

GUIDE TO

# SPRING 2022 FORECAST STATEMENT

ANALYSIS OF THE KEY TAX CHANGES AND OUTLINING THE PRACTICAL  
IMPLICATIONS FOR YOU, YOUR FAMILY AND BUSINESS



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# Spring 2022 Forecast Statement

## What the Chancellor had to say

The Chancellor of the Exchequer, Rishi Sunak, delivered the *Spring 2022 Forecast Statement* to Parliament on Wednesday 23 March 2022. This announcement follows the unprovoked, premeditated attack Vladimir Putin launched on Ukraine.

**M**r Sunak said, 'The invasion has created significant uncertainty in the global economy, particularly in energy markets. The sanctions and strong response by the UK and its allies are vital in supporting the Ukrainian people, but these decisions will inevitably have an adverse effect on the UK economy and other economies too.'

### STRENGTHENING THE PUBLIC FINANCES

He continued, 'The government has taken the responsible decisions needed ahead of the *Spring 2022 Forecast Statement* to strengthen the public finances, which has created the space to provide this extra support. The statement confirms that after providing this support the government continues to meet its fiscal rules, with an increased margin of safety.'

'Underlying debt is falling as a percentage of GDP and the current budget is in surplus in the target year. Preserving fiscal space', the Chancellor announced, 'is vital given the increasing risks from global challenges and the level of uncertainty in the economic outlook.'

### UNAVOIDABLE INCREASES IN THE COST OF LIVING

Mr Sunak continued, 'Higher than expected global energy and goods prices have already led to an unavoidable increase in the cost of living in the UK. The repercussions of the invasion of Ukraine will add to these pressures and increase inflation further in the coming months, with the long-term consequences not yet being clear. As a result, the uncertainty surrounding the Office for Budget Responsibility's (OBR) spring economic and fiscal forecast is higher than usual.'

'The UK economy, Mr Sunak said, 'has emerged from the pandemic in a strong position to meet these challenges. The success of the government's COVID-19 vaccine rollout and the Plan for Jobs have helped support a quicker than expected recovery and a strong labour market, with the total number of payrolled employees now over 600,000 above pre-pandemic levels.'

### IMPROVEMENTS SEEN IN THE PUBLIC FINANCES

'Tax receipts', the Chancellor announced, 'have been stronger than expected, which has contributed to borrowing falling this year and over the forecast period. The improvement seen in the public finances has created additional headroom against the government's fiscal rules, which the government has prioritised using to deliver reductions in tax.'

Mr Sunak explained how the government had already taken significant steps to help with the cost of living. This includes a cut to

the Universal Credit taper rate and increases to work allowances to make sure work pays; the £9 billion package announced in February to help households with rising energy bills this year; and freezing alcohol duties and fuel duty to keep costs down.

### NATIONAL INSURANCE PRIMARY THRESHOLD INCREASE

The Chancellor said the government is taking further action in *Spring 2022 Forecast Statement* to help households. A significant increase to the National Insurance Primary Threshold and Lower Profits Limit will allow hard-working people to keep more of their earned income.

A temporary 12 month cut has been introduced to duty on petrol and diesel of 5p per litre, representing a saving worth around £100 for the average car driver, £200 for the average van driver and £1500 for the average haulier, when compared with uprating fuel duty in 2022/23.

### HELPING HOUSEHOLDS KEEP HEATING BILLS DOWN

To help households improve energy efficiency and keep heating bills down, the government is expanding the scope of VAT relief available for energy-saving materials and ensures that households having energy-saving materials installed pay 0% VAT.

On business, Mr Sunak commented that small and medium-sized enterprises (SMEs) had also been affected by rising costs. '*The Spring 2022 Forecast Statement*', he said, 'builds on previously announced support for SMEs, including business rates relief worth £7 billion over the next five years.'

### SUBSIDISING THE COST OF HIGH-QUALITY TRAINING

The Annual Investment Allowance will be increased from £200,000 to £1 million until March 2023, in addition to subsidising the cost of high-quality training through the Help to Grow: Management scheme and helping firms to adopt new digital technologies with Help to Grow: Digital.

