KINTO

Spring Budget Report 2022

Introduction

Spring Statement 2022 ended up being bigger than the Chancellor, Rishi Sunak, originally intended. His initial plan was to publish a quick update on the state of the economy and the public finances. But the Russian invasion of Ukraine, and the related increase in the cost of living in the UK and around the world, forced him into producing a more substantial document.

This still wasn't a full Budget – we shall have to wait until the autumn for one of those – but it did contain a number of significant tax cuts to help businesses, families and individuals with rising prices. And it also contained one significant tax cut specifically for drivers and vehicle operators.

There is more on these measures – and others – in this KINTO guide to the Spring Statement. It is not meant to be a comprehensive guide to everything that Mr Sunak announced, but it is designed to explain the polices and forecasts that matter most. And while we have written it with an eye on our customers, paying special attention to motoring-related policies, we also hope that this is general enough for a wider audience.

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.** The Spring Statement didn't contain much concerning motoring – but what there was is here.
3. **Four other major policies.** We've picked out a set of non-motoring announcements that are particularly important.

Please do let us know what you think. If there is anything we can do to make this information clearer or more useful in future, we are eager to hear it.

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1. The economic backdrop

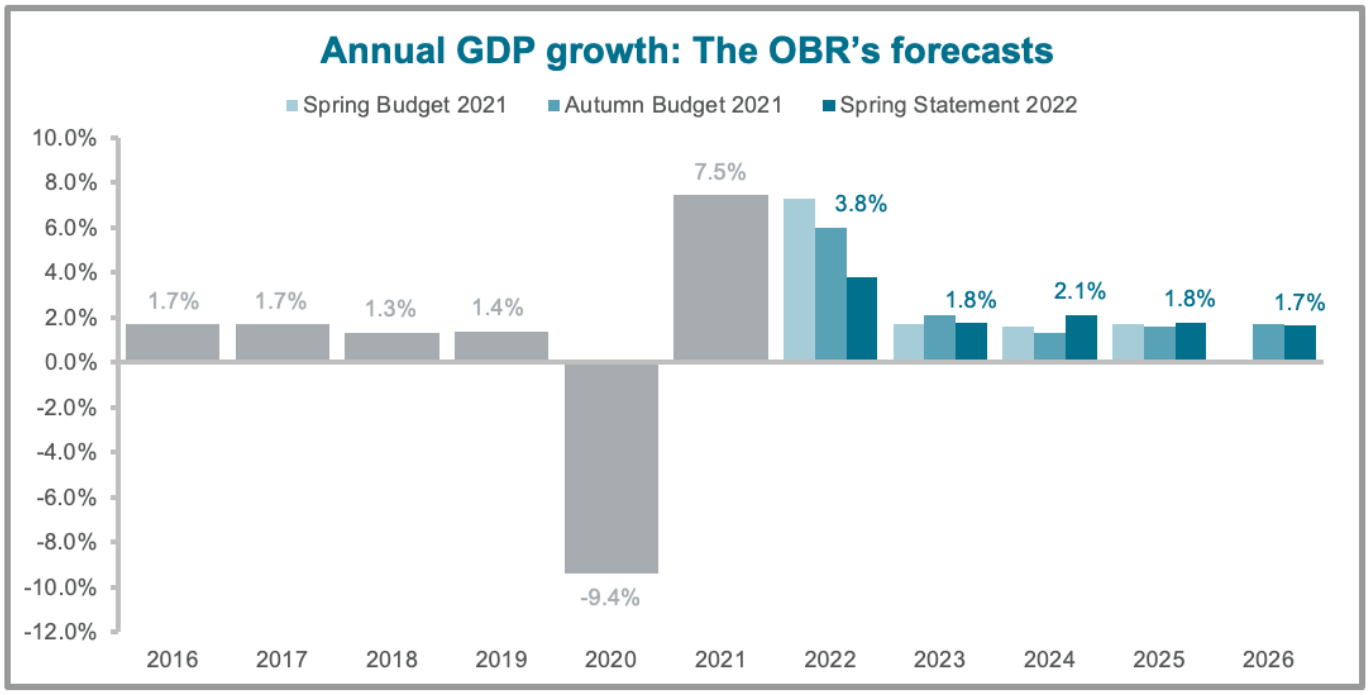
The Office for Budget Responsibility (OBR) is an independent body that was established by former Chancellor George Osborne to provide economic and fiscal forecasts for the Treasury. These forecasts are updated for each Budget and fiscal statement, and underpin the Government's policy announcements.

