



BREWERS
Chartered Accountants

Spring Budget

Report

March 2024

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INSIDE THIS BUDGET

Vote-winning announcements are always expected from a Chancellor's Budget in an election year. Despite the stagnant economy and limited fiscal headroom, Jeremy Hunt still announced a few tax cuts and other surprises.

INTRODUCTION

With the UK entering a technical recession at the end of 2023 and a general election on the cards this year, Chancellor Jeremy Hunt was under pressure to deliver a Spring Budget that demonstrated fiscal responsibility and generosity.

Dubbing the fiscal statement a 'Budget for long-term growth', Hunt focused his speech on delivering tax breaks, boosting investment and tackling unfairness in the UK tax system.

One of the Chancellor's most significant announcements was a 2p cut to National Insurance contributions (NICs) in April, on top of the 2p he already cut in last year's Autumn Statement. Workers will see their NIC rates fall by four percentage points in less than six months.

Other personal measures included extending the freeze and 5p cut on fuel duty for a further 12 months, cutting the higher capital gains tax (CGT) rate on residential property sales, and reforming the high income child benefit charge (HICBC) to increase the threshold and make the system fairer for single-earner households.

For businesses, Hunt promised enhanced funding for 'high-growth industries' and focused support for the creative sector. The VAT threshold will also rise from £85,000 to £90,000 in April, reducing the administrative burden for tens of thousands of businesses.

To pay for these changes, the Chancellor announced several revenue-raising initiatives, such as replacing the current tax regime for non-domiciled individuals (non-doms), a new levy on vaping products and an extension of the windfall

tax levy on oil and gas companies. Hunt also abolished the furnished holiday lettings relief, claiming this move would raise capital and improve the availability of long-term rental properties.

This report outlines the major announcements in the Chancellor's speech, breaking down the latest economic forecast from the Office for Budget Responsibility (OBR) and what the changes could mean for businesses and individuals alike.





ECONOMIC OUTLOOK

ECONOMY DOING BETTER THAN EXPECTED, SAYS OBR

The Chancellor's 'Budget for long-term growth' recognises that the inflation battle is not yet over - as the OBR says that the economy is doing better than expected, but we are entering a period of stagnating output.

In his Spring Budget speech, Jeremy Hunt said he had set out a plan to deliver long-term growth for the UK that will build a high-wage, high-skill economy with a path to more investment, more jobs, more productive public services and lower taxes.

However, given the limited fiscal headroom shown through The Office of Budget Responsibility's (OBR) economic report, the Chancellor's plans for a pre-election Budget tax giveaway had to be somewhat reined in.

According to the OBR, the Chancellor had financial headroom of around £9bn (compared to £13bn in November), which the OBR said was "a tiny fraction of the risks around any forecast".

'TWIN GLOBAL SHOCKS'

The OBR report said the economy “has emerged from the twin global shocks of the pandemic and Russian invasion of Ukraine into a period of declining inflation but stagnating output”.

With inflation receding more quickly than expected and markets expecting a sharper decline in interest rates later this year, this “should enable a faster recovery in living standards from last financial year’s record decline”. However, the medium-term economic outlook “remains challenging”.

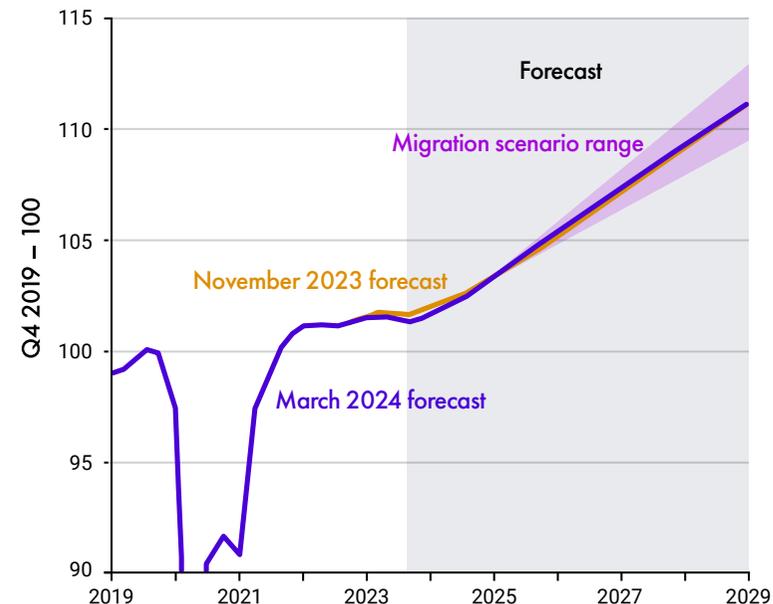
When summarising the UK economy, the OBR’s report takes into account the changes made to national spending and the tax system in the accompanying Spring Budget.