'Businesses', the Chancellor said, 'will also benefit from the cut to fuel duty, and the Employment Allowance will increase to £5,000 from April – a tax cut of up to £1,000 for around half a million small businesses.' ◀

### WHAT DOES THE SPRING 2022 FORECAST STATEMENT MEAN FOR YOU?

In our comprehensive guide to the *Spring 2022 Forecast Statement*, we reveal the key announcements. If you have any questions or would like to discuss your situation – please contact us.



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# At a glance

## Key announcements from *Spring 2022 Forecast Statement*

Chancellor of the Exchequer, Rishi Sunak, delivered the *Spring 2022 Forecast Statement* on Wednesday 23 March 2022 to Parliament. We look at the key announcements.

### ECONOMY AND PUBLIC FINANCES

- The UK economy is forecast to grow by 3.8% this year, according to the Office for Budget Responsibility (OBR), a sharp cut from its previous prediction of 6.0%
- The economy is then forecast to grow by 1.8% in 2023, 2.1% in 2024, 1.8% in 2025 and 1.7% in 2026
- The annual inflation rate was 6.2% in February, and is likely to average 7.4% for the rest of this year, but with a peak of 8.7% in the final quarter of 2022
- The unemployment rate is now predicted to be lower over the next

few years than in the OBR's previous forecast in October

- The number of people employed between now and 2027 is expected to be 400,000 lower than before the pandemic. This is because of early retirements, long-term sickness and fewer workers arriving in the UK
- Debt as a percentage of GDP is expected to fall from 83.5% of GDP in 2022/23 to 79.8% in 2026/27
- The government is forecast to spend £83bn on debt interest in the next financial year, the highest on record

### FUEL, ENERGY AND LIVING COSTS

- Fuel duty has been cut by 5p per litre until March 2023
- Homeowners installing energy efficiency materials such as solar panels, heat

pumps or insulation will not pay VAT

- Local authorities will get another £500m for the Household Support Fund from April, creating a £1bn fund to help vulnerable households with rising living costs

### TAXATION

- The income threshold at which point people start paying National Insurance will rise to £12,570 in July, which Mr Sunak said was a tax cut for employees worth over £330 a year
- Mr Sunak pledged to cut the basic rate of income tax from 20p to 19p in the pound before the end of this Parliament
- The Employment Allowance, which gives relief to smaller businesses' National Insurance payments, will increase from £4,000 to £5,000 from April



# Economy and public finances

Cost of living pressures intensified and uncertainty increased

*Higher global energy, metals and food prices, which have been volatile since the invasion of Ukraine, pose risks to the outlook for inflation, consumer spending and production.*



The Chancellor of the Exchequer, Rishi Sunak, said as he delivered the *Spring 2022 Forecast Statement*, 'Following Vladimir Putin's unprovoked and premeditated invasion of Ukraine, cost of living pressures have intensified and uncertainty has increased.'

The Office for Budget Responsibility (OBR) sets out in the Economic and Fiscal Outlook (EFO) that 'given the unfolding situation in Ukraine, there is unusually high uncertainty around this outlook.' Higher global energy, metals and food prices, which have been volatile since the invasion of Ukraine, pose risks to the outlook for inflation, consumer spending and production. The sanctions imposed on Russia by the UK and its allies in response to the invasion are vital in supporting the Ukrainian people.

## **MEDIUM-TERM IMPLICATIONS OF THE INVASION**

The invasion, and the resulting effect on global markets, will inevitably have an

adverse effect on the UK economy and the cost of living in the short term. The medium-term implications of the invasion are highly uncertain, which increases the risks around the OBR's forecast.

While the outlook is uncertain, the OBR outlined the UK economy has emerged from the pandemic in a good position to meet these challenges. The success of the government's vaccine rollout and the Plan for Jobs have helped support a quicker than expected recovery and a strong labour market. Similarly, tax receipts have been higher than expected.

## **INCREASE IN THE COST OF LIVING IN THE UK**

Elevated global energy and goods prices, following the uneven effect of the recovery from the pandemic on global supply and demand, have already led to an increase in the cost of living in the UK and some other advanced economies.

The repercussions of the invasion of Ukraine will add to these pressures and increase inflation further in the coming months. In response to pressures on the cost of living, the government announced prior to the *Spring 2022 Forecast Statement* a package of support to help households with energy bills and ensure that hard-working people keep more of their income.

