KINTO

Spring Budget Report 2021

Introduction

Budgets – even the driest, most unfancied ones – are always significant moments. However, few have ever been as significant as the one delivered by Rishi Sunak in March 2021. The Chancellor had the task of not only continuing to support businesses and people through the remaining months of the pandemic, but also of helping to create the conditions for economic recovery. He had to face the huge challenges of the present, as well as the huge challenges of the future.

Time will tell whether Spring Budget 2021 measured up to those challenges. In the meantime, we can at least try to understand what it has in store for us. During uncertain times, it pays to be prepared.

This is why KINTO has produced this guide to the Budget. It is not meant to be a comprehensive account of every announcement made – that is what the actual Budget document is for! It is meant to explain the policies and forecasts that matter most. We have written it with an eye on our customers, which is why motoring-related policies get special attention, but it is also general enough to be generally interesting, we hope.

The guide is split into three sections:

1. **The economic backdrop.** From GDP growth to the national debt, this is the crucial underpinning for all of Mr Sunak's announcements.
2. **Announcements for fleets and drivers.** This Budget didn't contain too much that was specifically motoring-related – but what there was is here.
3. **Five other major policies.** We've picked out a set of other, non-motoring announcements that are particularly important.

> *Please do let us know what you think. This was a significant Budget, and we're eager to talk about it.*

1. The economic backdrop

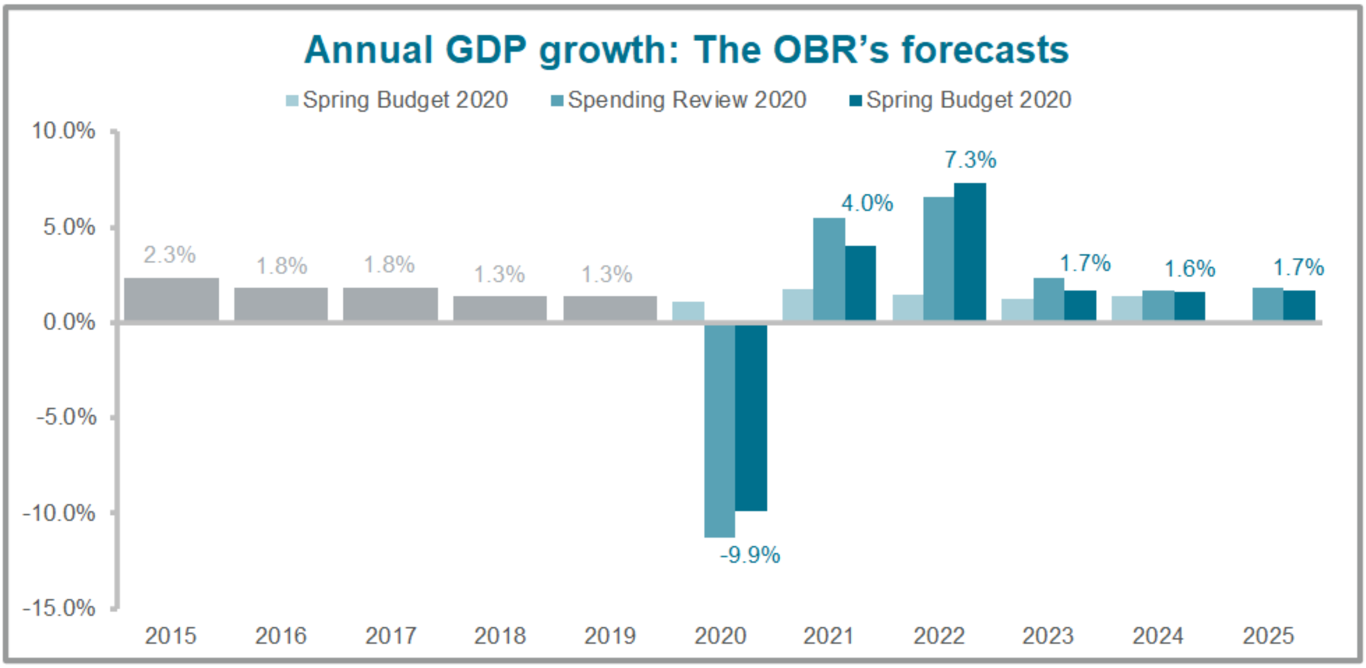
The Office for Budget Responsibility (OBR) is an independent body that was established by George Osborne to provide economic and fiscal forecasts for the Treasury. These forecasts are updated for each Budget, and underpin the government's policy announcements.

