



HFP

The Autumn Statement

2023

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Introduction

Jeremy Hunt has delivered his Autumn Statement, his third fiscal event as Chancellor of the Exchequer.

But as the Conservatives lag behind in the polls, growth remains sluggish and the general election looms ever closer, he has been under huge pressure to unveil a game-changing set of policies that reset the narrative, placate restless MPs and appeal to floating voters.

The political background

At the beginning of the year, Prime Minister Rishi Sunak unveiled his five priorities: Halving inflation, growing the economy, reducing national debt, cutting NHS waiting lists and stopping migrants from crossing the English channel on dinghies.

However, the Prime Minister has failed to curb Labour's consistent lead in the polls, and many political watchers are predicting that the current opposition will form the next government following the general election.

This was particularly evident during the recent party conferences, as figures from the Financial Times showed that 43 business groups purchased exhibition space at Labour's annual conference in Liverpool - up from 16 last year. By contrast, just 28 business groups exhibited at the Conservative conference in Manchester.

A similar pattern was seen among charities and non-profit organisations, as the number exhibiting at the Labour conference more than doubled from 40 to 87 this year, while just 30 bought stands at the Conservative conference.

This points to a clear expectation among business and lobby groups that it could be Shadow Chancellor Rachel Reeves delivering the Autumn Statement in a year's time.

Against this backdrop, the government has sought to regain control of the agenda, most notably when Rishi Sunak announced delays and exemptions to several key green policies.

This was followed by a pledge to end the "war on motorists", after concerns over London's Ultra Low Emission Zone were cited as a factor behind the government's narrow victory in the Uxbridge by-election.

Mr Sunak also sought to disassociate himself from his predecessors, using his speech at the Conservative conference to claim that politics has failed in the last 30 years and that he is the candidate of change. But curiously, he brought former Prime Minister David (now Lord) Cameron into his cabinet as Foreign Secretary just six weeks later.

Given that his conference speech failed to trigger a bounce in the polls, this has been interpreted by some as an attempt to reset his government once again and boost his appeal to the centre ground ahead of the general election.

The economic background

Inflation was in double digits at the beginning of the year, but has gradually fallen over the last few months. In fact, the latest data from the Office for National Statistics (ONS) shows that overall UK consumer price inflation fell from 6.7% in September to 4.6% in October - the lowest rate in two years.

However, it must be said that inflation remains well above the Bank of England's target of 2%, while successive interest rate hikes are also putting pressure on both consumers and businesses.

Interest rates are currently at a 15-year high of 5.25%, and this has contributed to anaemic economic growth in 2023. According to official data, gross domestic product flatlined between July and September, following an increase of just 0.2% in the previous quarter.

The government has sought to talk up the positive impact of falling inflation on people's finances, but it is clear that there is still some way to go to help people feel better off.

This perhaps explains why, in the run-up to the Autumn Statement, Mr Hunt ruled out tax cuts that fuel inflation, yet insisted that "everything is on the table", which raised speculation that National Insurance and Inheritance Tax cuts were likely.

But as we have seen in previous Budgets, Chancellors often find some money in their back pocket to guarantee positive headlines the next day, even in dire economic circumstances.

Clearly, there was lots of stake for the government as the Chancellor rose to speak, so let's take a look at what he announced...

The speech

Opening remarks

Mr Hunt began his Autumn Statement by insisting that the government's plan is working, as the economy has grown and avoided slipping into recession.

The Chancellor's statement was accompanied by forecasts from the Office for Budget Responsibility (OBR), which predicts that the economy will grow by 0.6% in 2023. This is higher than its earlier estimate of a 0.2% contraction.

Mr Hunt also confirmed that the OBR is predicting growth of 0.7% in 2024 and 1.4% in 2025. However, Mr Hunt neglected to point out that these estimates are down on its previous forecasts of 1.8% and 2.5% respectively.

Inflation, meanwhile, is set to fall to 2.8% by the end of 2024, and reach the Bank of England's target of 2% in 2025.

Personal taxation and allowances

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| What | Employee National Insurance to be cut from 12% to 10% |
| When | January 6th 2024 |
| Comment | Whereas changes to the tax regime are usually brought in at the start of the new tax year in April, the government is introducing urgent legislation so a cut in Employee National Insurance can be brought in from January. |

The government believes this will benefit around 27m people and enable someone on the average salary of £35,400 to receive a tax cut of more than £450 in 2024-25.

The annual cost savings for someone employed with an annual salary of £20,000 will be £148.60, £548.60 for someone on £40,000 and £754 for someone on £60,000.

