UK 2021 BUDGET REVIEW

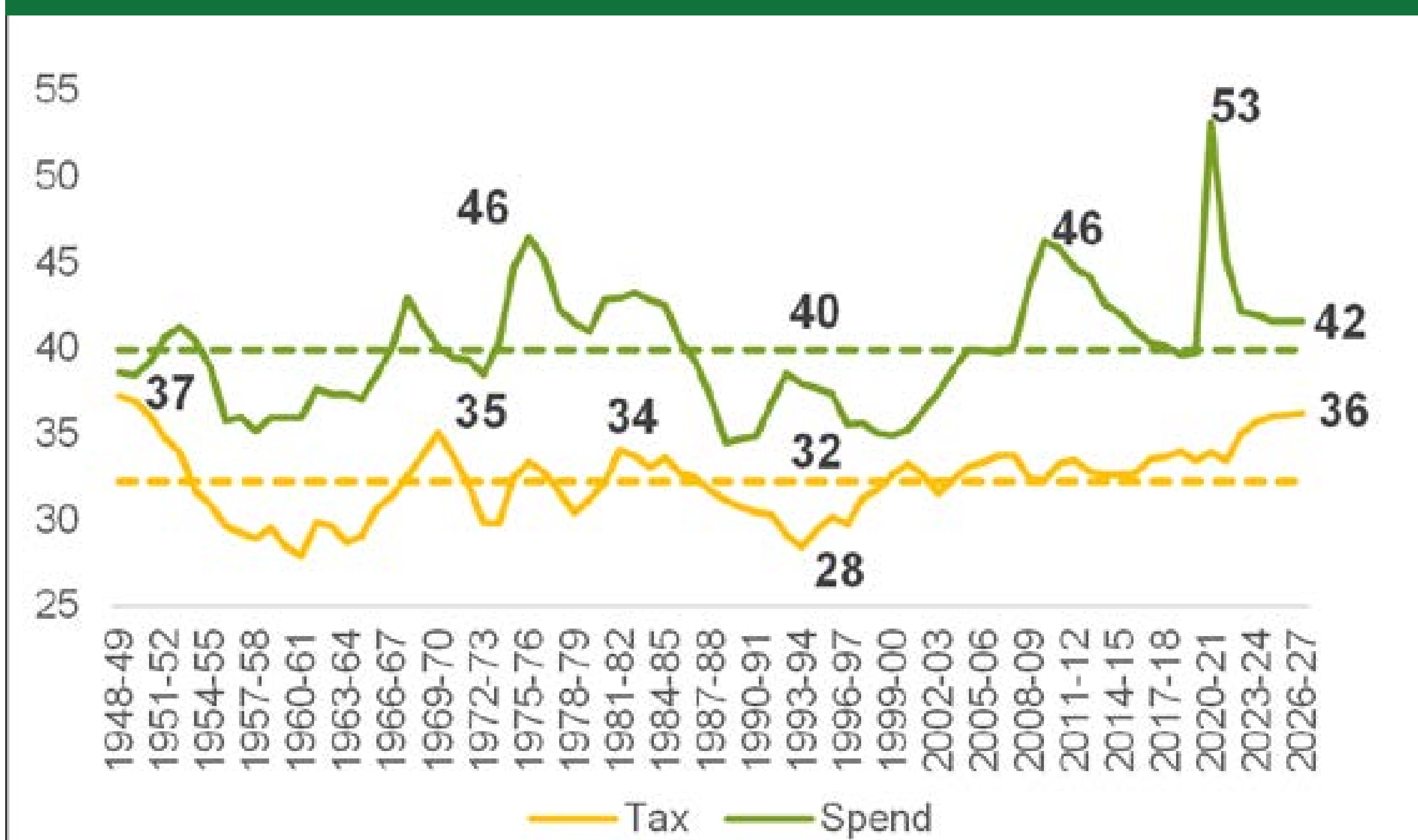
Despite the colder winter months drawing nearer, Chancellor Sunak was able to deliver a much more upbeat economic outlook in the Autumn 2021 Budget than he had laid out in the Spring. Against the backdrop of the successful COVID vaccine rollout this year and, as a result, most social and economic activities getting back to a semblance of normality, GDP growth for 2021 was revised up to 6.5% from the 4.0% that was forecast back in March. This would be the fastest pace of economic growth since 1973 which marked the final year of the remarkable post WW2 global economic boom which was ended by a series of oil price shocks through the remainder of the 1970's.

This sharp snap-back in economic activity has come with a cost. Not entirely dissimilar to the 1970s, supply chain bottlenecks and higher energy costs are putting a lot of upward pressure on the prices and transport of consumer goods. Indeed, HM Treasury more than doubled up its inflation forecast for 2022 from 1.8% to 4.0%. While this is bad news for household budgets, on the plus side for the public finances, the combination of faster economic growth and higher inflation will lead to higher tax revenues.