## **ENCOURAGING STRONG AND SUSTAINABLE GROWTH**

The best way to support households, announced by the OBR, in the long run is through encouraging strong and sustainable growth across the UK, by promoting investment and innovation; and then sharing more of the proceeds of growth by reducing the tax burden for working people. Mr Sunak said, 'The government is taking further action to support households through the *Spring 2022 Forecast Statement* by cutting taxes.' ◀



# Pace of the economic recovery

UK real GDP to grow by 3.8% in 2022

**W**hile the Office for Budget Responsibility's (OBR's) forecast takes account of changes in international energy prices since the invasion, significant day-to-day volatility in oil, gas and commodity markets has continued to create uncertainty.

As the OBR highlights in the Economic and Fiscal Outlook (EFO), 'Given the evolving situation in the war in Ukraine and the global response, there is significant uncertainty around the outlook for global Gross Domestic Product (GDP).'

## ECONOMIC RECOVERY TO DATE

Taking into account the pace of the economic recovery to date, the Chancellor of the Exchequer, Rishi Sunak, said that with global supply chain pressures and the initial impact of Vladimir Putin's invasion of Ukraine, the OBR expects UK real GDP to grow by 3.8% in 2022. GDP is then forecast to grow by 1.8% in 2023, 2.1% in 2024, 1.8% in 2025 and 1.7% in 2026.

Following the emergence of the Omicron variant in December last year, the government implemented Plan B in England, and restrictions were tightened in Scotland, Wales and Northern Ireland. This weighed on output, although by less than expected, with GDP falling by 0.2% in December 2021 before growing by 0.8% in January 2022, above expectations.

## HEALTH, ECONOMIC, AND FINANCIAL IMPACT

The economic recovery over the past year has surpassed expectations, with GDP growth of 7.5% in 2021 the fastest in the G7. The International Monetary Fund (IMF) praised the UK's 'strong policy measures

and rapid vaccination campaign that helped contain the health, economic, and financial impact of the pandemic, which supported a faster than expected recovery.'

The UK economy recovered to its pre-pandemic level around the end of 2021, with real GDP having regained its February 2020 level by November 2021. Across the final quarter of 2021, GDP was on average 0.4% below its pre-pandemic size. This was a smaller shortfall than Germany, and broadly in line with Italy and Japan.

## RECOVERY IN THE LABOUR MARKET

The Plan for Jobs has supported the strong recovery in the labour market, with the total number of payrolled employees in February 2022 2.3% above pre-pandemic levels. Unemployment has fallen steadily for twelve consecutive months to below its pre-pandemic rate (three months to February 2020) at 3.9% in the three months to January 2022.

The OBR highlights that the Coronavirus Job Retention Scheme 'looks to have exceeded all predictions, including ours, regarding its likely success in avoiding the persistent high unemployment that has followed other recessions.'

## UNEMPLOYMENT TO VACANCY RATIO

With vacancies at record highs, the unemployment to vacancy ratio is at a record low. Nominal wage growth was 4.8% in the three months to January 2022 and the OBR expects nominal wage growth to average 3.3% across the forecast period.

Despite this strong recovery in the labour market, there remain 420,000 more inactive workers aged 16 to 64 in the three months to January 2022 compared to the three

months to February 2020. One of the main drivers of this increase has been a rise in those reporting 'long-term sick', particularly between the ages of 50 and 64.

## LONG-TERM HEALTH CONDITIONS OR DISABILITIES

The Chancellor said, 'The government is committed to improving outcomes for those who are inactive because of long-term health conditions or disabilities, and has dedicated over £1.1 billion of funding over the Spending Review 2021 period to specialised disability employment support, improving opportunities into and within work.' This includes £156 million targeted at extra work coaches that will enable additional work coach time for claimants of incapacity benefits.

While there are more people on payrolls than ever before, the latest figures show there are 1.3 million vacancies across the economy. There are around 1.7 million claimants in the searching for work group within Universal Credit currently without a job.

## WAY TO WORK CAMPAIGN LAUNCHED

The government recently launched the Way to Work campaign, which aims to move 500,000 jobseekers into work by June 2022. As part of this campaign, the government is reducing the time allowed for Universal Credit claimants to search for a job in their preferred sector – from three months to a maximum of four weeks.

Mr Sunak, said, 'Work is the best way for people to get on, to improve their lives and support their families. Households on Universal Credit are at least £6,000 a year better off in full-time work than out of work.' ◀

# Cost of living

Inflation has risen to a 30-year high in recent months

The Consumer Prices Index (CPI) inflation has risen to a 30-year high in recent months. This has primarily been driven by global factors outside the government's control, including continued disruption to global supply chains and higher global energy and commodity prices.