The annual cost savings for someone self-employed with earnings of £20,000 will be £253.70, £453.70 for someone on £40,000 and £556.40 for someone on £60,000.

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| What | Class 2 National Insurance charge for self-employed people earning more than £12,570 to be abolished |
| When | April 6th 2024 |
| Comment | Self-employed people earning more than £12,570 must currently pay a flat rate compulsory charge of £3.45 a week, which means they're entitled to a state pension. |

Mr Hunt described Class 2 National Insurance as a tax that “most people haven’t heard of”, but said “it is a big deal for those who have to pay it”. The Treasury, meanwhile, has called it “out-dated and needlessly complicated”.

The Chancellor has therefore confirmed that “in recognition of the contribution made by self-employed people”, the charge is being abolished completely.

The government believes scrapping the charge will save the average self-employed person £192 a year.

Personal taxation and allowances

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| What | Main rate of Class 4 self-employed National Insurance Contributions to be cut from 9% to 8% |
| When | April 6th 2024 |
| Comment | Self-employed people also pay Class 4 National Insurance at 9% on all earnings between £12,570 and £50,270. This will be cut to 8% from the start of the next tax year. |

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| What | No change to Income or Inheritance Tax rates |
| When | N/A |
| Comment | There was considerable speculation that a headline grabbing cut in Inheritance Tax would be announced in the Autumn Statement. |

However, IHT was not mentioned at all in Mr Hunt's speech or in the accompanying Treasury documents, which means the standard IHT rate remains 40%.

Similarly, many analysts had predicted that a cut in Income Tax was likely, but again, this did not happen, and the personal allowance of £12,570 is currently frozen until April 2028.

Pensions and savings

What Government to open consultation on pension pot reforms

When No date confirmed

Comment Employees who are auto-enrolled on to a workplace pension must join a new scheme every time they move to a new job.

The government wants to simplify the process by giving savers a legal right to require a new employer to pay pension contributions into an existing scheme if they wish to do so.

However, employers should note that this would take some considerable time to implement due to the practical problems this presents.

What 'Mansion House' reforms

When N/A

Comment The government will make regulatory changes to consolidate pension contributions into larger funds with the ambition of an allocation of 10% into higher risk private equity funds.

The Chancellor also stated that these reforms could help to “unlock an extra £75bn of financing for high growth companies by 2030” and increase pension values. They are, however, higher cost and higher risk investments.

What Flat rate state pension will increase by 8.5%

When April 2024

Comment The new flat rate state pension will increase by 8.5% to £221.20 a week, up from £203.85 a week.

This is in line with average earnings growth of 8.5% and will be worth up to £900 more a year for people receiving the state pension.

The maximum paid to those who reached state pension age before April 6th 2016 is currently £156.20 a week, increasing to £169.50 a week.

Pensions and savings

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| What | Pensions triple lock to be maintained |
| When | April 2024 |
| Comment | <p>The triple lock is a mechanism designed to make sure the state pension doesn't lose value, so it will go up by whichever is highest of the following measures:</p> <ul style="list-style-type: none">• Average earnings• The rate of inflation (as per the Consumer Price Index)• 2.5% |

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| What | ISA limits frozen, but ISA rules to become more flexible |
| When | April 2024 |
| Comment | <p>The government is introducing a raft of changes to the ISA system to give more choice to savers.</p> <p>The changes include:</p> <ul style="list-style-type: none">• Allowing multiple subscriptions to ISAs of the same type every year• Allowing partial transfers between providers• Scrapping the need to reapply for an existing ISA every year• Expanding the Innovative Finance ISA to include Long-Term Asset Funds• Expanding the Innovative Finance ISA to include open-ended property funds with extended notice periods• Allowing savers to invest in certain fractional shares within stocks & shares ISAs• Digitising the ISA reporting system to make it more effective• Changing the account opening age for any adult ISAs to 18 |

Pensions and savings

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| What | The Lifetime Allowance remains on track to be abolished |
| When | April 6th 2024 |
| Comment | The government will legislate in the Autumn Finance Bill 2023 to remove the Lifetime Allowance. |

According to the Treasury, this will “clarify the taxation of lump sums and lump sum death benefits, and the application of protections, as well as the tax treatment for overseas pensions, transitional arrangements, and reporting requirements”.

