Independent Financial Advice and Planning

AUTUMN STATEMENT

2022 OVERVIEW

Introduction

"A week is a long time in politics," as Labour Prime Minister Harold Wilson famously said. What, then, is two months? Or to be more exact, 55 days?

On 6th September, Liz Truss, having defeated Rishi Sunak in the ballot of Conservative members, became Prime Minister. She duly appointed Kwasi Kwarteng – a man dubbed Truss's 'political soulmate' by some of the press – as her new Chancellor.

On Friday September 23rd, Kwarteng presented his 'fiscal event' to the Commons. It marked a complete change of direction from the Treasury orthodoxy of previous Chancellors such as George Osborne, Philip Hammond and Sunak himself. Growth was prioritised, as Kwarteng unveiled the biggest tax cuts in half a century.

'At last! A True Tory Budget,' was the Mail's headline. The right-wing think tanks were unanimous in their praise. But several papers and pundits described the moves as a gamble: 'Truss's great tax gamble,' was the Times' headline.

It was a gamble which didn't pay off for the Chancellor and his boss. As Kwarteng finished his speech, the pound fell below $1.10 for the first time since 1985. As we wrote our report on the fiscal event for clients, the pound was trading at $1.08, having at one point touched $1.03. The Bank of England was forced to step in and the fate of the Chancellor and Prime Minister was effectively sealed. Kwarteng resigned on October 14th – to be replaced by Jeremy Hunt – and Truss followed ten days later. This time there was no leadership election: former Prime Minister Boris Johnson reportedly had enough backers among MPs but withdrew from the race, leaving Rishi Sunak as the only candidate.

A second fiscal event had been planned for Halloween – October 31st. Given the tax rises and spending cuts which had been widely trailed, that would have been a headline writer's dream. In the event, the new Chancellor decided to push it back to November 17th and upgrade it to a full Autumn Statement. He was, he said, prepared to make "politically embarrassing" choices – and insisted that the delay to the Statement was the best course of action.

The political background

Jeremy Hunt, the new Chancellor, has been the MP for South West Surrey since 2005. He has held various ministerial posts, and was defeated by Boris Johnson in the leadership contest held to succeed Theresa May. When Johnson resigned this year, Hunt again entered the leadership race but was eliminated in the first ballot, subsequently endorsing Rishi Sunak.

It must have been a bitter pill for Liz Truss to appoint him as Chancellor. She was publicly humiliated as Hunt stood up in the Commons and – policy by policy – fed her 'plan for growth' into the parliamentary shredder.

Jeremy Hunt is the UK's fourth Chancellor this year: in case anyone has lost count, we have also had three Prime Ministers. But that is that: it seems inconceivable that there will be a challenge to Sunak before the next General Election, which must be held no later than January 2025. You would assume – unless Sunak chooses to 'freshen up' his team before the election – that Jeremy Hunt will remain as Chancellor. He will certainly be presenting his first Budget in the spring of 2023.

So what were the pundits expecting from the Autumn Statement? 'Tax rises and spending cuts' was the simple answer. City AM's headline on the morning of the Autumn Statement was stark: 'The Taxman Cometh – Hunt to deliver toughest Budget in years today.'

Widely trailed were the confirmation of the increase in corporation tax and the freezing of the thresholds for inheritance tax and income tax. The amount of money that the Chancellor needed to raise was – depending on which paper you read – put at anywhere between £50bn and £70bn. City AM's article put the figure at £60bn – suggesting that increases in council tax, an extension of the windfall tax on energy producers and increases to dividend tax rates and capital gains tax, could be on the way. Spending cuts were also forecast, in what several of the papers dubbed 'a new age of austerity.'

The economic background

As we mentioned in the introduction, the pound slumped against the dollar following Kwasi Kwarteng's speech. At the time of writing this section of our report, the pound was trading at $1.19: the FTSE 100 index of leading shares stood at 7,310. But there is clearly far more to the economic background than the pound and the stock market.

If one word defines 2022, that word may well be 'inflation'. The day before the Autumn Statement, the Office for National Statistics (ONS) revealed that inflation had risen to 11.1% in October – a full percentage point higher than the previous month, and the highest figure recorded in 41 years.