The OBR’s report shows that, four years on from when the World Health Organization declared COVID-19 a global pandemic, a cohesive plan to get back to growth is sorely needed.

GDP grew by just 0.1% in 2023, and the OBR expects the economy to grow by 0.8% in 2024 as interest rates fall and real household incomes recover. For 2025, GDP is forecast to rise by 1.9%, 2.2% in 2026, 1.8% in 2027, and 1.7% in 2028.

When the Chancellor delivered the Autumn Statement, the OBR said growth was expected at 0.7% in 2024, 1.4% in 2025, and 1.9% in 2026, meaning the expected GDP growth has been upgraded.

REAL GDP

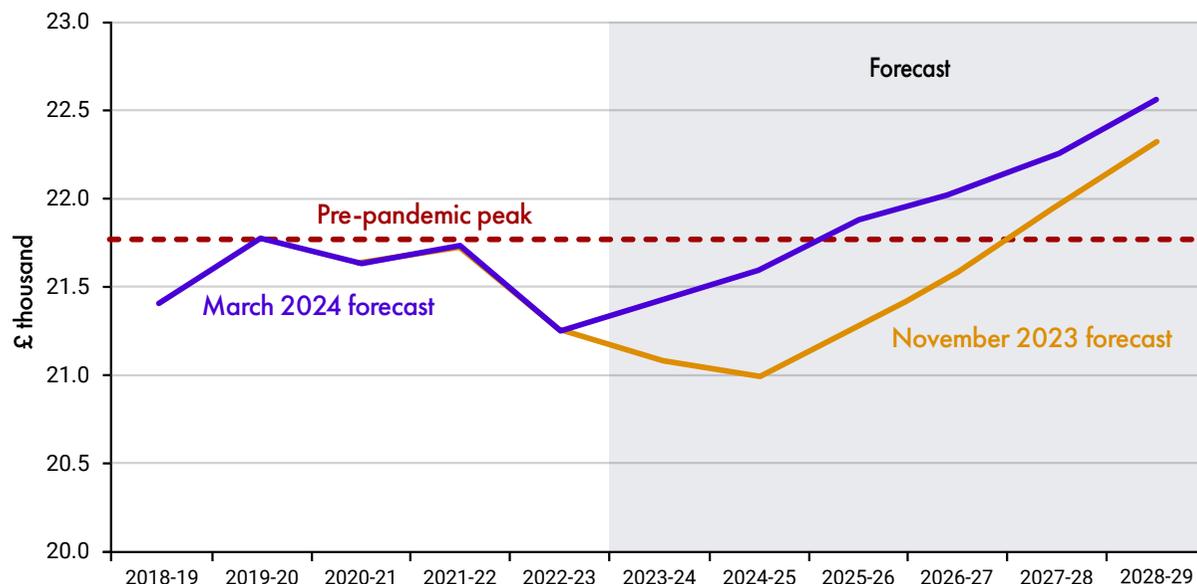


Source: ONS, OBR

In its report alongside the 2024 Spring Budget, the OBR said: “Risks to our medium-term real GDP forecast remain elevated. The outlook for productivity growth is our most important and uncertain forecast judgement, and there is significant uncertainty over both our migration and participation forecasts.”

It forecasts that underlying debt will fall as a share of the economy to 92.9% in 2028/29 and that headline debt will fall as a percentage of GDP every year from 2024/25.

REAL HOUSEHOLD DISPOSABLE INCOME PER PERSON



Source: ONS, OBR

LIVING STANDARDS BACK TO PRE-PANDEMIC LEVELS BY 2025

In November, the OBR forecast that living standards, as measured by real household disposable income (RHDI) per person, would fall by 1.5% in 2024, and then increase by an average of 1.5% between 2025 and 2028.