Business investment and taxation

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| What | Full expensing to be made permanent |
| When | April 1st 2024 |
| Comment | During the Spring Budget this year, the government introduced full expensing for three years, which means that for every £1m a company invests in qualifying machinery and equipment, it gets £250,000 off their tax bill in the same year. |

The government is now making this change permanent, which it believes represents “the biggest business tax cut in modern British history”.

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| What | Action on SME late payments |
| When | April 6th 2024 |
| Comment | Any company bidding for large government contracts will have to demonstrate they pay their own invoices within an average of 55 days. |

It is hoped this will discourage large corporates from taking advantage of smaller businesses and put SMEs on a stronger financial footing.

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| What | 75% discount on business rates for retail, hospitality and leisure firms extended |
| When | April 6th 2024 |
| Comment | The business rates discount for retail, hospitality and leisure businesses is to be extended. |

The 75% discount on business rates up to £110,000 was originally set to be in place for a year. However, the government will now continue the policy for another 12 months.

Mr Hunt described this as a “large tax cut” that recognises the role that pubs and high street shops play in communities across the country.

According to Treasury estimates, extending the business rates discount will save the average independent pub over £12,800 next year.

Business investment and taxation

What Small business multiplier will be frozen for another year

When April 6th 2024

Comment Although the standard multiplier that applies to high-value properties will go up in line with inflation, the Chancellor is freezing the small business multiplier for another year.

What New rules to encourage local authorities to fast-track major business planning applications.

When From next year

Comment Mr Hunt said in his speech that the approval of infrastructure projects and business planning applications “takes too long”, and added that many businesses would be prepared to pay more if they knew their application would be approved faster.

He has therefore confirmed that he will work with the Communities Secretary to reform the system accordingly, where local authorities can recover the full costs of major business planning applications in return for being required to meet guaranteed faster timelines.

If this doesn't happen, fees will be automatically refunded and the application will be processed free of charge.

What More investment in supercomputing innovation centres

When 2024/25 & 2025/26

Comment £500m is to be invested in supercomputing innovation centres, which the government says will help universities, scientists and start-ups access greater computing power and enable the UK to become an “AI powerhouse”.

Business investment and taxation

What Reforms to R&D tax reliefs to simplify and improve the system

When April 1st 2024

Comment A new system that combines the existing R&D Expenditure Credit and SME schemes will be put in place.

Under the merged scheme, the rate at which loss-making companies are taxed will be reduced from 25% to 19%, while the intensity threshold in the R&D intensives scheme will fall from 40% to 30% for accounting periods starting on or after April 1st 2024.

A grace period for businesses that dip under the 30% threshold will be in place for a year.

The government hopes that these changes will simplify the system and offer greater support for companies that drive innovation.

Other announcements

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| What | Up to £10,000 off electricity bills over 10 years for those living closest to new energy infrastructure |
| When | No date confirmed |
| Comment | The government is aiming to halve the time it takes to deliver new electricity networks from 14 to seven years on average. |

It is hoped that offering energy bill discounts to people living close to infrastructure such as electricity pylons will help to speed up the rollout of new networks.

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| What | Tobacco duty to increase |
| When | Immediately |
| Comment | Duty rates on all tobacco products will increase by RPI + 2%, and duty on hand-rolling tobacco will go up by RPI + 12%. |

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| What | Alcohol duty to be frozen |
| When | Immediately |
| Comment | The government will freeze alcohol duties until August 1st 2024. |

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| What | Extension to Enterprise Investment Scheme and Venture Capital Trust regimes |
| When | N/A |
| Comment | The existing regimes for these products will be extended to 2035. |

Conclusion and reactions

Despite plenty of rumours, there were few changes to personal taxation. Cuts to National Insurance rates and the abolition of the flat rate for self-employed people were the only points of note. National Insurance isn't paid by pensioners, so these cuts are aimed at workers rather than those who'll benefit from the state pension triple lock.

Critics are citing 'fiscal drag' as evidence that tax burden remains high, wiping out any real terms savings made from the cut in National Insurance. This is because allowances and thresholds have been frozen for some years, and as a result, more people are being dragged into higher tax bands.

For example, the £12,570 personal allowance has been in place since 2021 and was frozen last year until 2028. It would be significantly higher if it had risen with inflation (by any measure), and the overall result is higher tax revenues for the Treasury.

As we will see below, anyone claiming the new flat rate state pension of £11,501 in the 24/25 tax year will only be £1,069 short of the tax exempt personal allowance limit, due to the boost of the triple lock versus a static personal allowance.

We will be as keen as ever to utilise your tax allowances over the coming months.