Aside from the fact that we're all paying more for our food and shivering in the cold, inflation also pushes up the cost of servicing the Government's borrowing: in August, Sky News reported ONS figures showing that inflation had seen interest payments on Government debt 'leap by 63% over the past year'.

Worryingly for the Chancellor, there was also news that the UK economy had contracted by 0.2% in the third quarter of the year. 'Recession looms as the economy starts to shrink' was the BBC News headline, with the Bank of England now forecasting a 'very challenging' two-year recession.

Add in the continuing war in Ukraine, tensions between the US and China and the slowdown in world trade – virtually all October's economic indicators from China missed their targets and the port of Los Angeles has just had its quietest month since 2009 – and Jeremy Hunt faced a very challenging backdrop as he rose to speak.

How much would taxes go up? How would the markets react? Let's look at all the measures he introduced…

The speech

Opening remarks

Jeremy Hunt began by acknowledging that many people are "worried about the future", and although he insisted that "difficult decisions" had to be made, he said the Government would be "fair in our solutions" and "protect the vulnerable".

Mr Hunt's statement was accompanied by forecasts from the Office for Budget Responsibility (OBR), which predicts economic growth of 4.2% in 2022, but a contraction of 1.4% in 2023. Inflation, meanwhile, is tipped to be 9.1% this year and 7.4% next year.

Although the OBR now judges the UK to be in recession, Mr Hunt believes his plan will lead to a "shallower downturn", and he cited stability, growth and public services as his three top priorities.

Personal taxation and allowances

What	Income tax additional rate threshold reduced.
When	From 6 April 2023.
Comment	The threshold at which the highest earners will start paying the top rate of tax will be reduced from £150,000 to £125,140.

What	Income tax, NI and IHT thresholds to be maintained for a further two years.
When	Until April 2028.
Comment	The Government will keep income tax, National Insurance and Inheritance Tax thresholds at their current levels until April 2028 - two years longer than originally planned.

What	Dividend allowance to be reduced to £1,000.
When	From April 2023.
Comment	The Dividend Allowance will be reduced from £2,000 to £1,000 next year, and then to £500 from April 2024.

What	Capital gains tax exemption to be reduced to £6,000.
When	From April 2023.
Comment	The Government will reduce the capital gains tax annual exempt allowance from £12,300 to £6,000 next year. It will then be reduced to £3,000 from April 2024.

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Personal taxation and allowances continued

What	Stamp Duty to be increased in 2025.
When	31 March 2025.
Comment	The Government had announced that the stamp duty nil-rate threshold would be increased from £125,000 to £250,000 in September's Mini Budget. However, Mr Hunt will only keep this measure in place until the end of March 2025, after which point the threshold will go back to £125,000. The temporary position for the nil-rate threshold paid by first-time buyers (£300,000 to £425,000) and the maximum purchase price for FTB Relief (£500,000 to £625,000) are also being reversed in 2025.

Business investment and taxation

What	Employers' NICs threshold to be frozen.
When	From April 2023 until April 2028.
Comment	The National Insurance contribution threshold for employers will be frozen for the next five years. Meanwhile, the Employment Allowance will stay at £5,000, which means that 40% of all businesses will still not have to pay any NICs.
What	Corporation tax to go up.
When	From April 2023.
Comment	The main rate of corporation tax will increase to 25% for companies with profits over £250,000. Companies with profits of £50,000 or less will not see an increase due to the Small Profits Rate remaining at 19%. The Government will introduce tapered relief for profits between £50,000 and £250,000 so that they pay less than the main rate.
What	VAT registration level to be maintained.
When	Until March 2026.
Comment	The VAT registration level, which currently stands at £85,000, will be maintained at this level until March 2026 - two years longer than originally planned.
What	R&D tax credits for small companies to be overhauled.
When	For expenditure on or after 1 April 2023.
Comment	The Government is to cut the deduction rate for the SME scheme from 130% to 86% and the credit rate from 14.5% to 10%, as well as increase the rate of R&D expenditure credit from 13% to 20%. The Government believes rebalancing the rates of the reliefs will help to tackle fraud and deliver better value for taxpayers.