In the Autumn Budget, the Office of Budget Responsibility (OBR) raised its forecast of tax revenues by some £35.0bn per annum over each of the next few years. Taken together with the tax increases announced by the Chancellor in the Spring 2021 Budget, which will also raise revenues by around £30.0bn per annum, there was the fiscal leeway to both increase public expenditure as well as lower the UK's projected debt levels. In fact, the Chancellor announced significant inflation-adjusted increases in departmental spending across the board by an average annual 3.8% over the life of the current parliament.

The net effect of budgetary decisions taken this year is that, as a share of GDP, both the tax burden and public expenditure will continue to rise above long-term averages as the Johnson administration gravitates toward a tax-and-spend economic framework. Most notably, taxes as a share of GDP are now projected to reach 36% by FY2026-27 which would be the highest level since 1949 when the Labour Prime Minister, Clement Attlee, was still in power.

TAX RECEIPTS VS EXPENDITURE (%GDP)



SOURCE: OFFICE OF BUDGET RESPONSIBILITY, OCTOBER 2021

EXPENDITURE PROPOSALS

- **Health & Social Care:** Increased expenditure by £13.3bn per annum, covering improvements to NHS diagnostic and digital capacity as well as building 40 new hospitals and upgrading a further 70 hospitals
- **Education:** An additional £4.7bn for core education budgets in England by 2024-25
- **Levelling-Up:** £1.7bn from the Levelling-up Fund of £4.8bn to be spent on local infrastructure through the first bidding round on projects in Derbyshire, Liverpool, Aberdeen, Bradford, Leeds, Sheffield, Stoke-on-Trend, Sunderland, amongst many others
- **National Minimum Wage:** An increase for people aged 23 years and over by 6.6% from £8.91 to £9.50 per hour from 1st April 2022
- **Housing:** A further £1.8bn to be added onto the government's existing £10bn programme to "unlock" 1mn new homes and create 180,000 new affordable homes
- **Skills:** An additional £1.6bn for 16-19 year olds' education in England as well as £2.7bn for apprenticeships
- **Foreign Aid:** Budget to be restored back to 0.7% of GDP from FY2024-25 onwards

TAX PROPOSALS

- **The Health and Social Care Levy:** A 1.25% Health and Social Care Levy which will be ring-fenced to fund increased investment in the NHS and social care. The Levy will be introduced from April 2022 and apply UK-wide to Class 1 (Employee, Employer) and Class 4 (Self-Employed) National Insurance Contributions (NICs)
- **Dividend rate:** The dividend tax rate will rise by 1.25% from April 2022. The dividend ordinary rate will be set at 8.75%, the dividend upper rate will be set at 33.75% and the dividend additional rate will be set at 39.35%
- **Universal Credit (UC) taper rate:** Reducing the taper rate for working individuals on Universal Credit from 63% to 55% from 1st December 2021 to support low income households
- **Business Rates:** £7bn in tax relief on business rates over the coming 5 years
- **Fuel Duty:** £8bn in fuel duty relief over the coming 5 years by cancelling the escalator for the 12th consecutive year running
- **State Pension uprating:** With wage earnings growth being distorted significantly higher by the pandemic, the government announced it is temporarily suspending the earnings element of the 'Triple Lock' used to uprate the State Pension and Pension Credit. As a result, for 2022-23, the new and basic State Pension, Pension Credit and survivors' benefits in industrial death benefit will increase by the higher of CPI or 2.5% (but no longer earnings)

PERSONAL FINANCE

The adult ISA annual subscription limit for 2022-23 will remain unchanged at £20,000. The annual subscription limit for Junior ISAs and Child Trust Funds for 2022-23 will remain unchanged at £9,000. Separately, the upper threshold for tax free savings income will remain at its current level of £5,000 for 2022-23.

CONCLUSION

Chancellor Sunak presented the Autumn Budget as "preparing for a new economy post-COVID" with higher wages, higher skills, rising productivity and strong public services. The commitment to improving public services, particularly health and education is commendable as is the increase in the National Minimum Wage. Moreover, reducing the Universal Credit taper will assist low-income families. Still, the previously announced tax changes in March which freeze the income tax personal allowances from 2021-22 onwards together with raising National Insurance Contributions (NIC) thresholds and the new Health & Social Care levy will increase the burden on middle-income households. Moreover, the recent sharp increases in inflation will put pressure on household's purchasing power until such time as supply bottlenecks and energy prices subside. On a positive note, the Chancellor was at pains to signal that he was uncomfortable with the current tax burden noting that it was necessary to stabilise the public finances following the COVID pandemic but that by the end of the current parliament in 2024 he would like to see taxes going down, not up. This aspiration will be shared by households across the United Kingdom.

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