LOMOND WEALTH

The Spring Budget
Overview 2024

We know the way

Jeremy Hunt has delivered his Spring Budget, his fourth fiscal event as Chancellor, and the final Budget before a general election.

The timing wasn't ideal for Mr Hunt, as the economy recently slipped into recession and the Conservatives remain well behind in the polls.

On the one hand, he would have to be financially prudent and responsible, and on the other, he was under huge pressure to deliver giveaways to the electorate before they cast their votes later this year

Let's take a closer look at the context in which the Budget is taking place...

The Political Background

Mr Hunt's Budget came at a time when the government has been consistently polling behind Labour.

According to a recent poll carried out by Ipsos for the Standard, support for the Conservatives is now at a record low of just 20%, down from 27% in January. This puts them 27 points behind Labour and is the worst result for the Conservatives since 1978.

Meanwhile, a separate poll by Find Out Now and Electoral Calculus has predicted that the Conservatives could be left with just 80 MPs after the election, and that Labour will secure a majority of 254.

The Conservatives have also been hit with a string of by-election defeats. Just last month, Labour overturned a majority of more than 18,000 to win Wellingborough from the Tories, achieving a swing of 28.5% - its second largest swing from the Conservatives ever.

On the same day, Labour overturned a majority of more than 11,000 in the Kingswood by-election. These were the ninth and tenth by-election defeats for the government during the current parliament, and the most suffered by any government in a single parliament since the 1960s.

As the general election moves ever-closer, the Conservatives are also facing a possible electoral threat from Reform UK, formerly the Brexit Party. According to a recent YouGov poll, 33% of those who voted Tory in 2019 would do so again, but 20% would switch their vote to Reform.

Another problem for Prime Minister Rishi Sunak is that four of the five priorities he unveiled at the beginning of 2023 have not been achieved.

In January last year, Mr Sunak pledged to halve inflation, grow the economy, reduce national debt, cut NHS waiting lists and stop migrants from crossing the English Channel on dinghies. At the time of writing, only the pledge to halve inflation has been delivered.

The Prime Minister has so far been tight-lipped on exactly when the general election will take place, saying only that his "working assumption" is that voters will go to the polls in the second half of the year.

But speculation that the election could be called for May continues to swirl, and if that's the case, the Spring Budget could be the government's final chance to pitch to voters before the campaign begins in earnest.

The Economic Background

The UK slipped into recession towards the end of 2023, as the economy contracted by 0.1% between July and September, and then by 0.3% between October and December.

Although the UK economy did grow by 0.1% throughout the year as a whole, the annual growth figure for 2023 was still the weakest since 2009 (excluding 2020, when the pandemic put the brakes on economic activity).

As we discussed earlier, inflation has come down significantly from its peak of 11.1% in October 2022, when it was at a 41-year high. However, the rate of inflation stayed on hold in January 2024, remaining unchanged from the previous month at 4%. That's still twice the Bank of England's target of 2%.

The Bank's Monetary Policy Committee had been hiking interest rates since December 2021 in an effort to tackle inflation. However, the Bank's Monetary Policy Committee has recently kept rates on hold at 5.25%, which has led to speculation that they could be lowered in the coming months.

Despite this less than ideal economic backdrop, the Chancellor has faced strong political pressure to cut taxes, as the tax burden is currently at a 70-year high. A cut in National Insurance, rather than income tax, was heavily rumoured ahead of the Budget, while there was also speculation that Mr Hunt could abolish non-dom tax status.

This would be a politically risky move for the government, as Labour has long called for non-dom tax status to be scrapped in order to generate funds for public services. The government has also consistently rejected this idea, arguing that the existing non-dom arrangements helped to make the UK an attractive place for wealthy people to live and work.

Mr Hunt approached the Budget in something of a bind, with limited headroom to make big, vote-winning, headline grabbing giveaways, yet facing overwhelming political pressure from many on his own side to deliver exactly that.

