Autumn Budget 2021

Introduction

On 7 September 2021 the Chancellor of the Exchequer, Rishi Sunak, announced that the second Budget of the year would be delivered on 27 October 2021. As Sunak took to the House of Commons with his burgundy briefcase to update on the government's spending intentions, what was the impact on payroll professionals?

Speculation was rife in the days leading up to the Budget. Media reports drove expectations to see the National Living Wage (NLW) increase to a new high of £9.50 per hour, equating to the current 2021-22 real Living Wage for the UK (outside of London). Further predictions centred on the reduction of the student loan repayment threshold for Plan 2, moving from the current £27,295 to a possible range between £20,000 and £23,000 – could it even be aligned with the student loan Plan 1 threshold?

The Health and Social Care (H&SC) levy has dominated headlines since its announcement in early September. The implementation of this temporary change in national insurance (NI) has created clarity in the short-term. However, payroll professionals and software developers will be looking to the Budget for further information about the H&SC levy detail for the 2023-24 tax year.

Inevitably, measures were announced that are designed to recoup some of the funds that the government ploughed into COVID support schemes. These schemes were created to help both businesses and individuals through the economic turmoil caused by coronavirus, however, they have in turn created the highest level of government debt during peace time. Nothing about the past eighteen months has been normal, and the government has had to respond and react to this, including, of course, within the Budgets that have been delivered, and the financial plans that have been constructed.

In this report the CIPP policy team guide you through the key announcements that were made on 27 October 2021 that will create a significant impact on payroll departments across the United Kingdom.

Executive Summary

- Inflation expected to average 4% over the coming year
- Tax allowances remain frozen as announced in the March 2021 Budget
- Scottish Budget to take place on 9 December 2021
- National Insurance Contribution (NICs) rates to increase by 1.25% in tax year 2022-23
- Company car and van benefit charges to increase by 3.1%
- National Living Wage (NLW) to increase to £9.50/hour
- Barnett formula result in additional funding for devolved nations; £4.6 billion for Scotland, £2.5 billion for Wales and £1.6 billion for Northern Ireland
- Brexit enables total reform of alcohol fuel duty
- State Pension to increase by 3.1% in April 2022
- Government responds to the net pay anomaly consultation, implementing a “top-up” for low earners from 2024-25
- Fuel rates frozen in 2022-23
- Government set out commitment to ‘levelling up’ including a £2.6 billion UK Shared Prosperity Fund
- Government confirmed public sector pay will rise, bringing an end to the temporary pay freeze
- Universal Credit taper rate dropped from 63% to 55%
- Tax reliefs for arts and culture extended to 31 March 2024
- Business rate relief up to 50% for hospitality, leisure and retail available up to £110,000

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Economic Context and Public Services

The autumn 2021 Budget and Spending Review (SR) comes as the UK starts to take cautious steps towards a post-pandemic era. The SR set departmental Budgets up to 2024-25. Sunak emphasised that the Budget aimed to create a high-wage, high-skilled economy, with a focus on growth, public finances and employment. The Budget evidences a transition away from emergency economic support, to focus on economic recovery.

In his Budget speech, the Chancellor recognised the challenge of rising inflation, and confirmed the Office for Budget Responsibility (OBR) forecast that inflation, currently at 3.1% (September Consumer Price Index (CPI)), was likely to rise to an average of 4% over the next year. Two global forces are driving this:

1. The rapid return of economic activity has meant the demand for goods outweighs the ability for the supply chain to meet demand. For example, microchip shortages have impacted manufacturing since spring 2021
2. The surge in demand for global energy has put a strain on prices. For example, after a 20-year low in April 2020, global oil prices have since increased by 82%

Target inflation is 2% and the Chancellor has used the Budget as an opportunity to reinforce the Bank of England's responsibility for using monetary policy to achieve this inflation target.
The impact of the pandemic caused the UK Gross Domestic Product (GDP) to fall in 2020, but the Budget document confirms that the International Monetary Fund (IMF) expect the UK to have the fastest growth rate in 2021 of the G7 countries, and second fastest in 2022. The OBR expects the UK economy to grow by 6.5% in 2021, 6% in 2022 and 2.1% in 2023. Furthermore, the OBR anticipates the economy will return to its pre-pandemic size at the turn of the year.