The forecasts for the Spring Statement are a mix of good and bad, especially when compared to those that were published to accompany the Autumn Budget in October. There are improvements to the underlying fiscal position – that is, the Government's own budget – but downgrades to the overall economic position, due mostly to the situation in Ukraine and the ongoing pandemic.

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

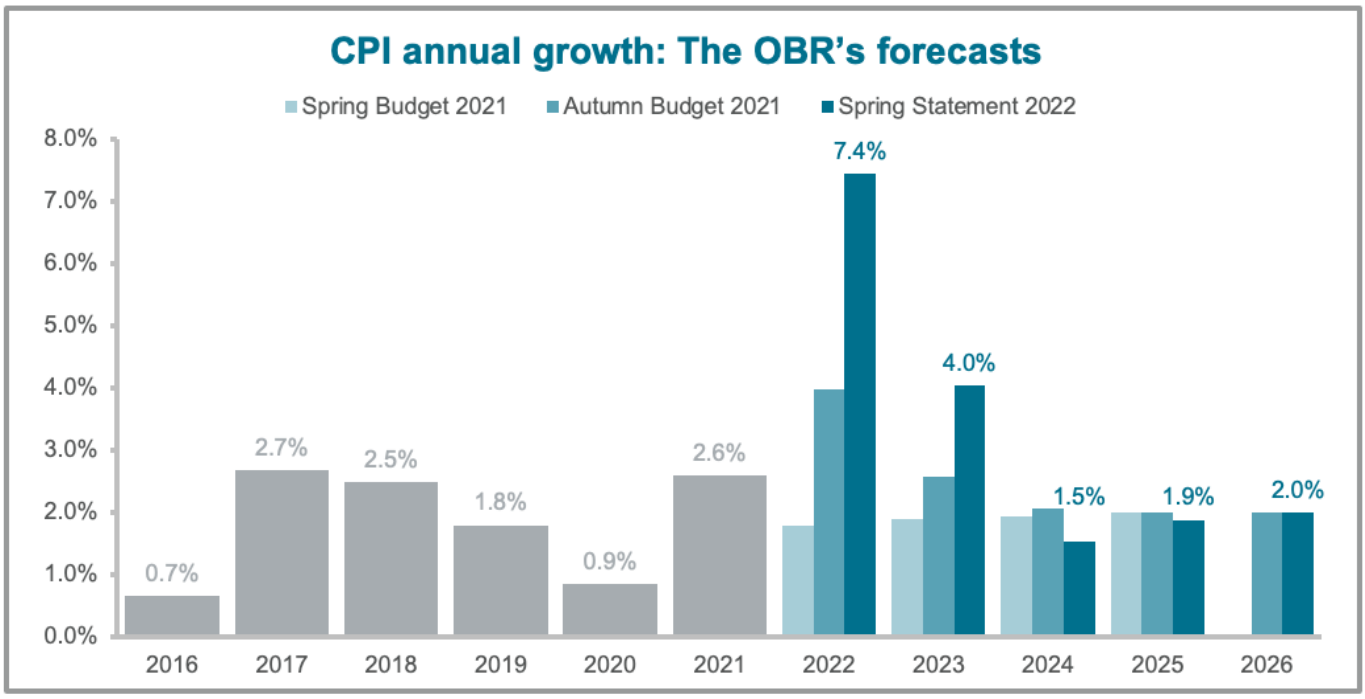
1.1. Growth

- The OBR's estimate for economic growth in 2022 is substantially worse than the forecast they produced in October – it's gone from 6.0 per cent then to 3.8 per cent now. The forecast for next year has also declined, from 2.1 per cent to 1.8 per cent.
- According to the OBR, these downgrades are mostly a result of the Omicron wave of Covid-19 and the Russian invasion of Ukraine. However, the forecasting body also admits that it has not had much time to calculate the effect of the invasion on economic growth nor on other metrics – meaning that the numbers could change drastically, possibly for the worse, in the future.
- For the time being, the OBR expects some slight improvements to its previous growth figures for 2024 and beyond, although the uncertainty surrounding these longer-range forecasts is even greater than usual.



