

September 2022

Nothing 'mini' about it...

Summary

If the Summer seemed to drag on with the nation anxiously awaiting answers to the many pressing economic issues whilst the Conservative party decided who was going to have to tackle that daunting to do list, the last two weeks have seen change at a breakneck speed. A new king, a new prime minister and a new chancellor. And the new government appears to be in a rush to set out a new economic policy.

Politicians and the media were struggling to find a shorthand name for the much-anticipated set of economic policies announced by the Chancellor of the Exchequer Kwasi Kwarteng on 23 September. The prevailing label of 'mini budget' will probably be remembered as the understatement of the year. Whilst the new prime minister Liz Truss had repeatedly pledged to 'hit the ground running from day one' and to 'deliver' and despite the need to urgently tackle growing inflation, rising interest rates and an energy crisis, no-one outside government was quite expecting one of the most far-reaching changes in fiscal policy in decades. These even went far beyond the usually fairly accurate leaks to the media which typically precede such statements.

The key announcements were:

Basic Rate of Income Tax

The basic rate of income tax will be lowered from 20% to 19% from April 2023 (a year earlier than originally planned under the Johnson government).

Additional Rate of Income Tax

The top rate of tax of 45% applying to those earning over £150,000 will be abolished from April 2023. The new top rate for all taxpayers will therefore be the higher rate of 40%.

National Insurance

The 1.25% rise in national insurance contributions (NICs) which took effect earlier this year will be reversed from 6 November 2022.

Dividends

The additional rate of income tax will be abolished also in relation to dividend rates, leaving a basic rate of 7.5% and a higher rate of 32.5%. It is worth remembering though that dividend income for remittance basis users will continue to be taxed at ordinary income tax rates (i.e. 19% and 40%).

SDLT

Stamp Duty Land Tax has been reduced, with a new nil rate threshold of £250,000, rising to £425,000 for first time buyers.

VAT for international visitors

For international tourists and visitors, the chancellor also announced a VAT-free shopping scheme with the hope of boosting the retail and tourism sector.

Bankers' Bonuses

The cap on bankers' bonuses has been scrapped with the stated aim of 'reaffirm[ing] the UK's status as the world's financial services centre' against competition from Paris, Frankfurt and New York.

Off-payroll working rules

Otherwise known as IR35, the recent reforms to the operation of IR35 will be repealed from April 6 2023, with the onus on business to determine the employment status of their workers reverting to the worker.

Introduction of 'investment zones'

Local 'investment zones' will be introduced in various parts of the country where businesses will be able to benefit from lower rates.

Annual Investment Allowance

This will be permanently set at £1 million from April 2023.

Corporation Tax

The planned Corporation Tax rise from 19% to 25% has been scrapped. The government anticipates that companies will be less inclined to move profits overseas thereby ensuring an increase in tax revenues. On the basis of this announcement, the UK will have the lowest corporation tax in the G20.

The government is clearly signalling a move from fiscal intervention and redistribution of wealth in order to address economic inequalities to extensive tax cuts in a bid to restart the economy, address the cost of living crisis and help ensure the UK remains a leading financial centre and a magnet for foreign investors despite the jitters caused by Brexit and other more global events.

This shift does not come cheap. The government has estimated that these measures will, by 2026/27, have cost more than £36bn.

At the time of writing, the pound has slumped to a 37 year low against the US dollar trading at just over \$1.10 as opposed to \$1.35 at the start of the year. This gamble is therefore a brave one, especially at a time of global economic and political instability, and the government will definitely be waiting with some trepidation to see whether it pays off.

A general election has to be called by Spring 2024 and the government is well aware that whether this new economic strategy proves successful or backfires spectacularly will most likely determine whether the Conservatives will be able continue their run of electoral victories.

Without the luxury of a full five-year term ahead, the Truss government cannot afford to run down the clock and is in a hurry. If this was the scale of the 'mini budget' of a 19-day old government, one is left wondering what else the Chancellor might announce over the next year, if not months. Over the weekend following the mini budget, Kwasi Kwarteng told the media in no uncertain terms that 'there is more to come'. He has definitely set expectations very high.

Key contacts



Jonathan Conder

Partner, London

T: +44 20 7809 2015

E: jonathan.conder@shlegal.com



Suzanne Johnston

Partner, Singapore

T: +65 6622 9649

E: suzanne.johnston@shlegal.com



Emily Osborne

Partner, London

T: +44 20 7809 2433

E: emily.osborne@shlegal.com



James Quarmby

Partner, London

T: +44 20 7809 2364

E: james.quarmby@shlegal.com



Michael Rutili

Partner, London

T: +44 20 7809 2022

E: michael.rutili@shlegal.com