In the March Spring Budget it said that living standards are now expected to recover more quickly than previously forecast and grow by around 1% a year on average, and it now expects real household disposable income per person to recover its pre-pandemic peak by 2025-26, two years earlier than in the November forecast.

“The 2 pence cut to the main rates of NICs announced in this Budget alone is expected to directly boost real household incomes by 0.5%. This adds to a boost of similar size from the NICs cut announced in the Autumn Statement,” the report said.

Unemployment is now expected to peak at 4.5% (representing 1.6 million people) in the last quarter of 2024, as the OBR forecasts subdued economic growth and increasing spare capacity in the economy. It is then forecast to decline to 4.1% by 2028.

THE BACKDROP OF RECESSION AND INFLATION

The UK economy went into a technical recession at the end of 2023 after shrinking for two three-month periods in a row. However, Bank of England (BoE) governor Andrew Bailey noted “distinct signs of an upturn” in February, saying the recession “may already be over”.

Even if the economy is now growing, many households are still struggling financially after two years of rising prices.

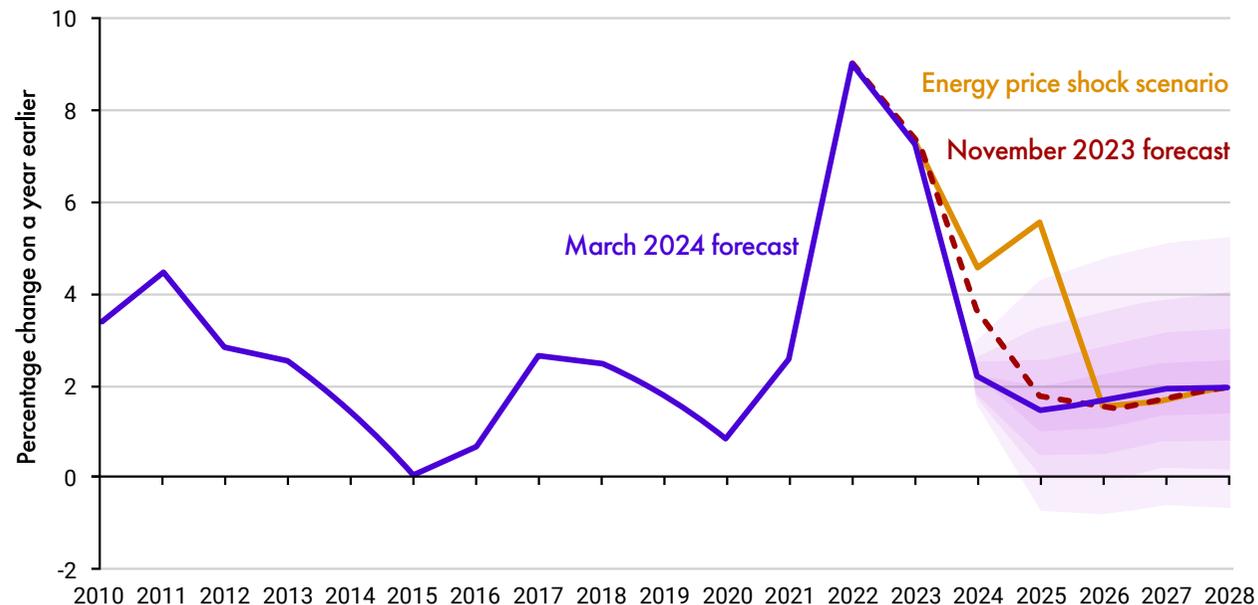
The pandemic, which caused supply chain disruption, was not the only cause of inflation. Food and energy prices rose sharply during 2022 and 2023 due to global supply chain disruptions, and the effects of the war in Ukraine lifted the input costs of food producers. These pressures eased during the second half of 2023 and in early 2024.

Furthermore, the cost of living increased sharply across the UK during 2021 and 2022, with the annual rate of inflation peaking in October 2022 at 11.1% – a 41-year high.

INFLATION RATE TO FALL MORE GRADUALLY IN 2024

Annual inflation is currently at 4%, unchanged since December. Inflation is expected to continue to fall in 2024, though more gradually than in 2023, due to lower energy prices and reduced inflation in consumer goods and food.

CPI INFLATION



Note: Successive pairs of lighter-shaded areas around our forecast represent 20 per cent probability bands.
Source: ONS, OBR

In economic forecasts published alongside the Spring Budget, the OBR expects inflation to average 1.4% in the final quarter of 2024.