Clearly, there was lots at stake for the government as the Chancellor rose to speak, so let's take a look at what he announced...

Opening remarks

Mr Hunt began his Spring Budget by announcing that £1m would be invested in creating a memorial to Muslims who died in the two world wars.

Amid noisy heckling from the opposition benches, he said his Budget was designed to create more investment, more jobs, better public services and lower taxes.

The Chancellor's statement was accompanied by forecasts from the Office for Budget Responsibility (OBR), which predicts that the economy will grow by 0.8% in 2024 and 1.9% in 2025. This will be followed by growth of 2% in 2026, 1.8% in 2027 and 1.7% in 2028.

Inflation, meanwhile, is set to fall below the Bank of England's 2% target in "just a few months time".

Personal Taxation and Allowances

What	Employee National Insurance to be cut from 10% to 8%
When	April 6th 2024
Comment	Class 1 National Insurance paid by employees will fall by 2p in the pound. This follows another 2p cut to National Insurance in last year's Autumn statement. According to Mr Hunt, this means the average worker earning £35,400 a year will be more than £900 better off this year.

What	Self-Employed National Insurance to be cut from 8% to 6%
When	April 6th 2024
Comment	Following a cut from 9% to 8% in the Autumn Statement, National Insurance for the self-employed is being cut again to 6%. The government believes this will make the average worker earning £28,000 a year £650 better off compared with last year.

What	Non-dom tax regime to be scrapped and reformed
When	April 6th 2025
Comment	The current tax system for non-doms will be abolished and replaced with a "modern, simpler and fairer residency-based system". Under the new system, new arrivals to the UK will not have to pay any tax on foreign income and gains for their first four years of UK residency. After four years, people who continue living in the UK will pay the same tax as other UK residents. The government believes this will be more generous than the existing regime and "one of the most attractive offers in Europe". This particular move will be seen by many as highly political, as Labour had planned to use the money raised by scrapping non-dom tax loopholes to fund spending commitments such as extra GP appointments and breakfast clubs in primary schools if it wins the next general election. Transitional arrangements will be put in place for those who are currently benefiting from the current system, in recognition of the contribution many of these people make to the UK economy. That will include a two-year period in which people will be encouraged to bring wealth earned abroad to the UK where it can be spent and invested domestically.

What	Higher rate of Capital Gains Tax on property to be cut from 28% to 24%
When	April 6th 2024
Comment	The higher rate of Capital Gains Tax on property is to be cut in an effort to incentivise landlords and second home-owners to sell their properties. It is hoped this will make more homes available to buyers, including those who are seeking to get on the property ladder for the first time. Private Residence Relief remains unchanged, which means Capital Gains Tax will not be paid on the "vast majority" of residential property disposals.

What	Furnished Holiday Lettings (FHL) tax regime to be abolished
When	April 6th 2024
Comment	Tax breaks which make it more profitable for second home owners to let properties out to holidaymakers rather than long-term tenants are to be scrapped. This means that short-term and long-term lets will be treated in exactly the same way for tax purposes. In addition, people with FHL and non-FHL properties will not have to calculate and report income separately.

What	Multiple Dwellings Relief to be scrapped
When	June 1st 2024
Comment	Stamp duty relief for people buying multiple properties in one transaction is to be abolished. This comes after an external evaluation concluded there was "no strong evidence" it was "meeting its original objectives of supporting investment in the private rented sector".

What	Air Passenger Duty for business class flights to go up
When	April 1st 2025
Comment	Rates of Air Passenger Duty (APD) on non-economy passengers are to be adjusted on a one-off basis to reflect the rate of inflation. The government believes this will help to maintain the value of APD in real terms. Rates will remain unchanged for passengers travelling in economy on domestic or short-haul flights.

