Spring Statement Summary

The Chancellor delivered his Spring Statement on March 23rd and, whilst Covid remains stubbornly amongst us, it is the war in Ukraine that is driving hearts and minds at present. The Chancellor was also keen to confirm that this is partially responsible for our financial position as well.

It is quite clear that both energy and fuel costs are being adversely affected by foreign affairs, and short-term measures were introduced to help, with Fuel Duty being cut as well as VAT being removed on energy efficient measures such as solar panels and insulation.

But, with debt interest at £83bn, the highest nominal spending level since records began, there had been an expectation that some simple measures similar to those announced would be offered to help the 'cost of living' crisis.

Therefore, it came as a bit of a surprise when the package offered by the Chancellor appeared to involve some quite serious tax cuts. Firstly, whilst the Chancellor confirmed that the National Insurance (NI) increases would happen in April 2022 – which they now have the took the opportunity to increase the salary level at which NI is payable to £12,570, aligning it with Income Tax Personal Allowance.

Whilst this won't take effect until July 2022, it is a welcome move, although it must be noted that one of the key purposes of National Insurance is to fund the State Pension. This could mean some lower paid people will lose out on a Pension credit for State Pension purposes – we still await full details from the Chancellor.

The Chancellor produced another surprise by announcing an Income Tax cut from 20% to 19%, although this would not come into force until 2024, and naturally also assumes that everything goes to plan with the country's finances.

Whilst this makes for excellent headlines, when you link the frozen personal allowances announced last year to such high levels of inflation, you end up with a very nasty 'double hit' which could easily wipe out any gains offered from an income tax cut.

Remember that further tax allowances such as the Pension Lifetime Allowance and Inheritance Tax Threshold have also been frozen until 2025/26. With inflation expected to average more than 7% in 2022, frozen allowances mean more of your income and assets will be taxed accordingly. Therefore, more than ever, it is vital to plan your affairs in the most efficient way possible.