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Spring Budget 2023

ECONOMIC FORECASTS

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"A Budget for Growth"

Spring Budget 2023

Chancellor of the Exchequer, Jeremy Hunt, delivered his first Spring Budget on 15 March declaring it was *“A Budget for Growth.”* The fiscal update included a range of new measures, some of which had been widely trailed prior to Budget day, in order to achieve growth *“by removing obstacles that stop businesses investing; by tackling labour shortages that stop them recruiting; by breaking down barriers that stop people working; and by harnessing British ingenuity to make us a science and technology superpower.”*

OBR forecasts

The Chancellor began his statement by unveiling the latest economic projections produced by the Office for Budget Responsibility (OBR) which he said showed the UK would meet the Prime Minister's priorities to *“halve inflation, reduce debt and get the economy growing.”* In relation to the first priority, Mr Hunt said the latest OBR figures suggest inflation will fall from an average rate of 10.7% in the final quarter of last year to 2.9% by the end of 2023. This sharp decline is partly due to some of the Chancellor's Budget measures, including the three-month extension to the household Energy Price Guarantee (EPG), which the government had confirmed earlier in the day.

Mr Hunt also said the OBR forecast suggests the UK economy will now avoid a technical recession this year (defined as two consecutive quarters of economic decline) and then expand in each of the remaining years of the five-year forecast period. According to the updated figures, the economy is expected to shrink by 0.2% this year, a significant upgrade from last autumn's forecast of a 1.4% contraction, with growth then predicted to hit 1.8% in 2024 and 2.5% in 2025, before easing back towards its medium-term potential growth rate of 1.75% by 2028.

The Chancellor's growth strategy focuses on the four pillars 'Everywhere, Enterprise, Employment and Education,' as previously outlined in his Bloomberg speech in January.

Everywhere

Mr Hunt spoke about the government's plans for 'Levelling Up,' including the launch of 12 new Investment Zones. Across these *“12 potential Canary Wharfs,”* £80m of support per zone will be available for skills, infrastructure and tax reliefs. Mr Hunt also mentioned specific projects selected for local investment, including:

- £200m for local regeneration projects and £400m for new Levelling Up Partnerships across England
- £8.8bn over the next five-year funding period for the City Region Sustainable Transport Settlements
- Up to £8.6m for the Edinburgh Festivals, as well as £1.5m for the repair of Cloddach Bridge, near Elgin, and £20m for the restoration of the Holyhead Breakwater in Anglesey
- Up to £3m to extend the Tackling Paramilitarism Programme in Northern Ireland.



Enterprise

To provide the right conditions for businesses to succeed:

- A 'full expensing' policy will apply from 1 April 2023 until 31 March 2026 to allow investment in IT, plant or machinery to be deducted in full and immediately from taxable profits
- An increased rate of relief for loss-making R&D-intensive small and medium size enterprises (SMEs) – eligible companies will receive a £27 credit from HMRC for every £100 of R&D investment
- An extension of higher reliefs for theatres, orchestras, museums and galleries for two further years
- The Medicines and Healthcare products Regulatory Agency (MHRA) will receive £10m extra funding over two years
- All of the recommendations from Sir Patrick Vallance's review of pro-innovation regulation of digital technologies are accepted
- £900m of funding for AI Research Resource and an exascale computer as well as a commitment to £2.5bn ten-year quantum research and innovation programme through the government's new Quantum Strategy
- Innovation Accelerators programme – £100m funding for 26 transformative R&D projects
- AI Challenge Prize – £1 million prize every year for the next ten years to researchers that drive progress in critical areas of AI.

Employment

The Chancellor turned next to Employment, with a suite of new measures to *“remove the barriers that stop people who want to from working.”* To achieve this, he announced:

Mature workers

- The expansion of the DWP's 'midlife' MOT scheme, aiming to reach up to 40,000 individuals per year (up from the current 8,000)
- New 'Returnerships' scheme to make existing skills programmes more accessible to older workers and help them upskill and retrain
- A pension tax relief overhaul; see details in Personal Taxation and Pensions section.

People with long-term illnesses and disabilities

- A white paper on disability benefits reform
- The abolition of the Work Capability Assessment for disability benefits claimants
- A new voluntary employment scheme for people with disabilities

- £406m to increase support for working adults with mental health, musculoskeletal and cardiovascular problems.

Welfare recipients

- An increase to the Administrative Earnings Threshold
- A stronger sanctions regime for Universal Credit claimants.

Care leavers

- A 50% increase in funding for the Staying Close programme
- An increase in the Qualifying Care Relief threshold to £18,140 per year plus £375 to £450 per person cared for per week for 2023/24 and these thresholds will then be indexed, representing a tax cut worth approximately £450 per year on average.