What	High income child benefit charge (HICBC) threshold to be increased from £50,000 to £60,000
When	April 6th 2024
Comment	The HICBC threshold is being raised to £60,000, while the top of the taper at which it is withdrawn is being increased to £80,000. This means that nobody earning less than £60,000 will pay the charge. Government estimates also suggest that the move will take 170,000 families out of paying HICBC completely. Furthermore, the higher taper and threshold means that nearly half a million families with children will save around £1,300 on average next year.

Pensions and Savings

What	A £5,000 "British ISA" tax allowance to be consulted on
When	No date confirmed, six-month consultation period
Comment	The newly-announced British ISA will allow an additional £5,000 annual investment for investments in UK equity, and offer all the tax advantages of other ISAs. This will be on top of existing ISA allowances. The government hopes this new ISA will enable savers in the UK to benefit from the growth of the "most promising" domestic businesses and support them with the capital to help them expand. No date on when the British ISA will be introduced has been confirmed as yet and the details are to go out to consultation for six months. As we note in our conclusions below, there are a number of practical problems which need to be addressed if this extra allowance is to come into force.

What	New British Savings Bonds offering savers a guaranteed rate for three years
When	April 2024
Comment	National Savings & Investments (NS&I) is to launch a product that will offer consumers a guaranteed interest rate, fixed for three years. The rate will be announced by NS&I in April.

What	Pensions Lifetime Provider commitment
When	Ongoing
Comment	The government has reaffirmed its commitment to exploring a lifetime provider model for Defined Contribution (DC) pension schemes in the long-term. Continued analysis and engagement will be carried out to make sure this leads to better outcomes for pension savers.

What	Pensions triple lock to be maintained
When	Ongoing
Comment	The triple lock is a mechanism designed to make sure the state pension doesn't lose value, so it will go up by whichever is highest of the following measures: • Average earnings • The rate of inflation (as per the Consumer Price Index) • 2.5%

What	VAT threshold raised to £90,000
When	April 1st 2024
Comment	The amount businesses can earn before registering to pay VAT is to be raised from £85,000 to £90,000. The government believes this will take around 28,000 small businesses out of paying VAT completely and encourage many more to "invest and grow". Meanwhile, the deregistration threshold is being raised from £83,000 to £88,000.

What	Full expensing tax break for businesses to be extended to leased assets
When	No date confirmed
Comment	During last year's Autumn Statement, the government made full expensing permanent, which means that for every £1m a company invests in qualifying machinery and equipment, it gets £250,000 off their tax bill in the same year. The government has now said it wants to extend full expensing to assets for leasing "when fiscal conditions allow". Draft legislation on this will be published soon.

What	Windfall tax on the profits of energy firms extended
When	From March 2028 to March 2029
Comment	The Energy Profits Levy sunset clause is being extended for another year, which will raise £1.5bn. The government believes energy prices are likely to remain "abnormally high" until 2028-29 at the earliest, which means windfall profits in the sector will persist as well. However, legislation will be introduced to abolish the levy if market prices fall to their historic norm sooner than expected for "a sustained period of time".

What	Recovery Loan Scheme extended
When	Until the end of March 2026
Comment	£200m is to be invested in extending the Recovery Loan Scheme as it transitions to the Growth Guarantee Scheme. This will enable 11,000 small to medium-sized enterprises (SMEs) to access the finance they need.

What	Tax relief for orchestras, museums, galleries and theatres
When	Immediately
Comment	Tax relief offered to orchestras, museums, galleries and theatres during the Covid-19 pandemic is being made permanent. Touring and orchestral productions will benefit from 45% tax relief, while non-touring productions will get tax relief of 40%. Mr Hunt said the move recognises "their vital importance to our national life".

What	Fuel duty frozen for another year
When	Until March 2025
Comment	The 5p cut on fuel duty will be maintained and kept on hold for another 12 months. The government believes this will save the average car driver £50 next year.