The UK is not alone in experiencing these pressures, the Chancellor of the Exchequer, Rishi Sunak said, 'with other major economies also experiencing higher inflation. In the twelve months to February 2022, euro area inflation was 5.9%, and US inflation was 7.9% – the highest US inflation rate since 1982.'

## HIGH DEPENDENCE ON GAS AND OIL

Increased global demand for energy, short-term supply disruptions in major oil-exporting economies, weather patterns in Europe and Asia affecting both the supply of renewable energy and the demand for heating, and lower gas storage balances have all contributed to higher prices.

As the Office for Budget Responsibility (OBR) sets out in the Economic and Fiscal Outlook (EFO), the UK is 'a net energy importer with a high dependence on gas and oil', meaning higher energy prices have led to a deterioration in the UK's terms of trade – the relative prices of the UK's exports compared with its imports.

## ENERGY PRICES HAVE RISEN FURTHER AMID DISRUPTIONS

Rising global energy prices will directly affect UK inflation in the short and medium term. While the Office for Gas and Electricity Markets (OFGEM) energy price cap protects consumers from the rapid changes observed in the wholesale energy market in the short term, the rise in oil prices has already affected petrol pump prices in the UK, which are now at record highs having increased by almost 12% over the past month.

The OBR forecasts inflation to remain elevated through 2022 and 2023, peaking at 8.7% in Q4 2022. On an annual basis, inflation is forecast to be 7.4% in 2022, before decreasing to 4.0% in 2023 and 1.5% in 2024. Inflation is then forecast to be 1.9% in 2025 and 2.0% in 2026.

## LARGER AND MORE PERSISTENT INCREASE IN THE PRICE LEVEL

However, as the OBR sets out in the EFO, there is significant uncertainty around the outlook for oil and gas prices and therefore the path of inflation over the forecast period: 'If ... energy prices stay at current levels beyond the middle of next year, the UK would face a larger and more persistent increase in the price level and fall in real household incomes. If prices fall more quickly than currently expected the reverse would be true.'

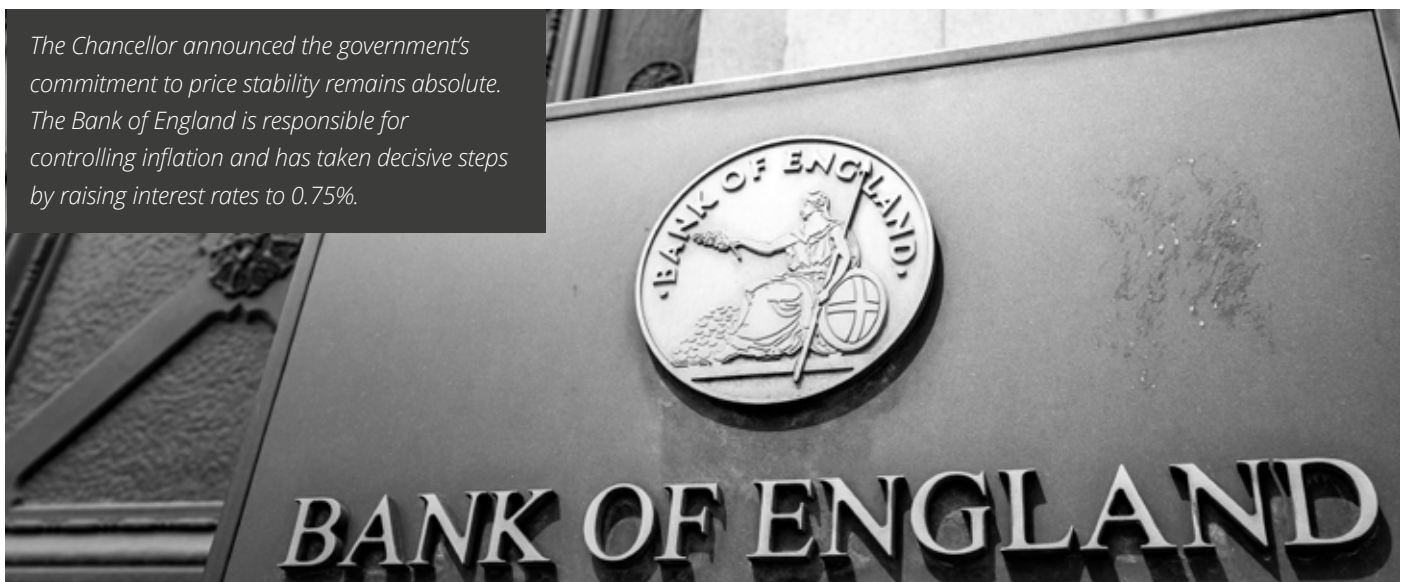
The Chancellor announced the government's commitment to price stability remains absolute. The Bank of England is responsible for controlling inflation and has taken decisive steps by raising interest rates to 0.75%. The Chancellor re-affirmed the Bank's 2% CPI inflation target at Autumn Budget 2021, and the government remains committed to the independent monetary policy framework which has seen inflation average around 2% between 1997 and 2019.