The Chancellor said that debt is on track to fall, although he admitted that “the battle against inflation is still not over”. He said:

“Of course, interest rates remain high as we bring down inflation. But because of the progress we’ve made, because we are delivering on the Prime Minister’s economic priorities, we can now help families not just with temporary cost of living support but with permanent cuts in taxation.

“We do this to give much needed help in challenging times. Lower tax means higher growth. And higher growth means more opportunity more prosperity, and more funding for precious public services.”

He added: “With the pandemic behind us, we must once again be responsible and build up our resilience to future shocks. That means bringing down borrowing so we can start to reduce our debt.”

INTEREST RATES EXPECTED TO COME DOWN

To try and get the inflation rate back to its 2% target, the BoE increased interest rates at 14 consecutive policy meetings from 0.1% in December 2021 to 5.25% in August 2023, and they have remained unchanged since.

Pressure is now on the central bank to cut interest rates. However, February’s monetary report said that as a result of inflation persistence, “monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term”, and a cut is not likely to happen at the next announcement on 21 March 2024.

Andrew Bailey has repeatedly said rates will remain as they are for some time, but economists and the financial markets are expecting a change in approach by June.

The OBR confirmed that it expects to see the Bank Rate fall to 4.2% in the final quarter of 2024 in order to help stimulate economic growth.



HUNT SLASHES NICS AND REFORMS “UNFAIR” TAX POLICIES

The 2024 Spring Budget included support that was aimed at helping poorer families with the introduction of changes such as a lower personal tax burden, expanded Universal Credit with more generous work allowances, and frozen energy duty rates to curb rising fuel costs.

Additionally, the Budget provided targeted support through improved access to affordable childcare and an emergency fund for families in immediate financial distress, easing pressure on household budgets.

Here are the key measures at a glance:

- National Insurance cut by 2p in April – from 10% to 8%.
- Non-dom status abolished.
- High Income Child Benefit Charge (HICBC) threshold raised from £50,000 to £60,000.
- A new British ISA will allow individuals to invest an extra £5,000 in UK assets per tax year.
- The higher capital gains tax (CGT) rate on residential property will reduce from 28% to 24%.
- The repayment period for new budgeting advance loans will double to 24 months for low-income individuals.
- £90 charge for obtaining debt relief order abolished.
- Household Support Fund kept at current level for 6 months.
- 5p cut to fuel duty will continue for 12 months.



PERSONAL CHANGES

NATIONAL INSURANCE CUT

Following a 2p cut in the Autumn Statement, the main rate of employee National Insurance will fall again by a further 2p from 10% to 8% in April. Factoring in both deductions, this means employee NICs will have dropped by one-third in less than six months. As a result, the average worker on £35,400 will receive a tax cut of over £900 compared to last year.

Sole traders and people in business partnerships will also see a lower tax burden in April. Following a 1 percentage point cut in the Autumn Statement, the main rate of Class 4 NICs for the self-employed will fall by a further 2 percentage points from 8% to 6% from April.

When combined with scrapping the requirement to pay Class 2 NICs announced in the 2023 Autumn Statement, this will save the average self-employed person earning £28,000 over £650 a year.

NON-DOM ABOLISHMENT

Following calls to overhaul the “outdated” tax rules for non-UK domiciled individuals, Hunt announced that the non-dom regime will soon be replaced by a simpler system.

The new regime will give new arrivals access to a more generous scheme for the first four years they live in the UK. After that, non-doms will be required to pay taxes at the same rate as everyone else. This is expected to raise £2.7bn a year by 2028/29.

CHILD BENEFITS

The Government also introduced changes to make the High Income Child Benefit Charge (HICBC) fairer for single-income families.

Introducing the changes the Chancellor said: “The way we treat child benefit in the tax system is confusing and unfair... And when it works, it’s good for children, it’s good for parents, and it’s good for the economy because it helps people into work.”

PERIOD CHILD BENEFIT RECEIVED	LOWER INCOME THRESHOLD	UPPER INCOME THRESHOLD
From 6 April 2024	60,000	80,000
From 7 January 2013 to 5 April 2024	50,000	60,000

Under the current rules, a household with one parent earning £50,000 or more will see a reduction in their child benefit entitlement, while a household with two parents earning £49,000 each will receive the full child benefit.