What	Alcohol duty freeze extended
When	From August 1st 2024 until February 1st 2025
Comment	The freeze in duty, originally set to end in August, has been extended to February next year.

What	Excise duty on vaping products
When	From October 2026
Comment	A duty on vapes will be introduced in an effort to "protect young people and children from the harm of vaping". The Treasury believes this will raise £445m in 2028-29.

What	£90 admin fee to obtain a Debt Relief Order abolished
When	April 6th 2024
Comment	The government is making it easier to access a Debt Relief Order by removing the £90 administration fee, which it believes will help households who are struggling with debts.

Our thoughts

With little room for the Chancellor to manoeuvre, and the main announcement being leaked beforehand, there was little in this Budget for investors to be excited or concerned about.

Branding existing products as 'British' is already being perceived by much of the financial services sector as a political gimmick and unlikely to add significant benefit to the vast majority of investors. That said, we should always look to use any allowances available.

British ISA

Whilst greater allowances are always welcomed, the proposals have some serious practical problems which mean they may never see the light of day.

For example, it is unclear how investing in a 'UK asset' will result in more money coming into UK businesses. An investment trust is a UK company but will typically invest much of its money overseas. Purchasing a UK-listed stock like Antofagasta Plc might qualify, but it invests all of its money in Chilean copper mines.

Unlike the UK infrastructure funds proposed in the Autumn Statement, which can be used as long-term investments by pension funds, ISA investments need to be highly liquid as the money can be withdrawn at any time. This poses some challenges when trying to divert funds to the UK, and there are relatively few people in the UK who are likely to use the £5,000 allowance even if it can be achieved.

For our own clients, we have an investment discipline which prioritises diversification and asset allocation over individual fund selection when investing our clients' money. This involves diversifying not only the assets held - e.g. equities and bonds - but also the regions you are invested in - UK, US, Europe, Asia etc. Should this allowance become available, we would look into the best way to use it, which might mean reviewing and reallocating where your current funds are held rather than purchasing more UK funds. For now, we will keep an eye on the consultation and how it progresses.

Anyone without an adviser faces yet another choice on top of the many types of ISAs already available and more complexity is unlikely to encourage more people to invest.

British Saving Bond

All NS&I bonds are 'British' as they are all issued by the UK government, so there is nothing to report on this yet until we find out what the rate is.

The only other NS&I fixed term bond available is the Green Savings Bond, which the government uses to invest in green projects, and that has raised little interest for consumers due to its poor interest rate.

This new bond released in April is also a three-year fixed rate and money will be 'invested back into supporting the UK', which is essentially what all UK bonds do, so the rate will most likely be the differentiator.

Wider reaction to the speech

There was no shortage of anticipation surrounding this Budget, especially as it came in a general election year. But whether the speech lived up to its billing is open to debate.

After all, much of the speech had either been trailed or heavily rumoured in advance, and there was no rabbit out of the hat moment guaranteed to grab the next day's headlines.

The lack of fireworks was reflected in fairly muted rather than excitable newspaper headlines. The Financial Times, for example, simply went with "Hunt leaves door open to more tax cuts", while the Mail asked "Will it be enough to see off Labour?".

The Daily Express, however, was very happy with the statement, exclaiming "Britain ready for take off!". By contrast, the Mirror went in strong with "We deserve better".

Labour leader Sir Keir Starmer responded to the Budget by describing it as "the last desperate act of a party that has failed", and branded Jeremy Hunt and Rishi Sunak "the Chuckle Brothers of decline".

Sir Keir highlighted the scrapping of the non-dom tax regime as an "obvious example of a government that is totally bereft of ideas", as it has chosen to "finally accept Labour's argument" after "years of resistance".

The Institute for Fiscal Studies (IFS) gave the Budget more of a mixed response, praising the cut to National Insurance and the announcement on non-dom taxes, but stating that "the big picture on tax remains much the same".