## EFFECT HIGHER INFLATION HAS ON HOUSEHOLDS

The government has already introduced a package of support to help with rising energy bills and to allow hard-working people to keep more of their income. In the *Spring 2022 Forecast Statement*, the Chancellor announced the government would now be going further, and will provide additional support to households struggling with the effects of higher inflation.

In the medium term, the government will phase out the import of Russian oil by the end of 2022. This phased approach allows the UK enough time to adjust supply chains, ensuring a smooth transition. The government will also soon be setting out an energy security plan. This will include measures across hydrocarbons, nuclear and renewables to support energy resilience and security while delivering affordable energy to consumers. ◀

*The Chancellor announced the government's commitment to price stability remains absolute. The Bank of England is responsible for controlling inflation and has taken decisive steps by raising interest rates to 0.75%.*







*Mr Sunak said that improving energy efficiency is not only good for the climate but can also save households hundreds of pounds a year.*

# Helping families

Using the improvement in the public finances to deliver reductions in tax

The government is taking steps through the *Spring 2022 Forecast Statement* to provide additional support to households and businesses, the Chancellor of the Exchequer, Rishi Sunak, announced. The government has prioritised using the improvement in the public finances to deliver reductions in tax, while maintaining a margin of safety against its fiscal rules.

Higher global energy and goods prices have already put pressure on household budgets and the government understands the challenges that many households are facing. The worsening outlook for inflation because of Vladimir Putin's invasion of Ukraine will likely place additional pressure on households, Mr Sunak commented.

## SHOWING SOLIDARITY WITH THE PEOPLE OF UKRAINE

The sanctions the UK and the international community have imposed do not come without costs, he said, but it is the right course of action to stand against Putin's

aggression and show solidarity with the people of Ukraine.

Whilst the scale of the economic effects is highly uncertain, the largest effect on households from the conflict will come via higher energy costs. Most households will therefore be protected from immediate impacts through the Office of Gas and Electricity Markets (OFGEM) energy price cap until the autumn.

## REAL WAGES 3% ABOVE PRE-PANDEMIC LEVELS

The government, the Chancellor said, is continuing to monitor the economic effects of the conflict and the pressures on household finances. While real wages are 3% above pre-pandemic levels, the government recognises the pressures on households across the income distribution.

Those on the lowest incomes will particularly feel the effects of higher inflation because they have less scope to adjust their expenditure in response to prices, and they tend to spend

a greater proportion of their expenditure on electricity, gas and other fuels.

## TAKING ACTION TO IMPROVE ENERGY EFFICIENCY

Mr Sunak said that improving energy efficiency is not only good for the climate but can also save households hundreds of pounds a year, helping to eliminate fuel poverty while reducing our reliance on imported gas. The government is already taking action to improve energy efficiency and encourage the electrification of heat.

The government is expanding the Energy Company Obligation to £1 billion per year for 2022/26, requiring energy suppliers to improve the energy efficiency of low-income homes.

## SIGNIFICANTLY REDUCING FUEL POVERTY

The government is also developing private rental sector minimum efficiency standards, which are expected to benefit over 2 million households in England and Wales,



helping them save on their energy bills and significantly reducing fuel poverty in the private rented sector.

The Chancellor said the government has already taken significant steps that will help households with the cost of living. These measures ensure work pays and help people keep more of what they earn to support households through the challenge ahead.