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Business investment and taxation continued

What	Windfall taxes to be increased.
When	January 1st 2023 to March 2028.
Comment	Windfall taxes for companies in the energy industry will be increased from 25% to 35%. The Government hopes its Energy Profits Levy will raise more than £40bn over the next six years.
What	New Electricity Generator Levy to be introduced.
When	From January 1st 2023.
Comment	A temporary 45% tax is to be introduced for low carbon electricity generators, which includes firms that produce wind, solar and nuclear power. The Chancellor believes that this measure, alongside the Energy Profits Levy, will raise £14bn next year.
What	Targeted support to help with business rates.
When	From April 2023.
Comment	The business rates multipliers will be frozen in 2023-24, while upward transitional relief caps will apply to firms facing large increases in bills following the upcoming revaluation of business rates. The Government says its targeted support to help with business rates will be worth £13.6bn over the next five years, meaning almost two-thirds of properties will not pay any more next year.

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Business investment and taxation continued

What Changes to EU regulations to support growth in key industries.

When By the end of 2023.

Comment The Government will decide and announce changes to regulations in digital technology, life sciences, green industries, financial services and advanced manufacturing.

Mr Hunt said taking advantage of the UK's Brexit freedoms in this way would support his ambition to turn Britain into the world's next Silicon Valley.

What New approach to Investment zones.

When No date confirmed.

Comment The Government is to refocus the Investment Zones programme, announced in September's Mini Budget, and existing expressions of interest will not be taken forward.

Instead, it will focus on leveraging the UK's research strengths to "help build clusters for our new growth industries".

The cost of living crisis

What	Energy Price Guarantee extended.
When	Until April 2024.
Comment	The Government will continue capping typical energy bills beyond April 2023, though the cap will rise from £2,500 to £3,000 from April 2023.

What	Cost of living payments for the most vulnerable.
When	2023-24.
Comment	More than 8m households on means-tested benefits will receive £900 of support, which will be paid in instalments. Meanwhile, pensioner households will receive £300 worth of support, and people on disability benefit will get a £150 payment.

What	Extra support for people who use alternative fuels.
When	Immediately.
Comment	Support for households who use alternative fuels such as heating oil will double from £100 to £200.

What	Cap increase in social rents to 7%.
When	2023-24.
Comment	The increase in social rents will be capped at a maximum of 7% in the next financial year, which will enable the average tenant to save £200 next year.

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The cost of living crisis continued

What	Uprate benefits in line with inflation.
When	From April 2023.
Comment	Benefits will go up in line with inflation, calculated at 10.1%. This means about 19m families will see their benefit payments increase from April next year. The benefit cap will also rise in line with inflation.
What	Increase pension credit by 10.1%.
When	From April 2023.
Comment	The Government will protect the Triple Lock, which means pensioners will see pension credit and state pension payments increase in line with inflation. The increase in pension credit will be worth £960 for a single pensioner and £1,470 for a couple. Meanwhile, the state pension will go up by £870.
What	National Living Wage to increase by 9.7%.
When	From April 2023.
Comment	The National Living Wage will go up from £9.50 an hour to £10.42 an hour for those aged 23 and over. More than 2m people are likely to benefit from the increase, which represents an annual pay rise of more than £1,600 to a full-time worker.

Other measures

Taxes on electric vehicles

What	Vehicle Excise Duty to apply to electric vehicles.
When	From April 2025.
Comment	Electric cars, vans and motorcycles will no longer be exempt from Vehicle Excise Duty. According to Mr Hunt, this will make the motoring tax system fairer and reflects the OBR's view that half of all new vehicles will be electric by 2025. Businesses will benefit from lower tax rates for electric company cars, with rate increases being limited to 1% a year for three years from 2025.

Public spending

What	Public spending to go up, but efficiencies to be sought.
When	Over the next five years.
Comment	The Government will prioritise investment in the NHS, social care and schools. The NHS budget will increase by an extra £3.3bn in each of the next two years, and schools will get an extra £2.3bn in 2023 and 2024. Increases in departmental budgets will be protected over the next two years, with resource spending then going up by 1% a year in real terms over the following three years. Mr Hunt says this means overall spending in public services will continue to go up, in real terms, over the next five years. However, public spending overall will increase more slowly than the growth of the economy, and Government departments are being told to make efficiencies to deal with inflationary pressures in the next two years.