In July 2020, it was predicted that unemployment would peak at 12%, this has now been revised by the OBR to 5.2% in Quarter 4 of 2021.

Borrowing and debt remain at historically high levels, with borrowing reaching £319.9 billion in 2020-21. Public sector net debt is forecast to reach 98.2% of GDP by the end of 2021. As a result, the Chancellor set out a new Charter for Budget Responsibility which includes:

- Public sector net debt (excluding bank of England), as a percentage of GDP, to be falling by the third year of the rolling forecast period
- A target to balance the current Budget by the third year of the rolling forecast period.
- A target to ensure that public sector net investment does not exceed 3% of GDP on average over the rolling forecast period
- A target to ensure that expenditure on welfare is contained within a predetermined cap and margin set by the Treasury.

Income tax rates and thresholds

Income tax

There were no surprises about income tax, given that March's Budget froze the figures for England and Northern Ireland for the next four tax years. Therefore, the Personal Allowance for tax-free income for 2022-23 remains at £12,570 and the Higher Rate Threshold (HRT), when higher earners start to pay 40% tax, remains at £50,270.

The Marriage Allowance (also known as the Transferable Tax Allowance), Blind Person's Allowance and Married Coupe's Allowance are also frozen at their 2021-22 levels and UK income tax rates remain unchanged.

Other allowances are also unchanged from 2021-22: the Marriage Allowance (also known as the Transferable Tax Allowance) is £1,260 and the Blind Person's Allowance is £2,520. The Married Couple's Allowance remains at a maximum of £9,125 (minimum £3,530) with an income limit of £30,400. UK income tax rates remain unchanged.

Devolved income tax

The Scottish Government is responsible for setting income tax rates and thresholds for Scottish taxpayers, which now vary quite substantially from the rest of the UK. It was announced that it will publish the 2022-23 Scottish Budget on 9 December 2021.

The Welsh Government has the ability to vary income tax rates for Welsh taxpayers, although to date, it has set Welsh Rates of Income Tax (WRIT) at levels that ensure parity with English and Northern Irish taxpayers. It has not published a date for releasing its 2022-23 Budget yet.

The CIPP will publish details of Scottish and Welsh proposed figures for 2022-23 as soon as these become available.

NICs

Limits and thresholds

As announced in the March 2021 Budget, the Upper Earnings Limit (UEL) remains aligned to the tax HRT and will be frozen at its 2021-22 level of £50,270 (annual) for 2022-23 and until April 2026.

October's Budget confirmed that other limits and thresholds will be increased by September's CPI, which was 3.1%.

Rates

As the government announced in September 2021, all NICs rates will increase by 1.25% for the 2022-23 tax year. This breaks the Government's tax lock pledge but, it argues the increase is needed to provide dedicated extra funding for the National Health Service (NHS) and for the government's adult social care reforms.

NICs rates return to 2021-22 levels from 2023-24 onwards, when the 1.25% charge becomes the Health and Social Care Levy.

Class 1 rates

	Current	**For 2022-23**
Employee		
On earnings up to LEL	Nil	Nil
On earnings between LEL and PT	0	0
On earnings between PT and UEL	12.0	13.25
On earnings above UEL	2.0	3.25
Married women's reduced rate	5.85	7.1
Deferred rate	2.0	3.25
Employer		
On earnings up to LEL	Nil	Nil
On earnings between LEL and ST	0	0
On earnings above ST (with exceptions)	13.8	15.05
On under 21s' earnings between ST and UST	0	0
On Apprentices' earnings between ST and AUST	0	0
On veterans' earnings (year 1) between ST and VUST	0	0
On Freeport workers' earnings (years 1 to 3) between ST and FUST	n/a	0
On earnings over UST, AUST, VUST and FUST	13.8	15.05