Although it wasn't in the speech itself, there are some tweaks to ISA rules from April 6th 2024. The restriction on the number of ISAs you can pay into (of the same type) each year is going, as well as some wrinkles around transfer processes.

It is no bad thing that we have avoided the launch of yet another type of ISA, as too much confusion and choice in what was always designed to be a simple product can put off inexperienced investors. For those with Junior ISAs maturing, it is worth noting that the account opening age will be harmonised to 18 for all adult ISAs. At present, adult cash ISAs can be opened at 16 and adult stocks and shares ISAs at 18. Junior ISAs can be encashed from 18.

Although the final legislation wasn't published alongside the Autumn Statement, there was a further update on the removal of the pensions Lifetime Allowance.

Conclusion and reactions

Removing the Lifetime Allowance makes pensions more tax-efficient for anyone with a pension worth £1,073,100 or more, and aims to stop people leaving the workforce because they might suffer pension tax charges. Two new allowances will be created under the plans:

1. An individual 'Lump Sum Allowance' set at £268,275 measuring the tax-free cash taken over someone's lifetime. This is a quarter of the old lifetime allowance.
2. An individual 'Lump Sum and Death Benefit Allowance' of £1,073,100, which incorporates both the tax-free lump sums someone takes while alive, and any serious ill health lump sum and lump sums paid out when they die.

If anyone goes over these allowances, then the excess will be taxed in the same way as income. So it isn't all tax-free, but you can take as much as you like without incurring the previous punitive lifetime allowance charge of either 25% (if taken as income) or 55% (if taken as a lump sum) on anything in excess of the Lifetime Allowance limit.

One concern we had was that HMRC were considering a new pensions death tax for anyone taking income withdrawals, and they have dropped this proposal. So if you die before the age of 75, your beneficiaries can inherit your defined contribution (DC) pension completely tax-free if it is under your Lifetime Allowance.

There are, however, some unanswered questions which will need to be addressed if the new legislation does not include simple transitional rules for those who have already taken some of their pension before April 6th 2024, but still have some untouched funds. This is now our focus once the new legislation emerges.

Employers and employees will have noticed a lot of talk around company pension schemes in this year's Autumn Statement. Much of this relates to consolidating pension funds and opening them up to far higher levels of private equity exposure than they have previously exposed their funds to.

While there has been much talk about the greater returns this could offer, it should be remembered that these are also higher risk investments. The primary aim is to introduce greater flows of investment capital into UK businesses, especially those requiring start-up funding.

There is also to be a consultation on a pension 'pot for life'. It seems like a sensible idea in principle. Allowing someone to take their pension pot with them when they change jobs and asking their new employer to pay into that sounds convenient.

Conclusion and reactions

However, it is fraught with a number of practical problems, not least gaining the cooperation of payroll providers who have found this extremely difficult in the past. Employers can expect this to take a considerable time to implement, even if it gets through the consultation process. It is attracting some scepticism as an idea at this early stage.

Finally, there was an extension of the Enterprise Investment Scheme and Venture Capital Trust regimes to 2035. Whilst the regimes were expected to be further extended when they ended in 2025, confirming it at this early stage is useful for anyone using these products.

Conclusion and reactions

Wider reaction to the speech

With fiscal events such as Budgets and Autumn Statements, it's important to look beyond what was announced at the despatch box and also think about what the Chancellor didn't say.

Many of those reacting to this year's Autumn Statement have certainly been doing that, and drawing attention to OBR figures that weren't highlighted in Mr Hunt's speech.

For example, the body has said that while the tax changes in the Autumn Statement will reduce the tax burden by 0.7% of GDP, it will still rise in every year to a post-war high of 37.7% of GDP by 2028-29. That's because the thresholds at which people start paying tax on their income, or move into a higher rate, have been frozen, all while inflation has gone up and wages are rising.

Furthermore, the OBR believes that living standards, as measured by real household disposable income per person, will be 3.5% lower in 2024-25 than their pre-pandemic level. This, it says, represents "the largest reduction in real living standards since Office for National Statistics records began in the 1950s".

Unsurprisingly, Mr Hunt did not draw attention to these predictions, an omission that has been seized on by many of the newspapers. The *i*, for example, led with "Tax burden to hit record high despite 2p cut for millions", while the Financial Times splash read "Tax burden surges despite Hunt cuts".

Nevertheless, many newspapers were happy to talk up the National Insurance reduction, with the Times stating "Hunt eases tax burden" and The Sun leading with a picture of a champagne cork popping and the headline "New year's wa-hey (but taxes will still be highest since WWII)".