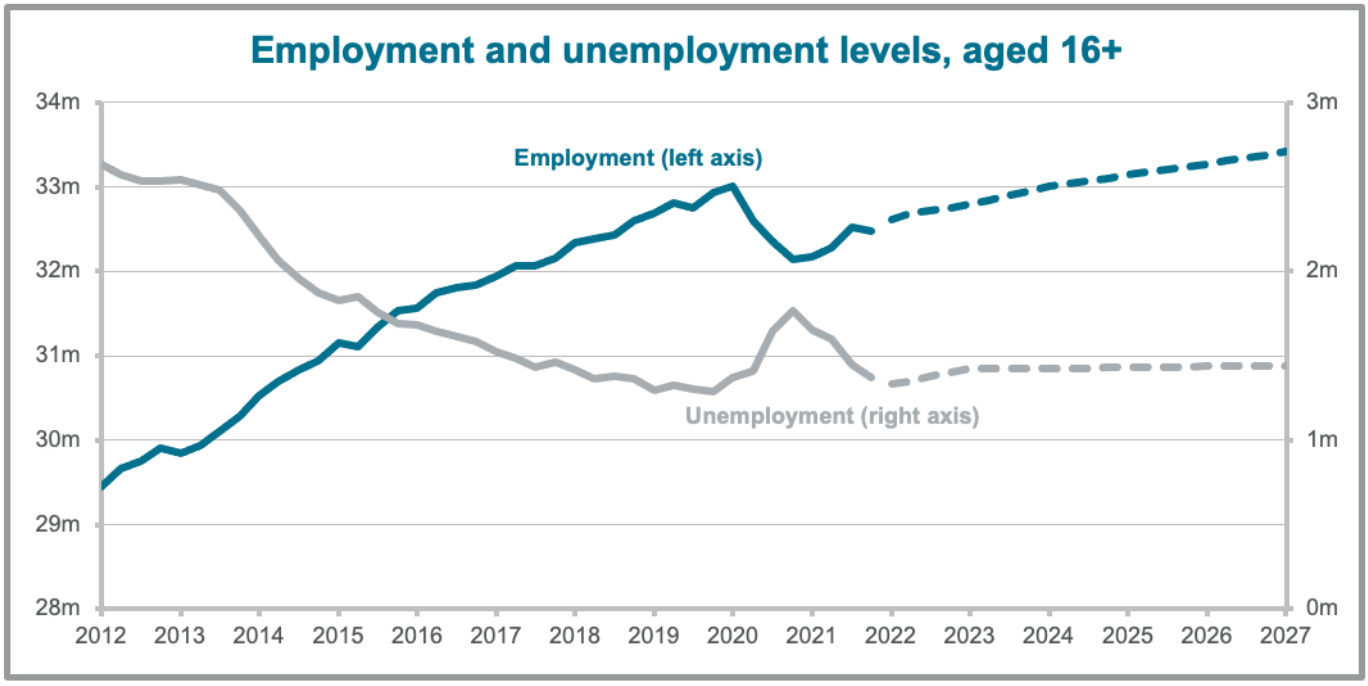
1.2. Inflation

- The cost of living is perhaps the main economic concern at the moment – and this came through in both the Spring Statement and the OBR's supplementary documents.
- Two factors are behind this concern. The first is rising prices, which have followed on from the supply chain issues caused by Covid and then aggravated by the war in Ukraine. The main measure of inflation, the Consumer Prices Index (CPI), is now expected to increase by 7.4 per cent in 2022, against a forecast of 4.0 per cent in October. This is the highest level of annual inflation since the early 1980s.