Class 1A and Class 1B rates

	Current	**For 2022-23**
Class 1A	13.8	15.05
Class 1B	13.8	15.05

Employer NICs holiday for Freeport workers

As previously announced, employer's secondary NICs will be reduced to 0% on earnings up to a new Freeport Upper Secondary Threshold (FUST) for the first three years of employment for eligible workers at Freeport tax sites. There are currently eight sites approved for Freeports across England, with at least one expected in Scotland, Wales and Northern Ireland.

- For tax year 2022-23, the FUST will be set at £25,000. The standard level of secondary NICs will apply to earnings from the FUST up to the UEL.
- Eligible workers must spend at least 60% of their time working at the Freeport. They must not have been employed by the employer or by a connected company within the previous two years.
- HMRC has introduced a range of NI category letters for relevant employees so that employers can claim this relief through Pay As You Earn (PAYE).

This relief will be available from April 2022 to at least April 2026, with a possible extension to 2031.

Health and Social Care Levy

Brief details about the Health and Social Care Levy were announced in September, alongside the temporary increase in NICs rates. The Budget confirmed that the new Levy will apply to the equivalent of Class 1 and Class 4 NICable earnings at a rate of 1.25% from April 2023. However, a key difference is that it will apply to the employment earnings of those over State Pension age (category letter C).

Company cars, vans and fuel

The Budget document confirms that the company car and van benefit charges and their associated fuel benefit charges will increase for 2022-23 in line with the CPI , 3.1%.

The company car appropriate percentages are as previously announced. For the 2022-23 tax year:

- Appropriate percentages for vehicles first registered before 6 April 2020 (NEDC) are frozen at their 2020-21 levels, with the exception of the 0kg/km rate, which increases from 1% to 2%
- Appropriate percentages for vehicles first registered on or after 6 April 2020 (WLTP) will increase by 1% to match the corresponding NEDC appropriate percentage.

All rates are then frozen for the 2023-24 and 2024-25 tax years.

As previously announced, the van benefit charge for zero-emission goods vehicles will remain at 0% of the standard charge and the diesel supplement for the Company Car Tax appropriate percentage will continue to be at 4%, subject to a maximum appropriate percentage of 37%. Cars that meet the Euro 6d standard (also known as Real Driving Emissions Step 2, RDE2) are exempt.

National Minimum Wage / National Living Wage

Changes from 1 April 2022

The government accepted the Low Pay Commission's (LPC) recommendations for 2021-22 in full. The rates that apply to pay reference periods beginning on or after 1 April 2022 are shown in this table.

	Current	From April 2022	Increase
NLW 23 years+	**£8.91**	**£9.50**	**6.6%**
21-22 year old rate	**£8.36**	**£9.18**	**9.8%**
18-20 year old rate	**£6.56**	**£6.83**	**4.1%**
16-17 year old rate	**£4.62**	**£4.81**	**4.1%**
Apprentice rate	**£4.30**	**£4.81**	**11.9%**
Accommodation offset	**£8.36**	**£8.70**	**4.1%**

Future changes

In 2019, the LPC recommended that the NLW should begin at a younger age, reducing it from 25 to 21 years old in two stages. The government accepted this and reduced the NLW starting age to 23 from April 2021. It is expected to reduce to 21 years old by 2024.

The Chancellor confirmed the government's continued commitment to a NLW target of two-thirds of median earnings by April 2024, subject to economic conditions. This remains the LPC's recommendation; in its March 2021 report, it forecast £10.33 for April 2024, although with a high degree of uncertainty due to the effects of the coronavirus lockdowns and the Coronavirus Job Retention Scheme (CJRS) on the previous year's pay data.