#### They include:

- reducing the Universal Credit taper rate from 63% to 55%, and increasing Universal Credit work allowances by £500 a year to make work pay
- increasing the National Living Wage (NLW) for workers aged 23 and over by 6.6% to £9.50 an hour from April 2022
- freezing alcohol and fuel duties to keep costs down
- the £9 billion package announced in February 2022 to help households with rising energy bills this year

#### NATIONAL INSURANCE THRESHOLDS INCREASE

In addition, in the *Spring 2022 Forecast Statement* the Chancellor of the Exchequer, Rishi Sunak, announced an increase in the annual National Insurance Primary Threshold and the Lower Profits Limit from £9,880 to £12,570 from July 2022, to align with the income tax personal allowance.

Mr Sunak said, 'This is a tax cut of over £6 billion and worth over £330 for a typical employee in the year from July. Around 70% of National Insurance contributions (NICs) payers will pay less NICs, even accounting for the introduction of the Health and Social Care Levy.'

This change will take 2.2 million people out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy altogether. It brings into alignment the starting thresholds for income tax and NICs, making the taxation of income fairer, and these thresholds will remain aligned.

'The government', the Chancellor said, 'is also taking steps to ensure that self-employed individuals with lower earnings fully benefit.' The Spring 2022 Forecast Statement announces that from April 2022 self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will continue to build up National Insurance credits but will not pay any Class 2 NICs.

Taken together, these measures will meet the government's ambition to ensure that the first £12,500 earned is tax free.

#### CUT TO DUTY ON PETROL AND DIESEL

In addition, in response to fuel prices reaching their highest-ever levels, the *Spring 2022 Forecast Statement* announces a temporary 12-month cut to duty on petrol and diesel of 5p per litre. This measure represents a tax cut of around £2.4 billion over the next year.

When compared with uprating fuel duty in 2022/23, cutting fuel duty to this level delivers savings for consumers worth over £5 billion over the next year and will save the average UK car driver around £100, van driver around £200 and haulier around £1,500, based on average fuel consumption.

#### HELPING HOUSEHOLDS IMPROVE ENERGY EFFICIENCY

To help households improve energy efficiency and keep energy costs down – as well as supporting the UK's long-term Net Zero ambitions – the government is extending the VAT relief available for the installation of energy-saving materials (ESMs). The government will include additional technologies and remove the complex eligibility conditions that restricted the application of the relief.

Relief will further be increased by introducing a time-limited zero rate for the installation of ESMs. The Chancellor said, 'A typical family having roof-top solar panels installed will save more than £1,000 in total on installation, and then £300 annually on their energy bills.' The changes will take effect from April 2022. The Northern Ireland Executive will receive a Barnett share of the value of this relief until it can be introduced UK-wide.

To help the most vulnerable households with the cost of essentials such as food, clothing and utilities, the government is also providing an additional £500 million for the Household Support Fund from April, on top of the £500 million already provided since October 2021.

Mr Sunak announced these new measures mean the government is now providing support worth over £22 billion in 2022/23 that will help households with the cost of living. The government is continuing to monitor developments and the consequences for the cost of living, and will be ready to take further steps if needed to support households. ◀



## Temporary cut to fuel duty

Savings for households and businesses worth around £2.4 billion in 2022/23

**T**he government cut the duty on petrol and diesel by 5p per litre for 12 months. This took effect from 6pm on 23 March on a UK-wide basis. The Chancellor of the Exchequer, Rishi Sunak, announced this is the largest cash-terms cut across all fuel duty rates at once ever, and is only the second time in 20 years that main rates of petrol and diesel have been cut.

This cut represents savings for households and businesses worth around £2.4 billion in 2022/23. Where practical, a proportionate cut will also apply to fuel duty rates which are lower than the main rates for petrol and diesel, including red diesel. ◀