For the latest Budget, the forecasts are generally similar to those that were published to accompany the government's Spending Review in November, but drastically worse than those published alongside the previous Budget in March 2020 – just before the pandemic really took hold.

Here's our run-through of the key points.

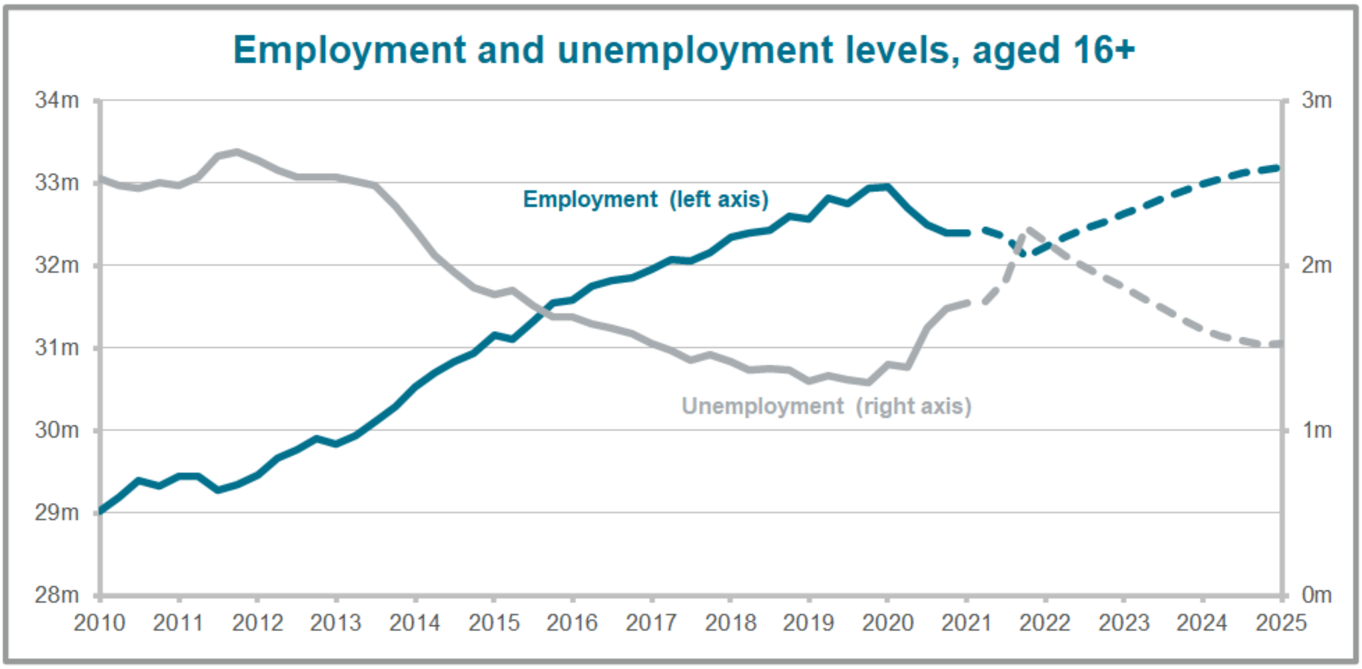
1.1. Growth

- The OBR's estimate for economic growth in 2020 is slightly better than the forecast they produced in November – it's gone from -11.3 per cent then (that's minus 11.3 per cent) to -9.9 per cent (minus 9.9 per cent) now. However, even that revised level of economic shrinkage is historically terrible. The Budget calls it "the largest annual fall in 300 years".
- Subsequent years are an improvement. The OBR predicts that the economy will grow by 4.0 per cent this year, then 7.3 per cent next year, before receding back to the 1.7 per cent mark in subsequent years.
- This suggests that the economy will be back to its pre-pandemic size in the middle of next year, which is six months earlier than previously anticipated, but still indicative of how serious the economic side effects of Covid-19 have been – and how challenging the recovery will be.



