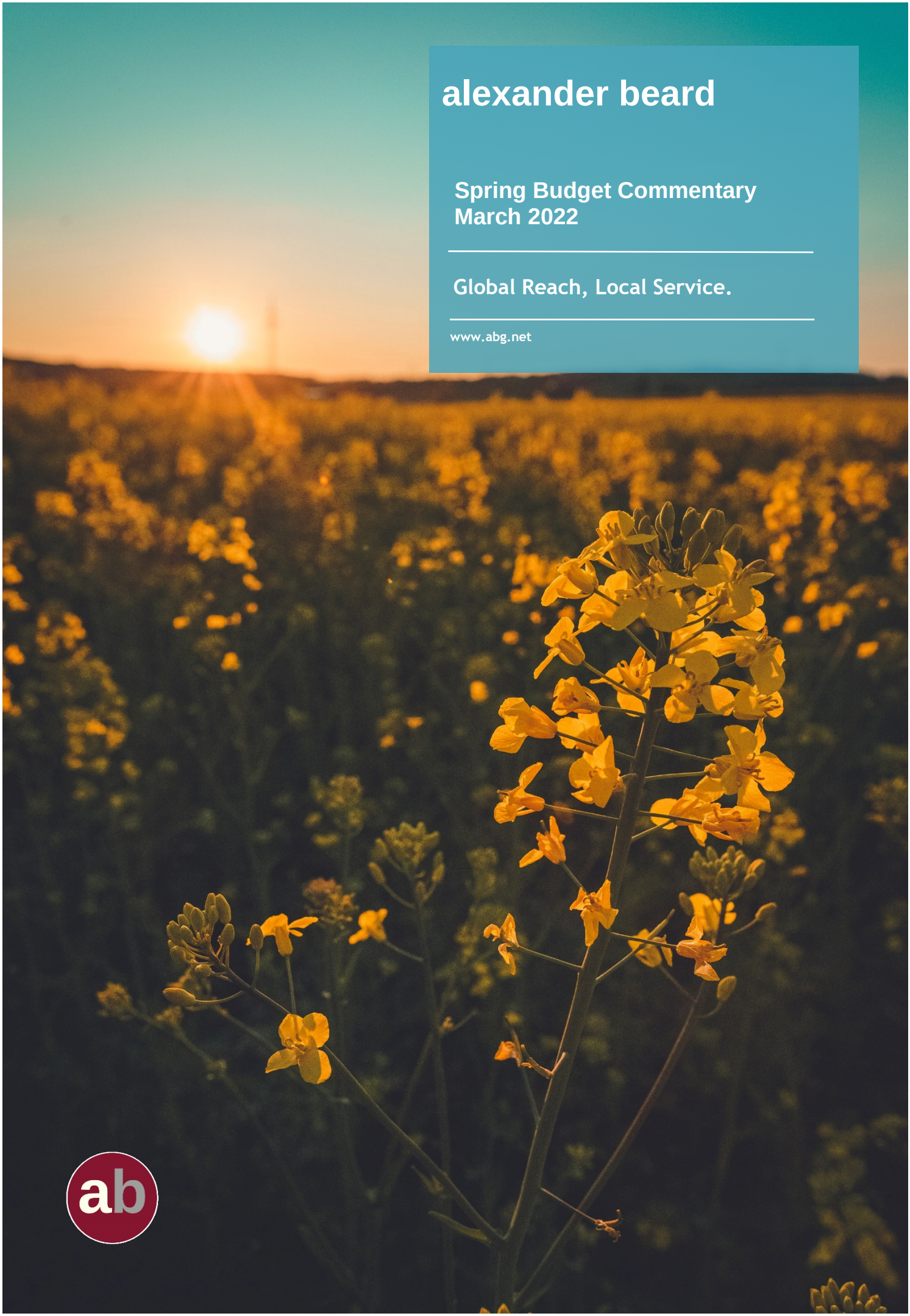

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Spring Budget Commentary
March 2022

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Faced with a cost-of-living crisis, chancellor Rishi Sunak managed to find some rabbits to pull out the hat in the Spring Statement.

Sunak had been under pressure to ease the burden of inflation – which hit 6.2% in February - on UK households by scrapping next month's 1.25 percentage point increase in national insurance contribution (NICs) and cutting fuel duty.

While he didn't deliver on the former - which has been badged as a health and social care levy to help the NHS deal with the backlog caused by the pandemic - there was some respite for workers.

Offsetting some of the NIC rise – but not quite enough to be branded a U-turn - Sunak increased the threshold at which NI is paid to bring it in line with income tax. The disparity between the thresholds has long been criticised for the disproportionate impact it has on the lowest paid and the Conservatives had pledged to equalise the thresholds.

The NI threshold was pegged to increase by £300 in the coming financial year but Sunak has jumped ahead and increased it by £3,000. From July, the rate at which NI must be paid will be raised to £12,570, far higher than the £9,880 it was scheduled to increase to.

The government estimates that 70% of working people will pay less tax and the average person will save £330 a year. While this tax cut will mitigate some of the increased NI payment, it will not offset it entirely and those earning over £50,000 a year – which tips them into higher rate taxpayer territory – will be £108 worse off over the year.

There was the promise of jam tomorrow, provided the Tories stay in power, with a cut in basic rate income tax pencilled in for 2024 to coincide with election year.

Sunak has pledged to cut the basic rate from 20% to 19%, creating a saving of £175 a year – the first reduction to the basic rate for 16 years. He said the move, which will cost the government £5bn, is 'a tax cut for workers, for pensioners, for savers' and will benefit 30 million people.

In a small act of mercy, Sunak took pity on motorists, who have seen prices on the forecourts soar in recent weeks as the Ukraine conflict and the subsequent sanctions on Russia have constrained supply and pushed up the cost of a tank of fuel,

He cut fuel duty by 5p per litre for the next 12 months, starting immediately. Although collectively the cut will save drivers £2.4bn, it won't be life-changing, especially in the face of runaway energy and food bills, and the average cost of petrol at £1.67 a litre.

For business owners there was also some reprieve: from next month employee allowance – which allows smaller companies to reduce their NICs by up to £4,000 a year - will rise from £4,000 to £5,000, which he said was a 'new tax cut' for half a million businesses. Companies will also benefit from the increase in the threshold at which they start paying NICs.

However, business owners maybe more concerned about the foreboding warning about the outlook for the UK economy, and the lack of money in customer's pockets.

With the changes announced by Sunak either being so marginal as to make little difference, or of no benefit for the next two years, economic forecasts were front and centre of the mini-Budget.

In stark contrast to the Autumn Budget last October, Sunak warned that inflation and the Ukraine war were taking their toll on the economy.

UK GDP is expected to grow just 3.8% this year, a sharp reduction from the 6% forecast by the Office for Budget Responsibility (OBR) in October, and it's only going to get worse, with growth sliding to 1.8% in 2023, and then 1.4% in 2024.

Households and businesses will also have to contend with even higher inflation, with the OBR predicting it will hit 7.4% soon, then peak at 9% in the final three months of the year.

More worryingly, Sunak said: 'The OBR has not accounted for the full impacts of the war in Ukraine…and we should be prepared for the economy and public finances to worsen – potentially significantly.'

Add to that a 2.2% fall in real disposable income and many families will be worse off despite Sunak claiming to have delivered the 'biggest net cut to personal taxes in over a quarter of a century'.

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