- The second factor is people's pay packets. Although the OBR expects average earnings to grow by 5.3 per cent in 2022, that figure will not keep pace with inflation. A similar gap is expected in 2023, too, before earnings finally catch up with prices in 2024 and beyond.



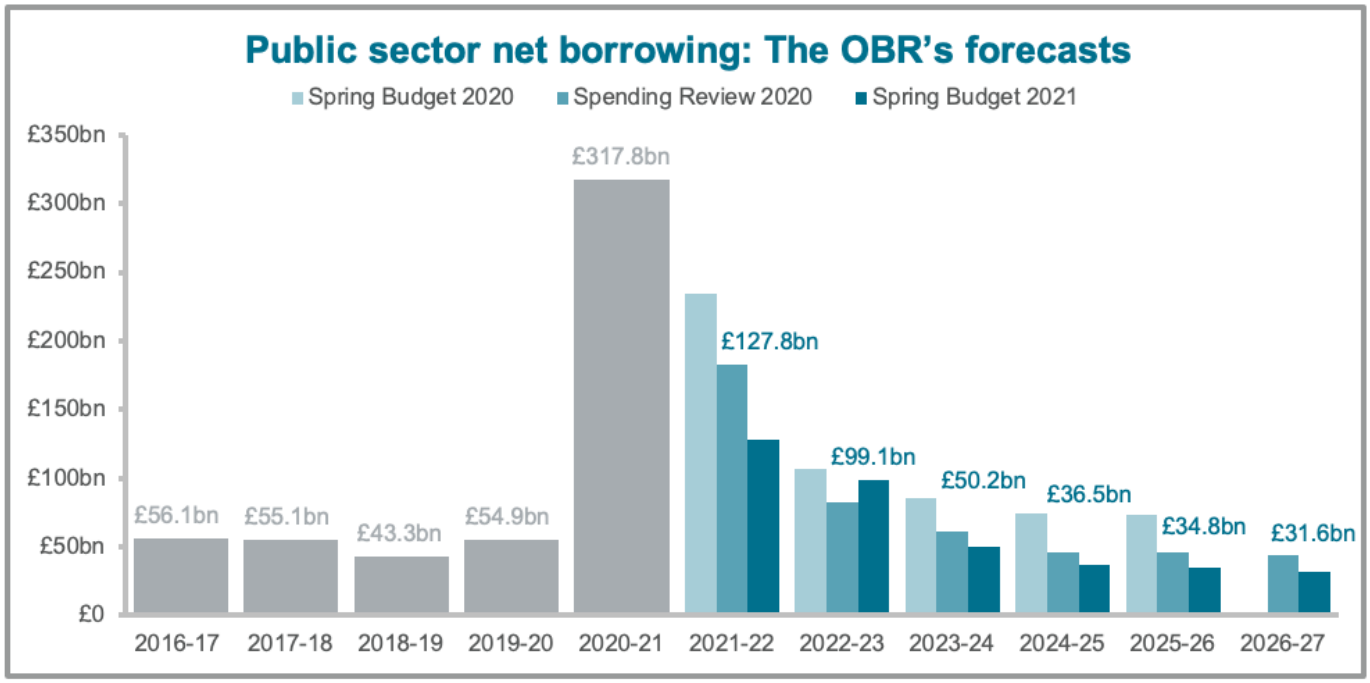
1.3. The labour market

- 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 2020.
- The boom ended, of course, with the pandemic. According to the OBR's latest figures, there were almost one million fewer people in employment at the end of 2020 than there were at the beginning. Even now, the difference is still around half a million.
- However, the OBR expects the recovery to continue uninterrupted for the next few years – and for new records to be set in 2024.