To even the playing field, HICBC will be administered on a household rather than an individual basis by April 2026, with a consultation in due course. Until then, around half a million working families will benefit from an increase in the HICBC threshold from £50,000 to £60,000, with the threshold at which child benefit is fully repaid increasing to £80,000, effective from April 2024. According to the Government, this will save the average family around £1,260 a year.

The change means basic rate taxpayers will no longer have to file self-assessment returns each year purely to pay the HICBC.

BRITISH ISA INTRODUCTION

To channel more investment into UK equities, the UK ISA will allow individuals an additional £5,000 per year tax-free, on top of the existing ISA allowance (currently £20,000 per year) to invest in UK-focused assets.

Further encouraging a culture of saving by increasing the options open to individuals, the British Savings Bonds, delivered through National Savings and Investments, will offer a guaranteed interest rate fixed for three years.

There is little information and no timetable available on this but expect more to come following government consultation.

The Government has also promised to bring forward legislation to clarify the position on fractional share contracts, which was promised in the Autumn Statement. According to the Red Book,

this should be completed by the end of the summer and will further support savers investing in a diverse range of investment types.

CAPITAL GAINS TAX (CGT) CHANGES

The higher rate of capital gains tax (CGT) on residential property will be cut from 28% to 24% from April 2024.

According to Hunt, this move is set to generate revenue for the Treasury by firing up the housing market and encouraging more residential property disposals.

ABOLISHMENT OF DEBT RELIEF ORDER

The most vulnerable families will receive targeted support through a £500m extension to the Household Support Fund for an extra six months to September 2024. Combined with the Government's decision to scrap the £90 administration fee for Debt Relief, this will allow local authorities to better support low-income residents with the cost of essentials.

In an effort to help households struggling with problem debts, the maximum period for Universal Credit budgeting advances is also extending from 12 to 24 months. This measure will apply from December 2024.

FUEL DUTIES

The main fuel duty rates will now remain frozen until March 2025 and the temporary 5p cut to the duty has also been extended. The Government estimates these measures will save car drivers around £50 in 2024/25 and £250 since the 5p cut was introduced, resulting in a total £5bn tax cut across the nation.

Businesses that rely heavily on transportation, such as hauliers and delivery firms, will also welcome this continued relief amid high fuel costs.



BUDGET BOOSTS SMES AND HIGH-GROWTH INDUSTRIES

After the more comprehensive business support and tax cuts announced in the 2023 Autumn Statement, such as making the full expensing policy permanent, the 2024 Spring Budget was lighter on headline-making pro-business announcements.

However, it still contained targeted support for SMEs, high-growth companies and key industries like manufacturing, creative sectors and the life sciences.

The upcoming increases in the VAT threshold and extension of the Recovery Loan Scheme will be particularly beneficial for smaller firms.

Making full expensing permanent remains the current Government's flagship pro-investment tax policy. However, businesses will be keenly awaiting more details on how this will be legislated.

With inflation still elevated and a general election due this year, the Chancellor had to carefully balance support for businesses and the general public, with policies like extending fuel duty relief appealing to both.



**BUSINESS
CHANGES**



VAT REGISTRATION THRESHOLD

In a boost for small businesses, the VAT registration threshold will increase from £85,000 to £90,000 from 1 April 2024. This marks the first increase in seven years.

The Chancellor said this would “reduce the administrative and financial impact” for SMEs, explaining it will bring approximately 28,000 small businesses out of collecting, reporting and paying VAT altogether.

FURNISHED HOLIDAY LETTINGS REGIME

In a move to make the property market fairer for renters, the Furnished Holiday Lettings (FHL) regime will be abolished from April 2025.

The change aims to increase long-term rental options for locals and raise tax receipts to help fund national insurance cuts. It is estimated that the change will raise around £300m from landlords who benefited from the furnished holiday lettings scheme.

Properties meeting the qualifying tests for FHLs are taxed under special rules and owners of such properties can access specific tax advantages not available for other lettings, including:

- Entitlement to plant and machinery allowances on items of fixtures, furniture, furnishings and equipment. The relief also allowed utilisation of the 100% annual investment

allowance and, for corporates, the 130% super-deduction or 100% full expensing for expenditure incurred on such items.