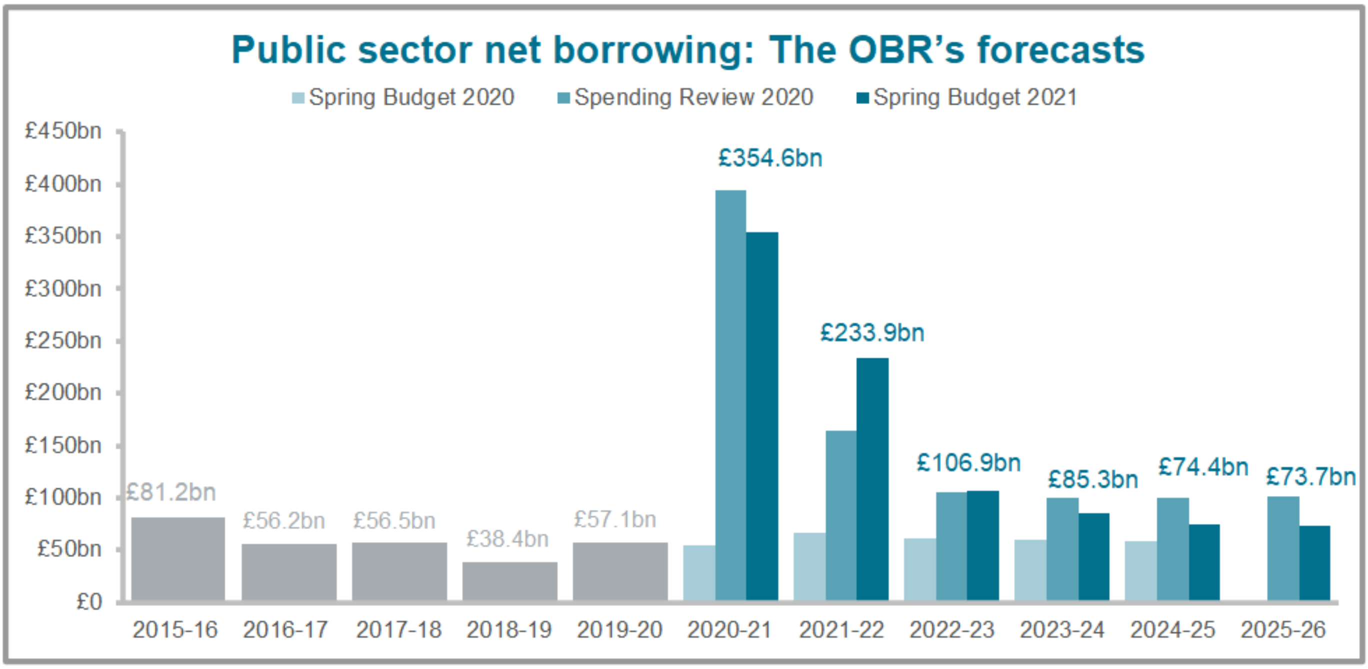
1.2. The labour market

- Over the past decade, Britain's labour market has been booming – reaching a record total of 33 million people in employment in the early months of last year.
- The boom ended, of course, with the pandemic. Over the past year, according to the OBR's latest figures, the number of people in employment has dropped by over half a million.
- The OBR expects the upwards trend to return next year and new records to be set in 2024. These numbers may be subject to significant revision, once we see what happens when the government's various job support schemes – such as the furlough – come to an end.