IFS Director Paul Johnson said: "Come the election, tax revenues will be 3.9% of national income, or around £100bn, higher than at the time of the last election. This remains a parliament of record tax rises.

"While the OBR got a little more positive in its projections, the picture on living standards also remains dismal. On average, households will be worse off at the time of the next election than they were at the last, following nugatory real earnings growth."

The Resolution Foundation, meanwhile, pointed to the decision to once again cut National Insurance as the standout moment of the Budget.

Torsten Bell, Chief Executive of the think tank, said: "The biggest choice Jeremy Hunt made was to cut taxes for younger workers, while allowing taxes to rise for eight million pensioners. This is a staggering reversal of the approach taken by Conservative governments since 2010. It is undoubtedly good economics, even if the politics are a harder sell."

Nevertheless, he concurred with the IFS's view on the tax burden, describing the UK as a country "where taxes are heading up not down".

"The big picture has not changed at all with this Budget," Mr Bell stated.

Right-leaning think tank the Institute of Economic Affairs was also underwhelmed, stating that the Budget "hasn't really moved us any closer to where we need to be".

"There's no getting away from the fact that raising living standards in the long run depends on generating faster economic growth," said Executive Director Tom Clougherty.

"That means prioritising tax reforms with genuine pro-growth impact, fixing our broken planning system, and accepting that we need to couple spending restraint with major reforms to public services."

The Budget also garnered a mixed response from the Confederation of British Industry (CBI), which commended the Chancellor for keeping "his gaze fixed on the structural challenges facing the UK economy" and taking steps to incentivise work.

Rain Newton-Smith, Chief Executive of the CBI, particularly welcomed the move to introduce legislation that extends full capital expensing to leased and rented assets, as it would "offer greater momentum to efforts to increase business investment".

However, she said extending the Energy Profits Levy "weakens the competitiveness of the sector", and that businesses "will be looking for more emphasis on delivery by developing a Net Zero Investment Plan to crowd in the private finance needed to deliver the clean energy transition."

The Federation of Small Businesses singled out the increase in the VAT threshold and the cut to self-employed National Insurance contributions for praise. Nevertheless, Policy Chair Tina McKenzie said there was little to help "ease the tough decisions" business owners are having to make "to keep their businesses going", as many are facing "serious challenges" such as "rapid hikes in labour and input costs".

"There's still a real gap when it comes to the crunch small firms are facing - and the growth, jobs and economic security small businesses provide is not something the country can afford to risk," she added.

UK Finance, meanwhile, commended the announcement on the Growth Guarantee Scheme, as it would ensure SMEs can access the funding they need to invest and grow, along with Mr Hunt's plans for a new British ISA.

"[This] will enhance investment in UK companies and increase the levels of retail investment," said Chief Executive David Postings. "We welcome his focus on promoting ownership of UK stocks and helping more people save for the long term."

The Investment Association added that the government's "objectives to improve the quality of DC pensions and to boost the flow of capital to British businesses, whether publicly listed or privately owned" will put investment "back at the heart of the agenda".

"Risk capital is the lifeblood of economic growth, and attracting a new wave of both domestic and international investors will help reinvigorate the UK investment environment and provide investment to innovative, high-growth companies," said Chief Executive Chris Cummings.

With the memory of the 2022 Mini-Budget and its aftermath still fresh in the memory, it was perhaps not a surprise that the Chancellor opted for a "safety first" approach.

But with a general election just around the corner, many observers might reasonably have expected more crowd-pleasers, or for the big announcements to be unveiled with a flourish at the despatch box, rather than in the newspapers.

Does this point to a late election and one more fiscal event before voters go to the polls?

Or is the government hoping this more tentative approach reestablishes its credentials as the party of fiscal and economic competence, with a view to calling an election for the spring?

Only the Prime Minister and his team can possibly answer this question at the moment.

But whatever happens, you can be confident that we will be at your side throughout, helping you work towards your financial goals.

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