The government had asked the LPC to review the exemption from minimum wage entitlement for live-in domestic workers. This exemption was introduced to support the employment of au pairs, but without adequately defining this role. As a result, LPC's research found that the exemption is now mainly used as a loophole for migrant workers in domestic settings without any element of cultural exchange. In addition, the exemption is potentially discriminatory because it is more likely to affect women than men. So, the LPC has recommended that this exemption be withdrawn and, if necessary, be replaced by a clearly defined visa route for au pairs.

Note that, from April 2022, the Apprentice rate will be aligned in value with the 16-17 year old rate. This follows a recommendation from the LPC that the Government accepted last year. Also, after achieving the LPC's previous ambition of aligning the accommodation offset with the 21-22 year old rate, next April it will increase in line with other age rates.

Support for devolved nations

The Barnett formula has resulted in the Scottish Government having an additional £4.6 billion per year, on average over the spending review period. The government has also announced addition funding across a number of areas, including:

- £1.9 billion for farmers and land mangers
- £42.2 million for fisheries
- £8 million to deliver full fibre internet for 3,600 premises in Scotland
- £3 million to boost Glasgow's cultural offer

The Barnett formula has resulted in the Welsh Government having an additional £2.5 billion per year, on average over the spending review period. The government has also announced addition funding across a number of areas, including:

- £0.9 billion for farmers and land managers
- £6.2 million for fisheries
- £121 for round one of the Levelling up fund
- £240 million net zero hydrogen fund

The Barnett formula has resulted in the Northern Ireland Executive having an additional £1.6 billion per year, on average over the spending review period. The government has also announced addition funding across a number of areas, including:

- £1 billion for farmers and land managers
- £9.3 million for fisheries
- £49 million for round one of the Levelling up fund
- Establishing a new trade and investment hub in Belfast

Pensions and savings

Temporary suspension of the 'Triple Lock'

Originally announced on 7 September and confirmed in today's published Budget document, legislation will be laid which will see the temporary suspension of the 'Triple Lock'. This action is due to the distorted earnings data that has been gathered because of the pandemic. This method is traditionally used to uprate the State Pension and Pension Credit. For the tax year 2022-23, the new and basic State Pension, Pension Credit and survivors' benefits in industrial death benefit will increase by the higher of Consumer Price Index (CPI) or 2.5%, as it looks to protect pensioners from higher costs of living whilst protecting taxpayers from the substantial additional economic pressure created by the statistical incongruity.

Net pay anomaly of pension tax relief

Following its announcement at Budget 2020, HM Treasury published a call for evidence (CfE) on Pensions tax relief administration which looked at the anomaly of those low earners that pay into a pension scheme via a Net Pay Arrangement (NPA) when compared with those who contribute via Relief At Source (RAS). The CfE sought views on how certain proposals could be adapted to address the inconsistency in outcomes for low earners in a way that would be consistent with the government's principles for reform. Over a year after the CfE closed, details of the outcome and the response paper have finally been published.

It has been announced that those who are affected by the anomaly in respect of contributions made in 2024-25 onwards, will be paid a top-up in a bid to better align outcomes with equivalent savers who save into pension schemes using the Relief at Source method. Top-up payments will be calculated and paid after the tax year ends to avoid overpayments where a low earner declares additional earnings to those reported via Pay As You Earn (PAYE).

It estimated that up to 1.2 million individuals, 75% of whom are women, could benefit by an average of £53 a year. As a result of this change, all lower earning pension savers should receive similar outcomes, regardless of how their pension scheme is being administered for tax purposes.

Post Coronavirus measures

Recovery Loan Scheme

The recovery loan scheme, introduced in March 2021, will be extended until 30 June 2021. The government-backed scheme aims to support businesses to grow and recover from the pandemic and the transitionary period.