1.4. The public finances

- The especially good news, for Mr Sunak and the rest of us, was contained in the OBR's fiscal forecasts. As the OBR put it, "the public finances have continued to recover from the pandemic more quickly than we expected".
- This is most readily shown in the forecasts for government borrowing. After record levels of borrowing in 2020-21 – to help pay for major legislative initiatives to help people through the pandemic – the OBR now expects not just lower borrowing in the years ahead, but also significantly lower borrowing than it forecast in October.
- The borrowing forecast for 2021-22 is now £128 billion, which is around £55 billion lower than October's number. In total, the OBR has shaved over £84 billion from its forecasts for the next few years.
- Why is the Government borrowing less? Mostly because the money it is receiving through taxes is higher than previously anticipated. This also explains why the Chancellor was able to cut taxes elsewhere in the Spring Statement without jeopardising his fiscal targets.
- However, it shouldn't be forgotten that all of the borrowing of recent years still adds up. The national debt is forecast to be almost the size of the entire UK economy in 2022-23 – with interest payments alone costing £83 billion.



2. Announcements for fleets and drivers

There was really only a single announcement for fleets and drivers in the Spring Statement – although it was an attention-grabbing one.

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 over a decade, since Mr Osborne first announced a freeze in his Budget of March 2011. Back in last year's Autumn Budget, Mr Sunak extended the freeze until March 2023.
- However, Mr Sunak has now decided to instead cut the main rate of Fuel Duty by 5 pence a litre, to 52.95 pence, until next March. This cut took effect at 6pm on the day of the Spring Statement.
- This is a direct response to rising pump prices, which are now at record highs. In the week of the Spring Statement, the average cost of petrol was 165 pence a litre – 14 per cent higher than it was at the beginning of 2022.
  The average cost of diesel was 177 pence – 19 per cent higher.
- Any policy that relieves these costs has to be welcomed. However, it should be noted that pump prices increased by more than 5 pence in one single week between 14th March and 21st March. It is possible that motorists won't feel the benefit of Mr Sunak's Fuel Duty cut for very long, even though it will technically persist for a year.

- It should also be noted that because VAT is also imposed on fuel – as a percentage of the total price, not as a flat rate like Fuel Duty – Mr Sunak's overall tax take is likely to increase as fuel prices continue to skyrocket, even after accounting for the 5 pence cut.
- What will happen in March 2023? The current assumption is that the Fuel Duty cut will be reversed and at least 5 pence added back on to the cost of petrol and diesel. However, this may be politically difficult for the government to enact.
- And what will happen in the more distant future? There has been speculation that the Government will look away from Fuel Duty and towards other forms of taxation, such as Road Pricing, as more people transition from fossil-fuelled vehicles into electric ones. However, nothing was said on this in the Spring Statement.

2.2. Other vehicle taxes

- In his very first Budget, in March 2020, Mr Sunak announced all the rates of Company Car Tax (CCT) for every financial year up to and including 2024-25. This gave fleets and drivers adequate time to plan their budgets for the entire duration of their contracts.
- No further CCT rates have been announced subsequently. The Spring Statement did not provide the rates for 2025-26 or beyond, putting fleets and drivers at a disadvantage as they now enter into contracts that could last until 2026 or 2027.
- Judging by last year, the Chancellor may have settled on a schedule of confirming new tax rates in the Autumn Budget. October's document contained, for example, the Vehicle Excise Duty (VED) rates for 2022-23.
- However, the Chancellor should still prioritise the publication of new CCT rates before this year's Autumn Budget, if possible. Fleets need as much forewarning as they can get, particularly during a challenging economic period.