Shadow Chancellor Rachel Reeves also pointed towards the OBR's forecasts in her response to Mr Hunt's statement, in particular the fact it has downgraded its economic growth forecasts for 2024 and 2025.

Speaking in Parliament, she said growth has "hit a dead end", and argued that nothing Mr Hunt announced would "remotely compensate" for the "damage that this government has done to our economy over 13 years".

Indeed, she stressed that despite the National Insurance cuts, "taxes will be higher at the next election than they were at the last", and said inflation is still double the Bank of England's target rate of 2%.

Conclusion and reactions

Wider reaction to the speech

Reeves added that the Conservatives recently voted against Labour's amendment to the King's Speech, which would have given the OBR the power to produce and publish forecasts for any government fiscal event, and therefore prevent a repeat of the "last year's economic horror show" under Liz Truss and Kwasi Kwarteng. This, she said, clearly shows that Labour is "the party of economic and fiscal responsibility".

Liberal Democrat leader Ed Davey, meanwhile, described the Autumn Statement as a "Hunt hoax", as a £200bn stealth tax raid was "buried in the small print" because of allowances and thresholds being frozen. This, he said, would "drag millions into paying a higher rate in the coming years", and added that people will be "furious" at being "forced to pay the price for Conservative chaos".

The Institute for Fiscal Studies (IFS), meanwhile, has cautiously welcomed elements of the Autumn Statement, such as making full expensing permanent rather than temporary. However, the think tank pointed out that while a National Insurance cut would "put more money into workers' pockets", it "won't be enough to prevent this from being the biggest tax-raising parliament in modern times".

Paul Johnson, Director of the IFS, also noted that these tax cuts have been paid for "in effect, by letting fiscal drag become even more of a tax rise than previously expected and through a bigger squeeze on the real-terms value of public service budgets and an even bigger squeeze on public investment, which is frozen in cash terms".

"There's a material risk that those plans prove undeliverable and today's tax cuts will not prove to be sustainable," he added.

The Resolution Foundation was also critical, noting that Mr Hunt's "well-targeted specifics" were "juxtaposed with far less well-designed big picture fiscal choices".

Torsten Bell, Chief Executive of the Resolution Foundation, said: "Tax cutting rhetoric clashed with tax rising reality, and positive steps to encourage business investment combined with a growth sapping hit to public investment. Ultimately this reflects the pressures, not only of an upcoming election, but of governing a sicker, older, slower growing Britain, amidst an era of far higher interest rates."

Conclusion and reactions

Wider reaction to the speech

Mr Bell added that this is a “disaster for households whose wages are stuck in a totally unprecedented 20-year stagnation” and that this will be the first parliament in which household incomes will be lower at its end than at its beginning.

The Autumn Statement was much more warmly received by leading business groups, with the CBI stating that Mr Hunt was “right to prioritise ‘game-changing’ interventions that will fire the economy”. The Federation of Small Businesses, meanwhile, described the announcements on late payments, business rates and self-employed taxation as “very welcome” and said Mr Hunt deserves credit for “driving pro-small business change”.

UK Finance, the trade association for the UK banking and financial services sector, was also fairly positive, saying the Autumn Statement demonstrates a “continued commitment to growth”.

Chief Executive David Postings, said: “We welcome plans to introduce more flexibility and simplification of ISA rules and look forward to working with government on implementing changes to help more people save for the future.”

The Pensions Management Institute also welcomed many elements of the Autumn Statement, although President Sara Cook said the failure to abolish the “unpopular” Tapered Annual Allowance is a missed opportunity, as the tax revenues it generates “must now be so small that its retention seems hard to justify”.

The Investment Association added that the Autumn Statement “confirms the importance of investment in powering the UK economy and providing for the financial futures of UK households”.

Conclusion and reactions

Conclusion

Ultimately, Jeremy Hunt chose to avoid what he described as “crowd-pleasing” tax cuts such as reductions in Inheritance Tax or Income Tax. Instead, he argued that he went for tax cuts that would help businesses and stimulate economic growth.

However, the focus on the OBR figures, which give valuable context and an indication of the overall direction of travel, will be uncomfortable for the Chancellor, and is unlikely to ease as we move towards the general election.

Of course, we don't yet know when the election will take place, and political observers are split on whether it will be in May or October next year. Either way, this means we're likely to see a Spring Budget before voters go to the polls, which could bring with it the crowd-pleasers that Mr Hunt was reluctant to deploy this time round.

Whatever happens, you can be confident that we will be at your side throughout, helping you work towards your financial goals.



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