From 1 January 2022 changes will be made to the scheme:

- It will only be open to small and medium sized businesses
- The maximum finance available will reduce from £10 million per business down to £2 million
- The guarantee provided by the government will reduce for 80% to 70%

These changes are designed to encourage the lending market to return to normal practices as the economy recovers. All other eligibility criteria still apply.

Tax relief for arts and culture

Museum and Gallery Exhibitions Tax Relief (MGETR) is to be extended until 31 March 2024 to encourage charitable organisations to put on high-quality exhibitions.

In addition to the MGETR extension, headline rates of relief are increasing, this increase also applies to Theatre Tax Relief (TTR) and Orchestra Tax Relief (OTR). There are different rates for non-touring and touring productions and from 1 April 2024 no expenditure will be eligible for relief under MGETR.

	Relief due				
	MGETR		**TTR**		**OTR**
	Non-touring	**Touring**	**Non-touring**	**Touring**	**All**
From 27 October 2021	45%	50%	45%	50%	50%
1 April 2023 – 31 March 2024	30%	35%	30%	35%	35%
1 April 2024 onwards	Expired	Expired	20%	25%	25%

Business rates

Continuing with the government’s intention to support recovery, business rates have been reviewed and some relief is being applied in key areas. Sunak was keen to point out that business rates provide a substantial amount of funding for the government and its many initiatives and would therefore not be cut across the board.

The decision has been made to freeze the business rate multiplier for another year. The small business multiplier remains at 49.9p and the higher multiplier will stay at 51.2p. While cutting the multipliers was not an option, increasing these would have added additional costs to many businesses attempting to recover and grow.

Eligible retail, hospitality and leisure properties will benefit from a 50% relief, up to £110,000, for 1 April 2022 to 31 March 2023. In an attempt to soften the impact of the increased minimum wage, this relief will aid the sectors hardest hit by the pandemic and its lockdowns.
There will also be a 100% improvement relief for business rates, providing a 12-month relief from higher rates should an eligible improvement raise the rateable value of the property. The relief is intended to begin in 2023, and reviewed in 2028, with the government consulting on how best to implement and run the scheme.

To encourage green initiatives business rate exemptions will be implemented for eligible improvements related to onsite renewable energy generation and storage. Eligible heat networks will also receive a 100% relief. This will encourage companies to take up de-carbonisation where previously this would increase the rateable value of the property.

Business rate valuation schedules are to be increased in frequency from every five years to every three.

Bank Corporation Tax

The government announced a review of the bank corporation tax surcharge in the spring Budget 2021 due to the upcoming increase in corporation tax from 19% to 25%. Banks currently pay an 8% surcharge bringing their total corporation tax up to 27%.

From April 2023 the bank surcharge will be set at 3%, ensuring that banks continue to pay higher rates than other business (28% rather than 25%) and 1% more than they previously paid.

The annual allowance within the surcharge will increase to £100 million, encouraging competitor banks within the sector, growing a healthy banking market and benefiting consumers.

Other points of interest

Public sector pay

Within the SR 2020, it was confirmed that there would be a temporary pause on pay increases for some public sector workers. In the Autumn Budget speech and the accompanying documents, it has been confirmed that this pay freeze will come to an end.

Public sector workers will be entitled to pay rises over the course of the next three years, because of the economic recovery driven by a return to normality following the turbulence caused by the pandemic. To maintain fairness and consistency, these increases will be broadly aligned to those observed in the private sector.

Universal Credit (UC)

The government has committed to reducing the taper rate that applies in UC from 63% to 55% by no later than 1 December 2021. This is to ensure that those who are working retain more of what they earn and will result in claimants keeping an additional eight pence for every pound of net income that they receive. Additionally, Work Allowances will be increased by £500 per annum. This is the amount that households with children or someone with a reduced ability to work can earn before the amount of UC they receive begins to decrease.