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Other measures continued

Adult social care investment

What	Increased investment in adult social care in England.
When	Until 2025.
Comment	The Government will make available up to £2.8bn for adult social care in 2023-24 and £4.7bn in 2024-25. Mr Hunt says this will allow the social care system to help deliver an estimated 200,000 more care packages over the next two years and put it on a much stronger financial footing.

Universal Credit

What	More Universal Credit claimants to meet with a work coach.
When	From September 2023.
Comment	The Government will ask over 600,000 more people on Universal Credit to meet with a dedicated work coach, to help them increase their hours or earnings. Mr Hunt says this reflects his commitment to assisting those in-work raise their incomes, progress and become financially independent.

Defence spending

What	Defence budget to be maintained at a minimum of 2% of GDP.
When	Immediately.
Comment	Mr Hunt said that while both he and the Prime Minister "recognise the need to increase defence spending", the Government must first revise and update the Integrated Review, which was written before Russia's invasion of Ukraine. This will be completed ahead of the next Budget.

continued over

Other measures continued

International aid

What Overseas aid spending to remain at 0.5%.

When Until 2024 at the earliest.

Comment Overseas aid spending will remain at 0.5% of Gross National Income (GNI) over the next year.

Although Mr Hunt said he is "fully committed" to returning to the Government's target of 0.7% at some point in the future, he said this "will not be possible" in this forecast period, given the current state of the public finances.

Cutting carbon emissions

What Reducing carbon emissions by 68%.

When By 2030.

Comment Mr Hunt reinforced the Government's commitment to reducing its carbon emissions by 68% by 2030, in line with the Glasgow Climate Pact agreed at last year's COP26 conference.

The Chancellor said that given the "existential vulnerability we face", now would be the wrong time to "step back" from its environmental pledges.

Funding for devolved administrations

What Additional funds for Scotland, Wales and Northern Ireland.

When 2023-24 and 2024-25.

Comment The Scottish Government will receive an additional £1.5bn over 2023-24 and 2024-25, while the Welsh Government will receive £1.2bn, and a further £650m will go to the Northern Ireland Executive.

continued over

Other measures continued

English devolution

What New devolution deals with English regions.

When By 2030.

Comment Mr Hunt said the Government is committed to giving more local areas greater power and agreeing devolution deals with all areas in England that want one by 2030.

As part of this, a further mayoral devolution deal with Suffolk County Council has been agreed, and advanced discussions are underway with local authorities in Cornwall, Norfolk and the North East.

Nuclear power

What New nuclear power plant at Sizewell C.

When 2030 at the earliest.

Comment Contracts to begin construction of the Sizewell C nuclear plant will be signed in the next few weeks.

It is hoped the plant will begin generating electricity in the 2030s and help the country achieve greater energy independence.

Energy efficiency

What Doubling annual investment in energy efficiency.

When From 2025.

Comment The Government has committed to investing a further £6bn in energy efficiency from 2025. This follows the £6.6bn it had already planned to invest during the current parliament.

This will help the Government achieve its new target of reducing energy consumption from buildings and industry by 15% by 2030.

continued over

Other measures continued

Infrastructure spending

What Freezing capital budgets for infrastructure.

When Over the next two years.

Comment Mr Hunt has promised that he will not be "cutting a penny" from the UK's capital budgets over the next two years.

This, he said, will support ongoing infrastructure spending, such as upgrades to roads and railways, investment in broadband technology and improvements to public services such as hospitals.

The Chancellor said although this means the capital budget will not be going up as originally planned, it will still increase from £63bn four years ago to £114bn next year and £115bn the year after, and then remain at that level.

R&D investment

What R&D budget to be protected.

When By 2024-25.

Comment The Government has pledged to protect its entire Research and Development budget and increase public funding for research to £20bn by 2024-25.

Mr Hunt said this forms part of the Government's "mission to make the United Kingdom a science superpower".

Conclusion and reactions

Reaction to the speech

In the opening to his speech, Jeremy Hunt described his priorities as "stability, growth and the public services". He made a commitment to "rebuild our economy" and said that "to be British is to be compassionate".

At the same time, much of the blame for the country's ills was laid elsewhere. The OBR confirmed that 'global factors' lay behind inflation: it was a 'made-in-Russia' energy crisis.