1.3. The public finances

- This Budget was a high-spending affair. Mr Sunak announced £65 billion in additional coronavirus support measures, on top of the roughly £342 billion announced last year.
- Thanks in part to reduced economic activity, the Chancellor hasn't been able to pay for this spending spree with tax revenues – he's had to borrow money instead.
- The government's annual borrowing – the deficit – is now at record peacetime levels. The OBR reckons that last year's total reached £355 billion, while this year's could amount to £234 billion.
- All of that borrowing adds up. The national debt is now as large as the actual economy – and is expected to surpass it in coming years.



2. Announcements for fleets and drivers

Compared to other recent fiscal statements, where we've seen major reforms to vehicle taxes and massive investment spending on roads, this Budget is relatively thin on policies specifically for fleets and drivers. However, what is there is worth noting – and it could hint at some bigger changes to come.

2.1. Fuel duty

- We've grown used to the main rate of fuel duty being frozen at 57.95 pence per litre of petrol or diesel. It's been that way for a decade, since George Osborne, when he was Chancellor, first announced a freeze in his Budget of March 2011.
- However, there was speculation ahead of this Budget that Mr Sunak was preparing to raise fuel duty – perhaps by as much as 5 pence per litre – in large part to help rebalance the public finances after the ravages of the pandemic. After all, according to the Institute for Fiscal Studies, the government has foregone about £6 billion in revenue by persisting with the freeze since 2011.
- As it happened, this duty hike didn't occur. The Budget confirmed that the main rate will stay frozen at 57.95 pence for another year, until April 2022.
- The Budget did suggest that increases may be coming in future. It observed, rather tellingly, that "future fuel duty rates will be considered in the context of the UK's commitment to reach net-zero emissions by 2050".

2.2. Road taxes

- The Budget confirmed that the rates of vehicle excise duty (VED) for cars, vans and motorcycles will be uprated in line with the retail price index (i.e. the RPI measure of inflation) in 2021-22.
- HGVs, by contrast, will have their VED frozen. The HGV Levy will be suspended for another year, until August 2022.
- Might some bigger VED reforms be on their way? At the time of last year's Budget, the government issued a call for evidence on using "VED to further encourage the uptake of zero and ultra-low emission cars". The outcome of this process was not revealed in Spring Budget 2021.
- Although none were expected, it's still worth noting that there were no changes to the rates of Company Car Tax that were set out in last year's Budget and which extend to 2024-25. Nor were rates announced for subsequent years.
- Fuel benefit charges and the van benefit charge will be uprated in line with the consumer price index (CPI inflation).

3. Five other major policies

This was a big Budget, so it is difficult to pick out just five major announcements. We have necessarily left some significant policies out, including increases to the universal credit and cuts to business rates. These five, however, are very significant too.

3.1. The super deduction

- The announcement of what Mr Sunak called a "super deduction" was one of the surprises of the Budget – and one of its biggest policies. It means that, for two years starting in April this year, companies investing in qualifying assets can subtract the cost of those assets, plus an extra 30 per cent, from their taxable profits. It is, in effect, a capital allowance of 130 per cent.
- The qualifying assets are, basically, plant and machinery assets that currently have an 18 per cent allowance.
- Mr Sunak gave a useful example in his speech: "Under the existing rules, a construction firm buying £10 million of new equipment could reduce their taxable income, in the year they invest, by just £2.6 million. With the super deduction, they can now reduce it by £13 million."
- The Budget document further explains that this amounts to a 25 pence tax cut for every pound invested. Mr Sunak described this as "the biggest business tax cut in modern British history".
- The idea is, of course, to stimulate business investment. The OBR agrees with the Chancellor that this is what will happen – at least in the short term. "As a temporary measure, it provides companies with a very strong incentive to bring forward investment from future periods to take advantage of the temporarily much more generous allowances," they write. "We assume that in its peak in 2022-23, this will raise the level of business investment by around 10 per cent."
- This may even count as an announcement for fleets and motorists. According to the BVRLA, the representative organisation of the leasing industry, "While [the super deduction] does not apply to vehicles, it does include chargepoints" – although they are also seeking clarity on whether it also applies to the "ancillary costs" associated with chargepoints, such as "cabling and groundworks".