Education

Mr Hunt then turned to Education, stating that he wants to reform the childcare system, currently *“one of the most expensive systems in the world.”*

His new proposal will offer 30 free hours of childcare each week to pre-school-age children aged nine months or above in English households where both parents work. It will be phased in on the following timeline:

- April 2024 – eligible two-year-olds will receive 15 hours of free childcare per week
- September 2024 – qualifying children aged nine months to two years will receive 15 hours
- September 2025 – eligible children aged nine months to three years will receive 30 hours.

Also, schools and local authorities will be funded to increase availability of wraparound care, to enable parents of school-age children to drop them off between 8am and 6pm.

To tackle the problem of unaffordable upfront costs, Mr Hunt also announced support for the 700,000 families on Universal Credit. Another major change involves each staff member in England being able to look after five two-year-olds instead of four, as is already the case in Scotland.

Personal Taxation and Pensions

To encourage over-50s to extend their working lives, the government is increasing tax relief limits on pension contributions and pots – the Annual Allowance will be raised from £40,000 to £60,000 from April 2023; the Lifetime Allowance (LTA) charge will be removed from April 2023, and the LTA will be abolished from April 2024. The maximum amount that can be accessed tax free (Pension Commencement Lump Sum) will be frozen at its current level of £268,275 (25% of current LTA). From April, the minimum Tapered Annual Allowance (TAA) and the Money Purchase Annual Allowance (MPAA) will increase from £4,000 to £10,000 and the adjusted income threshold for the TAA will also rise, from £240,000 to £260,000.

As a reminder, the following changes were previously announced in the Autumn Statement 2022:

- The Income Tax additional rate threshold (ART) at which 45p becomes payable is lowered from £150,000 to £125,140 from April 2023. The ART for non-savings and non-dividend income will apply to taxpayers in England, Wales and Northern Ireland
- The Dividend Allowance reduces from £2,000 to £1,000 from April 2023 and to £500 from April 2024

- The annual Capital Gains Tax exemption reduces from £12,300 to £6,000 from April 2023 and to £3,000 from April 2024
- The Stamp Duty Land Tax nil-rate threshold for England and Northern Ireland is £250,000 for all purchasers and £425,000 for first-time buyers, remaining in place until 31 March 2025.

In addition:

- The Income Tax Personal Allowance and higher rate threshold remain at £12,570 and £50,270 respectively until April 2028 (rates and thresholds may differ for taxpayers in parts of the UK where Income Tax is devolved)
- The basic State Pension will increase in April 2023 from £141.85 per week to £156.20 per week, while the full new State Pension will rise from £185.15 to £203.85 per week. The standard minimum income guarantee in Pension Credit will also increase in line with inflation from April 2023 (rather than in line with average earnings growth)
- Inheritance Tax (IHT) nil-rate bands remain at £325,000 nil-rate band, £175,000 residence nil-rate band, with taper starting at £2m – fixed at these levels until April 2028
- National Insurance contributions (NICs) Upper Earnings Limit (UEL) and Upper Profits Limit (UPL) are frozen until April 2028
- The ISA (Individual Savings Account) allowance remains at £20,000 and the JISA (Junior Individual Savings Account) allowance and Child Trust Fund annual subscription limits remain at £9,000.

Other key points

- Potholes Fund – an extra £200m for local road maintenance in England in 2023/24
- Alcohol Duty – rates frozen until August 2023 then uprated by RPI, Draught Relief increased to 9.2% for beer and cider and 23% for wine from 1 August 2023
- Fuel duty rates – maintaining the rates of fuel duty at the current levels for an additional 12 months
- Defence spending – an extra £4.95bn for defence over 2023/24 and 2024/25
- Support for veterans – an additional £33m over the next three years
- Swimming Pool Support Fund – over £60m for public swimming pools across England
- Support for charities and community organisations – £100m (England)
- Plastic Packaging Tax rate – uprated in line with CPI from 1 April 2023
- Launching ‘Great British Nuclear’ – supporting new nuclear builds, £20bn available for Carbon Capture, Utilisation and Storage (CCUS), and extending the Climate Change Agreement scheme for a further two years
- Devolved administrations – receiving an additional £630m through the Barnett formula over 2023/24 and 2024/25 (Scottish Government £320m, Welsh Government £180m and Northern Ireland Executive £130m).

Closing comments

Jeremy Hunt signed off his announcement saying, *“Today we build for the future with inflation down, debt falling and growth up. The declinists are wrong and the optimists are right. We stick to the plan because the plan is working.”*

Looking after your money

The end of the tax year is fast approaching –

Have you taken full advantage of all your annual allowances for maximum tax efficiency?

Please don't wait until the very last minute to get your plans in order

Get in touch to discuss any aspect of your end of tax year planning



It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding of the Budget and taxation and HMRC rules and can be subject to change in future. It does not provide individual tailored investment advice and is for guidance only. **Some rules may vary in different parts of the UK**; please ask for details. We cannot assume legal liability for any errors or omissions it might contain. Levels and bases of, and reliefs from taxation are those currently applying or proposed and are subject to change; their value depends on the individual circumstances of the investor.

All details are believed to be correct at the time of writing (15 March 2023)