3. Four other major policies

- The rest of the Spring Statement was much like the Fuel Duty cut: there weren't many policies, but many of the ones that were announced were attention-grabbing. We have picked out four that were particularly significant.

3.1. National Insurance and Income Tax

- Alongside the Spring Statement, the Chancellor also published a "Tax Plan," a short document that highlights his ambition to move towards a "lower tax economy" over the next few years. This plan mostly focuses on the tax cuts that were announced in the Spring Statement.
- Chief among them is the announcement that, in July this year, the National Insurance Primary Threshold and Lower Profits Limit will increase by almost £3,000 to £12,570 – effectively raising the point at which employees and the self-employed have to make National Insurance Contributions (NICs).
- Given that this threshold will then align with the Income Tax threshold, the Tax Plan points out that "the first £12,570 an individual earns will be completely tax free". It also claims that the average saving for an employee will be £330 a year.
- Mr Sunak also signalled his intention to reduce the main rate of Income Tax from 20 per cent to 19 per cent in 2024.
- It's worth noting that these measures are being introduced after, last year, Mr Sunak announced tax increases to help repair the public finances after the ravages of the pandemic – including a 1.25 percentage point increase to NICs in 2022-23, known as the Health and Social Care Levy.
- The OBR reveals that, with the tax cuts announced in the Spring Statement, "the Chancellor has undone just over a quarter of the overall value of the personal tax rises he announced last year".

3.2. Support for small businesses

- Mr Sunak's Tax Plan also focuses on small businesses. This involves restating some existing policies – for example, increased investment in research and development – but it also involves some new measures.
- One of these is a further increase in the Employment Allowance, which enables employers to reduce their National Insurance liability. This allowance was increased from £3,000 to £4,000 in 2020. After the Spring Statement, it will go up by another £1,000 – to £5,000 – in April this year.
- The Government says that "as a result, [eligible] businesses will be able to employ four full-time employees on the [National Living Wage] without paying employer NICs".
- The Spring Statement has also brought forward a number of Business Rate reliefs targeted at clean energy production, such as "a 100% relief for eligible low-carbon heat networks". These reliefs were set to be introduced in April 2023, but will now come into effect in April 2022.

3.3. Future support for businesses

- The Statement also foreshadowed policy changes to come – including on Capital Allowances, which allow businesses write off certain capital investments against taxable profits. This will be prompted by the end of the "Super Deduction" in April 2023, which, since its introduction last year, has enabled businesses to write off the entire cost of certain investments – plus an extra 30 per cent.
- After that point, according to the Spring Statement, the Chancellor wants to reform Capital Allowances so that "any future support aligns with the government's fiscal objectives and that taxpayer money is effectively targeted," as well as supporting economic growth.
- As the British Vehicle Rental and Leasing Association (BVRLA) has said in its response to the Spring Statement, these allowances "can play a crucial role in supporting the transition to zero emission road transport" – and Mr Sunak ought to bear that in mind as he considers his reforms.
- What's more, as the BVRLA adds, the fair treatment of rented and leased assets should also be part of the Chancellor's thinking.

3.4. Help with energy costs

- Earlier this year, Mr Sunak announced a £9 billion package of measures designed to help households with the rising cost of gas and electricity. This included a £150 rebate for people in Council Tax bands A, B, C and D, which will be implemented in April.
- The Spring Statement added to this package in relatively small ways. For example, again from April, the Government will offer full VAT relief on the installation of energy saving materials (ESMs) such as solar panels.
- A further £500 million has also been set aside for the Household Support Fund, which offers help with the cost of food, energy and other necessities to people who need it.
- However, the Resolution Foundation, perhaps the foremost think-tank on living standards, suggests that these measures are inadequate. In its response to the Spring Statement, it declares: "If we consider these measures alongside previously announced support for energy bills and (larger) tax rises, the Treasury is only offering limited support to household budgets next year: an average boost of £110."

About KINTO

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