- Capital gains tax (CGT) reliefs for traders such as rollover relief and mitigating CGT on disposal of a property.
- Finance and interest restrictions did not apply to loans and mortgages on FHL properties.

The new measures will have far-reaching consequences for owners who have let their properties for holiday rental income and met the criteria set out in the FHL regime. It includes those who might own a single holiday home made available for letting or those who let their properties through Airbnb or similar agencies.

Hunt explained his reasoning, arguing that this measure would help alleviate housing strain in coastal areas where landlords are converting properties into short-term holiday lets to the detriment of local populations.

SME SUPPORT

Recognising the vital role of small and medium enterprises (SMEs) in the economy, the Spring Budget built on the SME support measures from the Autumn Statement.

In addition to raising the VAT threshold, key announcements include:

- **Funding business growth:** Providing £200m of funding to extend and rename the Recovery Loan Scheme to the 'Growth Guarantee Scheme', helping SMEs access necessary financing.
- **Encouraging investments:** Publishing updated HMRC guidance on the tax deductibility of training costs for sole traders and the self-employed to encourage productivity-boosting investments.
- Reinstating the previous eligibility criteria for qualifying as a high net worth or sophisticated investor, along with reviewing the scope of these exemptions.

INVESTMENT AND GROWTH INITIATIVES

The Spring Budget contained several measures focused on encouraging business investment and growth:

- **Pension reforms:** Continuing work on the Mansion House reforms to the pension system, with the goal of unlocking up to £75bn of pension fund capital.
- **Recovery Loan Scheme:** The Government will extend the Recovery Loan Scheme, rebranding it as the Growth Guarantee Scheme. This program aims to help around 11,000 SMEs access the financing they need to invest and expand.
- **Investment zones:** In April, the first investment zones will launch in the North of England and the Midlands. These zones will offer tax breaks and planning liberalisations to attract business investment.

INVESTING IN INDUSTRIES OF THE FUTURE

The Spring Budget reaffirmed the Government's commitment to making the UK a global leader in science and innovation.

Building on the £750m R&D package announced in the 2023 Autumn Statement, the Chancellor unveiled several new measures:

- £14m to boost the UK's public sector research and innovation infrastructure.
- Establishing an HMRC expert advisory panel to improve the administration of R&D tax reliefs. The panel will provide insights into the cutting-edge R&D occurring across sectors such as tech and life sciences, and work with HMRC to review relevant guidance, ensuring it remains up to date and provides clarity to claimants.

SPECIFIC INDUSTRY IMPACTS

Hunt also used the Budget to build on a wider Government strategy to support key sectors – including creative industries, advanced manufacturing, green industries, digital technology and AI, and life sciences – to drive economic growth and innovation.

CREATIVE INDUSTRIES:

Hunt described the UK as Europe’s “largest film and TV production centre”, and announced support of more than £1bn in additional tax relief over five years for the £125bn creative industry, which employs 2.4 million people in the UK.

Measures included:

- 53% tax credit for eligible independent British films with budgets under £15m.
- 40% business rates relief until 2034 for eligible film studios.
- 5% increase in relief for UK visual effects.
- Funding for 200 new apprenticeships per year at the National Film and Television School.

- Permanent higher tax relief rates of 45%/40% for theatres, museums, galleries and orchestras.

GREEN INDUSTRIES:

- An additional £120m allocated to the £1bn Green Industries Growth Accelerator for low-carbon manufacturing supply chains.
- Largest ever £1bn+ renewable energy auction round announced.
- £160m deal with Hitachi to purchase two prospective nuclear power plant sites on Anglesey and in Gloucestershire that had been mothballed.

DIGITAL AND AI:

- Plans to be set out to ensure access to public computing facilities for developing AI products.
- £7.4m fund to support SME AI skill development.
- SME Digital Adoption Taskforce to investigate boosting productivity through technology.
- The Alan Turing Institute to receive up to £100m over five years.

LIFE SCIENCES:

- Following the £520m in manufacturing funding announced in the Autumn Statement, the Government has confirmed large-scale investment competitions for this summer and an SME track in autumn.
- £45m to support early-career medical researchers specialising in conditions such as dementia, epilepsy and cancer, including £3m for Cancer Research UK.



IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends upon individual circumstances and may be subject to change in the future. The information in this report is based upon our understanding of the Chancellor's 2024 Spring Budget, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

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 **Talk to us about your business**

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