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Budget Commentary
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Introduction

Enthused by soaring UK growth and optimism in the post-pandemic recovery, chancellor Rishi Sunak allowed himself to focus more on prosecco than pensions in the autumn Budget.

Inheritance tax (IHT) tinkering, and capital gains tax (CGT) trifling had been mooted for Sunak's third Budget as he looked to increase the tax take to pay for the damage wrought by the Covid-19 pandemic.

However, this wasn't the case – except for an increase in the CGT window to sell UK residential property from 30 days to 60 days – as growth figures provided the chancellor with the confidence to announce a £150bn Whitehall giveaway and help for the UK's lowest earners.

Sunak painted a picture of a bright future for the UK, although tempered with a warning that there are 'challenging months ahead', as he recited Office of Budget Responsibility growth forecasts of 6.5% for the financial year 2021/22, up from 4% guided in March.

'Today's Budget delivers a stronger economy for the British people. Stronger public finances, with our debt under control. Stronger employment, with fewer people out of work and more people in work,' said Sunak.

'Growth up, jobs up, and debt down. Let there be no doubt – our plan is working.'

While personal tax seemed to get away easily this time round, let's not forget Sunak has already done some of the heavy lifting when he increased dividend tax and national insurance by 1.25% in September to pay for health and social care. And digging deeper into the documents there are some changes of note in what has been deemed a rather boring Budget.

Counting the cost of living

The cost of alcohol duty will make a bottle of your favourite fizz cheaper and take 3p off the price of a pint but that's not going to go far in curbing the rising cost of living – and pubs have already warned they'll have to put their prices up.

Part of the wallet-busting rise in the cost of living is fuel inflation, as supply disruption has sent the price of petrol to a record high and gas costs rocketing. Although Sunak resisted pressure to cut VAT on fuel, he did cancel the planned fuel duty rise – although after 12 years of fuel duty freezes, this has come to be expected.

As part of his hour-long speech, Sunak told workers over 23-years-old they will benefit from a national living wage increase from £8.91 to £9.50 from April next year but what he didn't shout about and instead buried in the Treasury documents was a potential council tax rise.

Under rule changes, councils will be able to raise taxes by 2% without a referendum, plus another 1% for social care, so watch out.

Pensions put right

While prosecco featured heavily in Sunak's speech, pensions didn't get much of a mention despite some positive news, although he stopped short of unfreezing the pension triple lock that sees the state pension increase by the highest of inflation, average earnings, or 2.5%.

The chancellor is, however, introducing a 20% top-up for low earners in 'net pay' pension schemes from April 2024. It's a technical loophole that creates an inequality between those on low incomes in 'relief at source' pensions who receive tax relief on pension contributions and those in 'net pay' schemes, who don't. The Treasury now plans to spend £25m correcting this between 2025 and 2027 - finally correcting an anomaly it flagged in its 2019 manifesto.

Pension savers could also benefit from the potentially high returns from investing in illiquid assets like infrastructure and renewable energy. Sunak said he wants to give pension schemes the flexibility to invest in long-term alternative income-producing assets, with details to be thrashed out before the end of the year.

Getting business back on track

After hiking corporation tax from 19% to 25% in the Spring Budget, Sunak made some amends with the business community, pledging a 'post-Covid age of optimism'.

He's cutting business rates by £7bn by ensuring rent revaluation is more frequent, providing relief for companies making property improvements, and a 50% business rates discount for retail, leisure, and hospitality businesses hammered by the pandemic.

Businesses were also given more opportunity to plan, with the announcement that the Annual Investment Allowance will stick at £1m rather than being reduced as planned to £200,000.

What wasn't said

Sometimes what isn't said is worth listening to. There was no mention of the mushrooming tax bills caused by the freezing of tax allowances in the spring. Personal allowance will stay at £12,750 in April and every year until 2025/26 and the higher rate income tax threshold will stay at £50,270, dragging more people into the 40% tax rate as wages continue to increase – ah, the power of fiscal drag.

The annual CGT exemption also remains at £12,300 and despite an Office of Tax Simplification push, the rates haven't been aligned with income tax; the pension lifetime allowance escaped a squeeze and remains at £1,073,000; and the IHT threshold remains frozen at £325,000 of your estate, with a main residence nil-rate-band of £175,000.

There was no sign of any wealth tax, leaving investors and property owners to heave a sigh of relief, but that's no reason to be complacent. Plenty of personal taxes may have escaped the Sunak scythe but with the word 'sacrifice' being bandied around, it's time to get your financial affairs in order because you never know what the chancellor will pull out of his red box next.

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