## Basic rate of income tax cut

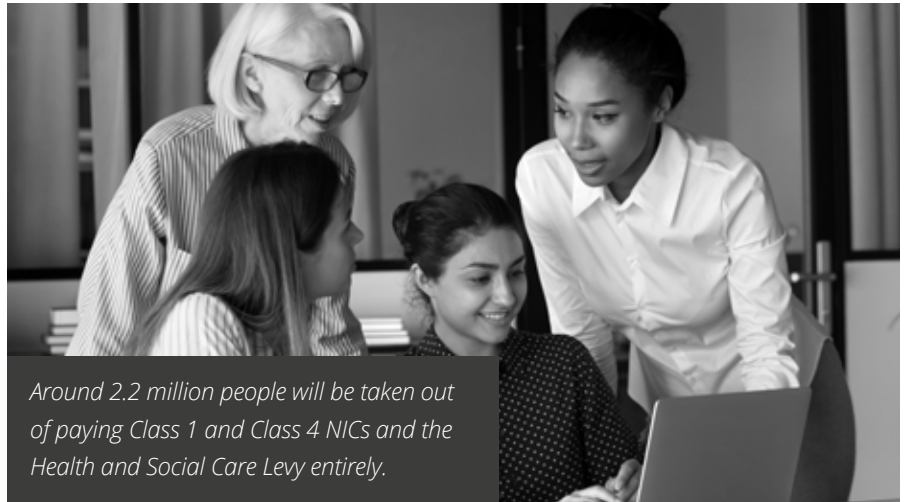
First reduction in the basic rate of income tax in 16 years

The Chancellor of the Exchequer, Rishi Sunak, announced during the *Spring 2022 Forecast Statement* that the government will reduce the basic rate of income tax to 19% (currently 20%) from April 2024. This is a tax cut of over £5 billion a year, and represents the first cut in the basic rate of income tax in 16 years.

This will apply to the basic rate of non-savings, non-dividend income for taxpayers in England, Wales and Northern Ireland; the savings basic rate which applies to savings income for taxpayers across the UK; and the default basic rate which applies to a very limited category of income taxpayers made up primarily of trustees and non-residents.

The change will be implemented in a future Finance Bill. A three-year transition period for Gift Aid relief will apply, to maintain the income tax basic rate relief at 20% until April 2027. The reduction in the basic rate for non-savings-non-dividend income will not apply for Scottish taxpayers because the power to set these rates is devolved to the Scottish Government.

Under the agreed Fiscal Framework, the Scottish Government will receive additional funding worth around £350 million in 2024/25. It is for the Scottish Government to use this additional funding as they choose to, including on reducing income tax or other taxes, or increased spending. ◀



*Around 2.2 million people will be taken out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy entirely.*

## Increasing National Insurance thresholds

Typical employee saving over £330 in the year from July

The annual National Insurance Primary Threshold and Lower Profits Limit, for employees and the self-employed respectively, will increase from £9,880 to £12,570 from July 2022, the Chancellor of the Exchequer, Rishi Sunak, announced during the *Spring 2022 Forecast Statement*.

Mr Sunak said, 'This increase will benefit almost 30 million people, with a typical employee saving over £330 in the year from July. Around 70% of National Insurance

contributions (NICs) payers will pay less NICs, even after accounting for the introduction of the Health and Social Care Levy.

'Around 2.2 million people will be taken out of paying Class 1 and Class 4 NICs and the Health and Social Care Levy entirely, on top of the 6.1 million who already do not pay NICs. July is the earliest date that will allow all payroll software developers and employers to update their systems and implement changes.' ◀

## Reducing Class 2 NICs payments for low earners

Tax cut for around 500,000 self-employed people worth up to £165 per year

From April 2022, the Chancellor of the Exchequer, Rishi Sunak, announced that self-employed individuals with profits between the Small Profits Threshold and Lower Profits Limit will not pay Class 2 National Insurance contributions (NICs), meaning lower-earning self-employed people can keep more of what they earn while continuing to build up National Insurance credits.

Over the year as a whole, the Lower Profits Limit, the threshold below which self-employed people do not pay National Insurance, is equivalent to an annualised threshold of £9,880 between April to June, and £12,570 from July. This change represents a tax cut for around 500,000 self-employed people worth up to £165 per year. ◀

# Small and Medium-Sized Enterprises

SMEs support 16.3 million jobs – 61% of total private sector employment

**D**elivering the *Spring 2022 Forecast Statement*, the Chancellor of the Exchequer, Rishi Sunak, announced the government recognises that, as well as households, businesses – particularly small and medium-sized enterprises (SMEs) – are also struggling with rising energy costs, recruiting staff and navigating turbulent supply chains as the world economy recovers from the pandemic.

