to start a business. It is an important part of the government's ambition to level up opportunity across the UK and support enterprise.

## Other measures

**What** The government has launched consultations on overhauling the Retail Price Index (RPI) measure of inflation.

**When** Consultation until 22nd April 2020.

**Comment** This consultation follows proposals presented last March to address the shortcomings of RPI as a measure of inflation. One of the key aims is to align its calculation with that of the consumer price index (CPI) including housing cost.

**What** National Living Wage (NLW) to rise by 6.2%.

**When** April 2020.

**Comment** A new, ambitious target for the NLW to reach two thirds of median earnings and to extend this to workers aged 21 and over by 2024 (provided economic conditions allow).

It had already been planned to raise the national living wage to £8.72 an hour, from April 2020. This matches a commitment made in 2013 to increase it to the level of the National Minimum Wage. It is projected to be £10.50 by 2024.

**What** A zero rate of VAT applying to sanitary products.

**When** 1st January 2021.

**Comment** This honours the government's commitment to scrapping the unpopular 'tampon tax' as part of a conscious effort to level up the UK and give equal opportunities to all.

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## Other measures continued

### The UK's infrastructure

The Chancellor announced £2.5bn of funding over the next five years, pledging that up to 50m potholes 'would be filled by the end of this parliament.'

In total, there was a huge £640bn commitment to infrastructure over the next five years, with the National Infrastructure Strategy setting out more specific details in the coming months. However, plenty of measures were announced in the Budget.

The most headline-catching has been the commitment to create a new 'economic campus' for the government in the North (it is widely rumoured to be heading for Teesside) which will ultimately see 22,000 civil servants moved out of London.

There was more money for cities and towns, with £640m going to Scotland, £360m to Wales and £210m to the Northern Ireland Assembly. On top of this, the eight 'metro mayors' (including a new one for West Yorkshire) will receive new 'London-style funding settlements,' giving them £4.2bn for transport.

There will be a £5bn investment in 'gigabit-capable broadband' as 5G is rolled out, plus an extra £510m to ensure that 95% of the country can access 4G broadband within the next four years.

There will be a big investment in the railways and an equally large commitment to the road network. Inevitably, there will be significant investment in flood defences, with the Chancellor committing an extra £120m for this year and £200m more for 'flood resilience,' as well as committing to doubling the amount spent on flood defences, taking it up to £5.2bn over the next six years.

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## Other measures continued

### Housing

Along with the promised review of the business rates system, the Chancellor also promised a review of the planning system: clearly the UK is going to need many more homes.

In the interim, he announced £400m for building on brownfield sites, and a £12bn commitment to building affordable homes which will, in part, be paid for by imposing a 2% stamp duty levy on non-UK residents buying property in England and Northern Ireland, which will be introduced from April 2021.

There was also a commitment to spend £643m on moving rough sleepers into permanent accommodation, and an additional £1bn will be provided to remove unsafe cladding from buildings over 18m high in the wake of the Grenfell Tower disaster.

### Excise duties

The Chancellor acknowledged the impact US tariffs were having on the Scottish Whiskey industry and announced £1m to promote Scottish food and drink overseas, plus £10m of R&D funding to help the industry 'go green.' In addition, the planned increase in duty will be cancelled for this year.

He also cancelled the planned increase in beer duty, making this only the second Budget in the last 20 years that has not seen an increase in alcohol duty, acknowledging that small pubs were often at the heart of local communities.

To the surprise of many, he also kept fuel duty frozen. It had been generally expected that fuel duty would increase as part of a measure to encourage greener forms of transport.

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## Other measures continued

### Education

The Chancellor announced further investment in education, including an increase of 4% in pupil funding and an extra £29m per year by 2023-24 for primary school PE teaching. He also managed to find £8m for more football facilities up and down the UK.

His biggest commitment, though, was an extra £400m for age 16-19 education and £1.5bn for further education, making good on a promise made by the previous Chancellor.

He also removed VAT on e-publications. This change, which will come into effect in December, will mean that there will be no VAT to pay on books you read on your Kindle.

### The environment

As had been anticipated, there were a number of measures on the environment although, perhaps, not as many as might have been expected from a government that is firmly committed to making the country carbon-neutral by 2050.

The Chancellor announced that the government 'will increase taxes on pollution.' From April 2022, the climate change levy on electricity will be frozen, but increased on gas.

There will also be a new plastic packaging tax introduced at the same time, charging manufacturers and importers £200 per tonne on packaging made of less than 30% recycled plastic. The Chancellor claimed that this would increase the use of recycled plastic in packaging by 40%.

He then turned his attention to 'red diesel' which, he said, currently enjoyed a £2.4bn tax break despite causing pollution. This relief will be abolished in two years' time although agriculture, rail, fishing and domestic heating will continue to be given the relief.

In total there will be a £1bn commitment to clean energy, and the Chancellor promised that 'you will never be more than 30 miles from a charging hub' in your brand new electric car. Finally, he announced that £800m will be invested in carbon capture and storage, creating 6,000 jobs in the industry.

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## Other measures continued

### The NHS

The Chancellor ended his speech where he'd begun, with a commitment to give the NHS whatever it needs to fight the effects of coronavirus. He confirmed an overall funding settlement of £6bn for the NHS which will, he said, deliver on the manifesto commitment of 50,000 new nurses, 40 new hospitals and 50m more GP appointments.

## Conclusion

By the time the new Chancellor sat down, after speaking for just over an hour, he was being loudly cheered by his own side, with backbenchers leaning over the seats to congratulate him.

Most commentators were in agreement that his 'temporary, timely and targeted' fiscal response to the coronavirus outbreak won't prevent UK GDP from falling sharply over the next two to three months. Together with the Bank of England's response earlier today, however, it greatly improves the chances that the UK economy will rebound in the second half of the year. More acerbically, Andrew Neil drily commented that Rishi Sunak had certainly 'splashed the cash' and that a 'huge increase in borrowing' was on the cards.

If people were in any doubt as to who Rishi Sunak was before the Budget, they will be in little doubt after it. As and when Boris Johnson decides to step down, then on today's evidence, the Conservatives may not have to look far for his successor.

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