Wherever you lay the blame, two things are undeniable: we will all be paying more tax, and there has been a huge shift in Government policy, in the space of just eight weeks. Depending on your source, from £30-45bn of tax cuts, to £50-60bn of tax increases. It was hard to escape the feeling that whatever Liz Truss and Kwasi Kwarteng had promised to abolish, Jeremy Hunt had decided to retain – and increase.

Even traditional Government supporters found it hard to summon up enthusiasm for the speech. One comment in the Express was particularly revealing: 'The silence of Tory MPs could not have been more stark if Jeremy Hunt had been reading out the list of the dead after a terrible catastrophe. Instead, the Chancellor was delivering a list of tax rises that would hit their voters more than anybody else.' The Mail's headline was simple: 'Tax and Axe.'

For Labour, Rachel Reeves was as critical of this speech as she had been of the last one. "The end of 2022," she said. "Three Prime Ministers, four Chancellors and four Budgets later and we find ourselves in a worse place than we started the year. Britain is a great country with fantastic strengths but, because of Government mistakes, we are being held back."

Outside Westminster, perhaps the most telling comment – and certainly the one that most people will experience – came from Paul Johnson of the Institute for Fiscal Studies. He pointed to what he termed 'simply staggering numbers' in the OBR report, tweeting: 'Real household disposable income per person set to fall by 7% over the next two years. The biggest fall on record, taking incomes down to 2013 levels.'

What of the right-wing think tanks who greeted Kwarteng's speech so warmly? 'Unhappy' is an understatement. Mark Littlewood of the Institute for Economic Affairs said: 'The Chancellor has put the UK firmly on track for higher taxes, more spending and lower growth. This is a plan for managed decline, not a plan for prosperity.' Several commentators made the point that entering a recession with the highest tax burden 'for three-quarters of a century' might deepen the economic downturn, and lead to lower tax revenues in the long run.

continued over

Conclusion and reactions continued

Reaction to the speech

There was significant criticism of the speech from the hospitality sector – a major employer in the UK – with one company executive tweeting: 'This industry is now in crisis and this has, bizarrely, not been recognised in the Autumn Statement.'

Staying with social media, the Living Wage Foundation tweeted: 'It is welcome that the Autumn Statement included an increase to the Living Wage – but it still falls short of the real Living Wage.'

How did the markets react? Certainly not as dramatically as after Kwarteng's speech, that's for sure. At the time of writing, the pound is trading at $1.18 – down very slightly on earlier in the morning – while the FTSE 100 index is at 7,316, virtually unchanged on this morning's level.

Conclusion and reactions continued

Conclusions

Kwasi Kwarteng didn't waste time in his first – and only – major speech as Chancellor. He spoke for just 25 minutes. Jeremy Hunt, in contrast, spoke for very nearly an hour, delivering what was to all intents and purposes a Budget speech.

"We won't apologise," said Kwarteng – and neither will Jeremy Hunt. Nor will he change course in the near future.

The Budget speech is unlikely to be well received by traditional Conservative supporters. We have seen the comments of the Mail and Express above and, writing in the Telegraph, Allister Heath said, 'There's no point to the Tories if all they do is surrender to the left.'

Looking at higher taxes across the board, and with the Chancellor describing dividends as 'unearned income', you suspect that many business owners will agree with him. Jeremy Hunt's plan for 'stability, growth and public services' may be the right one – only time will tell – but it is unlikely to lead to a sudden bounce in the opinion polls.

Whatever your views and your political opinions, though, there is one indisputable fact about the Autumn Statement. With thresholds frozen, far more people paying higher rate tax and allowances reduced, the need for first-class, long-term financial planning has never been greater.

In 1990, only 1.7m people paid higher rate tax: that figure has steadily risen to 5.5m in the current tax year. With allowances now frozen to 2028, that figure could well reach 8m. With the threshold for top rate tax cut to £125,000, the number paying tax at the top level could approach 1m. Proper planning of your pensions and ISAs, making use of all available tax allowances, making sure estates are managed effectively in light of inheritance tax – all of these are going to be crucial in creating wealth and preserving it for future generations.

As all our clients know, we are committed to working with you and your family over the long term. Today's Autumn Statement has only increased that commitment.

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