

Spring Budget Statement – March 2022

These are rather sombre times for a Chancellor to be announcing his Spring Budget Statement. Whilst the Global Pandemic remains stubbornly amongst us, it is the war in Ukraine that is driving hearts and minds at present. The Chancellor was also keen to confirm that this is partially responsible for our financial position as well.

It is quite clear that both our energy and fuel costs are being adversely affected by foreign affairs and short-term measures were introduced to help here, with Fuel Duty being cut as well as VAT being removed on energy efficient measures such as solar panels and insulation. But, with debt interest at £83bn, which is the highest nominal spending level since records began, there had been an expectation that some simple measures similar to those announced would be offered to help the 'cost of living' crisis. There were also questions as to whether this was the right time to proceed with the intended rise in National Insurance (NI), that was set for April.

Therefore, it came as some surprise when the package offered by the Chancellor appeared to involve some quite serious tax cuts. Firstly, whilst the Chancellor confirmed that the National Insurance increases would happen in April 2022, he took the opportunity to increase the salary level at which NI is payable to £12,570, aligning it with Income Tax Personal Allowance. Whilst this won't take effect until July 2022, it is a welcome move, although it must be noted that one of the key purposes of National Insurance is to fund your State Pension. Does this also mean some lower paid people will lose out on a Pension credit for State Pension purposes? As of yet, we don't know.

Then, a proper 'rabbit' was produced from his bag with an Income Tax cut from 20% to 19%, although this would not come into force until 2024 and naturally also assumed that everything goes to plan with the country's finances. Whilst we recognise that this makes for excellent headlines, when you link the frozen personal allowances announced last year to such high levels of inflation, you end up with a very nasty 'double act' which could easily wipe out any gains offered from an income tax cut.

Do also remember that further tax allowances such as the Pension Lifetime Allowance and Inheritance Tax Threshold have also been frozen until 2025/26. With inflation expected to average more than 7% in 2022, frozen allowances mean more of your income and assets will be taxed accordingly. Therefore, more than ever, it is vital that we plan your affairs in the most efficient way possible.

Please find enclosed details of some of the key changes announced in the Spring Budget. We have also provided a reminder of the NI increases that start in April 2022. If you have any further questions concerning any of these matters, please do not hesitate to contact us.

Spring Budget Statement 2022: Key Points

TAX RATES & ALLOWANCES

Income Tax

The Basic Level of Income Tax is set to decrease from 20% to 19% in 2024.

National Insurance

From July, 2022, the income at which National Insurance is paid by Employees will rise to £12,570, bringing it in line with the Income Tax Personal Allowance level.

(Note the increase to National Insurance levels announced back in September 2021 will be going ahead, full details of that are provided below)

Investment and Pension changes

There were no significant investment or pension changes announced.

If you would like to discuss your current financial planning arrangements to make sure you are maximising the opportunities now available to you, please do not hesitate to contact us.

A reminder of the National Insurance and Dividend Tax Increases due in April 2022.

In September 2021, the Government decided that it required further income to fund increased health and social care costs. Therefore, they confirmed that certain national insurance contributions (NICs) paid by both employed and self-employed workers will rise by 1.25% from April 2022.

This will then be amended slightly in 2023, when the new *'health and social care levy'* element will be separated out and the exact amount employees pay will be visible on their pay slips. They also confirmed that it would be paid by all working adults, including workers over the state pension age, unlike other NICs.

Finally, it was also established that UK Dividend tax rates will rise by the same amount from the next tax year as well.

The increases from April 2022 are as follows:

National Insurance

Class 1 Employee – Increase from 12% to 13.25%

Class 1 Employer – Increase from 13.8% to 15.05%

Dividend Tax

Basic Rate – Increase from 7.5% to 8.75%

Higher Rate – Increase from 32.5% to 33.75%

Additional Rate – Increase from 38.1% to 39.35%

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