3.2. Freeports

- Freeports are another of the Budget's more radical policies. Fundamentally, these are areas where special economic measures apply in order to stimulate business activity – often meaning the removal of import tariffs.
- Freeports have existed for decades and are well established in many parts of the world, from Hong Kong to Dubai. However, they have never really flourished in Britain before.
- Mr Sunak emphasised that the new freeports will be a "UK-wide policy", introduced in cooperation with the devolved administrations of Wales, Scotland and Northern Ireland.
- In the first instance, the Chancellor is set to establish eight freeports in England. The locations are: East Midlands Airport, Felixstowe and Harwich, Humber, Liverpool City Region, Plymouth, Solent, Thames, and Teesside.
- The Chancellor also claims that these freeports will be "unique," compared to their international equivalents. In his Budget speech, he listed the four types of policy that will apply within their borders: simpler planning, infrastructure funding, cheaper customs, and lower taxes.

3.3. Extension of job support schemes

- According to HRMC, the Coronavirus Job Retention Scheme (CJRS) – aka, the furlough scheme – has supported 11.2 million jobs since its introduction in March 2020, up until the end of February this year.
- This scheme was due to expire at the end of April, but the Budget has now extended it to the end of September.
- The terms of the extended scheme will be similar to what they've always been: the government will provide 80 per cent of the wages of employees who might otherwise lose their jobs because of the pandemic, although participating companies will be expected to contribute towards that total in August (10 per cent) and September (20 per cent).
- To go alongside the furlough extension, the Budget has also extended support for self-employed workers. A fourth grant – worth 80 per cent of three months' average trading profit, up to a maximum of £7,500 – will be made available in April under the Self-Employment Income Support Scheme (SEISS). A fifth, more targeted grant will then be released afterwards.
- The new SEISS grants will, for the first time, account for people who filed a 2019-20 self-assessment tax return – meaning that, in the Budget's words, "over 600,000 individuals may be newly eligible for SEISS".

3.4. New loans and grants

- According to HMRC, the main loan schemes to help businesses through the pandemic – the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS) – had provided a combined £68 billion of financing up until the end of February.
- Both of these schemes are set to finish at the end of March.
- One of the Budget's announcements was a replacement initiative: the Recovery Loan Scheme. This will allow businesses "of any size" to apply for loans from £25,000 to £10 million, with a government-backed guarantee to lenders of 80 per cent. This scheme will remain in place until at least the end of the year.
- This will be supported by a new £5 billion package of grants – with more money available to businesses, such as hospitality and leisure businesses, that will be shut longer due to the pandemic.

3.5. Tax hikes

- One of the themes of Mr Sunak's speech was an insistence that the public finances will slowly have to be brought back into balance, after a year of extreme spending and borrowing to help the country through the pandemic. To this end, he warned of tax rises to come – and even announced some.
- The biggest tax rise that the Chancellor announced related to corporation tax. In 2023, the main rate of corporation tax will be increased from its current rate of 19 per cent to 25 per cent, the first increase since 1974.
- Smaller businesses will be protected from this hike. Those with profits of £50,000 or less will continue to pay the 19 per cent rate. The tax increase will be tapered for those businesses with profits between £50,000 and £250,000. In Mr Sunak's words, "This means only 10 per cent of all companies will pay the full higher rate".
- The OBR expects that this corporation tax hike will raise about £17 billion a year by 2025-26.
- The Chancellor also confirmed that the three main taxes by revenue – income tax, national insurance and VAT – will not have their rates increased by this government. This aligns with a promise made in the Conservative manifesto for the 2019 general election.
- The Budget did freeze the income tax personal allowance and the higher rate threshold for the next four years, instead of raising them in line with inflation. This effectively means that more people will progress into higher income tax brackets – raising for the Exchequer an extra £8 billion a year by 2025-26.

About KINTO

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