SMEs support 16.3 million jobs – 61% of total private sector employment – and a strong economy relies on the entrepreneurship of small businesses across the United Kingdom. That is why the government, Mr Sunak said, will continue to prioritise support for SMEs. *The Spring 2022 Forecast Statement* builds on measures previously announced and goes further.

## BUSINESS RATES MULTIPLIER FROZEN IN 2022/23

The Chancellor said, 'The government has already reduced the burden of business rates in England. The business rates multiplier will be frozen in 2022/23, which is a tax cut for all ratepayers worth £4.6 billion over the next five years.'

He continued, 'Eligible retail, hospitality and leisure businesses will also benefit from a new temporary 50% Business Rates Relief worth £1.7 billion. The package of changes is worth £7 billion over the next five years.'

## WHAT THE NUMBERS MEAN

- the average pub, with a rateable value of £21,000, will save £5,200
- the average convenience store, with a rateable value of £28,500, will save £7,000
- the average cinema, with a rateable value of £95,500, will save £24,000

## SUBSIDISING THE COST OF HIGH-QUALITY TRAINING

To help SMEs gain the skills they need to succeed, the Chancellor said, 'The government is subsidising the cost of high-quality training. Help to Grow: Management offers businesses 12 weeks of world class leadership training through the UK's top business schools, with government covering 90% of the cost. The cost of apprenticeship training is 95% subsidised for SMEs that do not pay the Apprenticeship Levy.'

To support businesses to invest and grow, the temporary £1 million level of the Annual Investment Allowance has been extended to 31 March 2023. Mr Sunak commented this is the highest level of support for capital expenditure ever provided through the Annual Investment Allowance and provides generous relief for investment across over a million SMEs. The government is also helping firms to adopt new digital technologies, with Help to Grow: Digital, offering eligible SMEs a 50% discount on approved software worth up to £5,000.

## BUSINESS RATES EXEMPTIONS FOR ELIGIBLE PLANT AND MACHINERY

To support the decarbonisation of non-domestic buildings, the government is introducing targeted business rates exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible low-carbon heat networks with their own rates bill. *The Spring 2022 Forecast Statement* announces that these measures will now take effect from April 2022, a year earlier than previously planned.

Finally, the Chancellor announced the government is supporting small businesses to do what they do best: create jobs. In April 2020, the government increased the Employment Allowance from £3,000 to £4,000.

## FROM APRIL 2022, 670,000 BUSINESSES WILL NOT PAY NICs

*The Spring 2022 Forecast Statement* announces a further increase from April 2022, meaning eligible employers will be able to reduce their employer National Insurance contributions (NICs) bills by up to £5,000 per year – this is a tax cut worth up to £1,000 per employer.

As a result, businesses will be able to employ four full-time employees on the National Living Wage (NLW) without paying employer NICs. Mr Sunak said, 'This measure will benefit around 495,000 businesses, including around 50,000 businesses which will be taken out of paying NICs and the Health and Social Care Levy entirely. In total, this means that from April 2022, 670,000 businesses will not pay NICs and the Health and Social Care Levy due to the Employment Allowance.'

## Sustainable public finances

Public sector net debt the highest level since the 1960s

**O**ver the past year, the government has taken decisions to strengthen the public finances. This has allowed it to go further in supporting households in the *Spring 2022 Forecast Statement*, while still preserving fiscal space to tackle the challenges ahead.

As highlighted in the response to the OBR's Fiscal Risks Report published alongside the *Spring 2022 Forecast Statement*, the government agrees with the OBR's conclusion that 'fiscal space may be the single most valuable risk management tool.'

Public sector net borrowing (PSNB) in 2021/22 is expected to be £127.8 billion, lower than forecast in October 2021. Receipts remain higher than previously expected across the rest of the forecast, but beyond 2022/23 are partially offset by higher spending, driven higher by inflation and Bank Rate expectations. In 2022/23, higher debt interest payments due to inflation more than offset higher receipts and mean borrowing is higher than forecast in October 2021.

While debt is lower than forecast in October 2021, it remains historically high. Public sector net debt (PSND) increased from 82.7% of GDP in 2019/20 to 94.0% of GDP in 2020/21 and is expected to peak at 95.6% of GDP in 2021/22, the highest level since the 1960s. ◀



# Spring 2022 Forecast Statement: What it means for your money

If you want to find out or discuss how the measures announced will affect your personal finances or business, please contact us for more information.

**We look forward to hearing from you.**

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