The increase in the UC surplus earnings threshold will also be extended, meaning that the temporary increase to £2,500 that was implemented during the pandemic will remain in place until April 2023. Following this date, the threshold will revert to £300

'Levelling up'

A key element of the Chancellor's speech concerned the notion of 'levelling up'; –that is, aiming to improve standards of living across the country and making opportunities fair and consistent regardless of where an individual lives. Indeed, in the Budget's accompanying documents, 'levelling up' is referenced throughout.

The government recognises that, to achieve the best outcomes, improvements will not be confined to one specific area, so has committed to 'levelling up':

- Public services
- By helping businesses to innovate and grow
- By connecting communities
- By investing in people
- By supporting families and early years
- By creating green jobs across the country

One of the key announcements relates to the UK Shared Prosperity Fund (UKSPF), which is worth more than £2.6 billion, and has been designed to assist people in accessing new opportunities. It will fund Multiply - a new UK-wide programme which will be implemented to help adults with their numeracy skills, subsequently having a significant positive impact on their future employment prospects.

The government will publish further information on its 'levelling up' plans in a Levelling Up White Paper, to be released before the end of 2021.

Alcohol Duty Reform

Brexit has resulted in freedoms for the UK to set its own laws on alcohol duty resulting in several reform announcements by the Chancellor during his Budget statement.

1. Alcohol duty system will be simplified, reducing the number of rates from 15 to 6
2. Products will be taxed on the proportion of their alcohol content
3. Introduction of a new small producer relief for products below 8.5% ABV
4. Alcohol duty on draught beer and cider reduced by 5%
5. Duty rates on beer, cider, wine and spirits frozen for another year.

The government have opened a consultation on the new alcohol duty system.

Aviation tax reform

To support connectivity across the UK, the government will be introducing a new domestic band for Air Passenger Duty (APD) from 1 April 2023. This will cover flights within the UK.

To align APD more closely with the government's environmental objectives, the government will, in addition, introduce a new ultra-long-haul band. This will cover destinations with capitals located more than 5,500 miles from London.

The APD economy rate for the domestic band will be set at £6.50 for the tax year 2023-24. Short-haul economy rate will remain frozen at £13, and the long-haul economy rate will increase by £3 in line with the Retail Price Index (RPI). The economy rate for the ultra-long-haul band will be set at £91, which is £4 more than the long-haul band. This will apply across the UK, except for the direct long-haul rates for Northern Ireland, which are devolved.

Fuel duty rates

Fuel duty across the UK will be frozen in 2022-23 at a rate of 57.95 pence per litre. This will be the twelfth consecutive year of the freeze (worth £7.85 billion over the next five years), cumulatively saving the average UK car driver £1,900 when compared with the pre-2010 escalator.

CIPP Comment

The Autumn Budget and SR was eagerly anticipated by the CIPP. The Chancellor took the opportunity to set out a series of spending measures across multiple sectors of the UK economy. Many of these measures are designed to support the government's ambition to invest in the economy, and transition away from the coronavirus support measures that have dominated spending over the past eighteen months.

Public sector pay rises, increases in NLW and NMW and the introduction of the health and social care levy were public knowledge before the Budget announcement. This resulted in the Budget announcement itself generating few surprises that directly impact payroll professionals across the UK.

The CIPP welcome the government's response to correct the net pay anomaly in pensions tax relief, however it is yet to be seen how successful the government solution will be in practice. It is likely payroll teams will need to play a future role in providing information and guidance to employees who will be entitled to this relief.

The CIPP notes the absence of further detail on the health and social care levy. The Budget would have provided an ideal platform to provide answers to many of the yet unanswered questions. However, the CIPP continues to work closely with HMRC, working through the detail on this new levy.

Speculation on the student loans plan two threshold has continued for several weeks, yet it was also notably absent from the Budget announcement. Payroll professionals will have to continue to wait for further updates on this topic.

With the Budget complete, and the SR setting departmental Budgets to 2024-25, it's reassuring to see more certainty and long-term visibility returning to the economic picture. However, as payroll professionals know, the only constant is change! And the CIPP will continue to keep you up to date on future developments.