Autumn Budget 2022
Reaction from across Quilter

Date: 17 November 2022

Following the Autumn Budget, we have collated reaction from across Quilter.

This includes:

1. Market Reaction

2. Income Tax

3. Triple Lock Pensions

4. Capital Gains Tax

5. Inheritance Tax

6. Dividend Allowance

7. Lifetime Allowance

We have also provided a full summary of the key points announced which you can **read here**.

Market reaction - Marcus Brookes, chief investment officer at Quilter Investors

"Today's Autumn Statement has painted a bleak picture for the UK with a black hole of £54bn being plugged with a mixture of spending cuts and tax rises. We have come a long way since the mini budget of just eight weeks ago when the Office for Budget Responsibility was cast to the side-lines. It has equally produced a glib outlook for a UK economy that is already in recession. The OBR has forecast peak inflation in 2022 with slow moderation going forward. It is, however, a lagging indicator and the economy will continue to slow in 2023.

"Markets originally reacted well to the steady hand of Jeremy Hunt. They will continue to give him the benefit of the doubt and see the impact of this plan, however, there is also a chance that they see this as an overcorrection and that the measures could stifle what economic growth was present. The government will be hoping that these measures are merely temporary in order to stabilise the ship ahead of an election in just two years' time.

"Hunt made clear that fiscal and monetary policy must work together. However, given interest rate expectations have moderated of late and economic growth turning negative, and remaining sluggish after getting back to positive territory in 2024, the Bank of England may need to pause or pivot in monetary policy sooner than we may have previously expected. Monetary and fiscal policy will need to adapt quickly or find themselves out of lockstep in 2023.

"For investors, the UK remains somewhat of a difficult place to judge right now. We are not necessarily at the end of the train of bad news and with a prolonged recession priced in we may need to wait for a more sustained downward path of inflation. However, fixed income looks more attractive than it has in quite some time, while quality companies with resilient revenue streams will outlast any recession that does take root. Being selective with the opportunity set will be key, but it is important investors are not put off by the bleak news and simply sit this period out."

Income tax - Shaun Moore, financial planning expert at Quilter

"Just eight weeks after the announcement that the top rate of income tax would be abolished, Jeremy Hunt has pulled a quarter of a million more people into the top rate which will cost them each £620 on average. The 629,000 people already in the higher rate bracket will pay just under £1,250 more in tax.

"Someone earning £130,000 will pay an additional £243 a year in tax which increases to £743 for those earning £140,000 a year. People earning £145,000 a year meanwhile will see a tax bill £993 higher.

Impact on take home pay of reduction higher rate tax threshold to £125,140

Salary	Tax before	Tax after	Impact
£130,000	£44,460	£44,703	£243
£135,000	£46,460	£46,953	£493
£140,000	£48,460	£49,203	£743
£145,000	£50,460	£51,453	£993
£150,000	£52,460	£53,703	£1,243
£160,000	£56,960	£58,203	£1,243
£170,000	£61,460	£62,703	£1,243
£180,000	£65,960	£67,203	£1,243

£190,000	£70,460	£71,703	£1,243
£200,000	£74,960	£76,203	£1,243

"With the UK government facing pressure on its finances following the pandemic and energy price guarantee, Hunt has cast aside Kwarteng's theory that you can cut taxes to increase revenue and instead is seeking to fill the black hole by hitting the wealthy through a combination of tax increases and stealthy allowance freezes. However, these are often the people who can afford to plan their tax affairs and are likely to have more than one source of income, therefore it is likely to see an increase in the take up of tax advice.

"If you are likely to be pushed into paying the highest rate of tax, it's a good idea to plan your strategy in advance. One common approach is to save extra money into your pension, as it reduces your salary for income tax purposes, and it could bring you back down a tax band. Although this will mean bringing home less money at a time when prices are soaring.

"There are other ways you may be able to get yourself back into the 40% tax bracket. For example, through a salary sacrifice scheme, if you're not too far over the threshold, you can give up some of your salary in exchange for a benefit. Other options include gifting to charity."

Freezing income tax thresholds

"As rumoured, the Chancellor has frozen income tax thresholds for basic (20%) and higher rate (40%) taxpayers for a further two years.

"Our calculations show that if wage growth is on average 5% per year for the next five years but income tax thresholds remain frozen then someone earning £35,000 today will be £695 worse off in the 28/29 tax year and cumulatively £2,016 poorer over the five-year period.

"Similarly, if you earn £50,000 today, then you will be £3,403 worse off in the 28/29 tax year and in total be £9,765 poorer over the five-year period. Even with wage growth of just 3% per annum for the next five years, someone earning £35,000 today would still be £400 worse off in the 28/29 tax year and £1,178 poorer over the five-year period if income tax thresholds remain frozen. And with 3% wage growth someone earning £50,000 would be £1,939 worse off in the 28/29 tax year and £5,592 poorer over the five-year period.

"These calculations illustrate the power of fiscal drag and how freezing income tax thresholds is a form of stealth tax. Ultimately, if thresholds remain frozen for a number of years, then people will end up paying considerably more tax."

3% wage growth					
	Amount worse off after				
Starting salary	1 year	2 years	3 years	4 years	5 years
£25,000.00	£75	£153	£233	£316	£400
£35,000.00	£75	£153	£233	£316	£400
£50,000.00	£321	£708	£1,106	£1,517	£1,939
£70,000.00	£377	£765	£1,165	£1,577	£2,002
£100,000.00	£977	£1,983	£3,020	£4,088	£5,187

5% wage growth					
	Amount worse off after				
Starting salary	1 year	2 years	3 years	4 years	5 years
£25,000.00	£126	£258	£396	£542	£695
£35,000.00	£126	£258	£396	£542	£695
£50,000.00	£572	£1,229	£1,919	£2,643	£3,403
£70,000.00	£628	£1,288	£1,981	£2,708	£3,472
£100,000.00	£1,628	£3,338	£5,134	£7,019	£8,500

**These calculations assume that wage growth increases by 3 and 5 per cent per annum and compares the tax paid if current bands remain frozen against the tax paid if the personal allowance, the basic rate band, the £100k personal allowance taper limit and additional tax rate band all increase in line with wage growth.*

Triple lock pensions - Jon Greer, head of retirement policy at Quilter

"Following weeks of mounting concern, pensioners across the country can breathe a sigh of relief as Chancellor Jeremy Hunt has finally put the rumours to rest and confirmed that the government will honour its manifesto promise of keeping the triple lock in place for the 2023-24 tax year.

"Pensioners suffered a miserly 3.1% increase in the State Pension in April 2022 after the triple lock was scrapped last year following an anomalous rise in earnings and have increasingly struggled to make ends meet as inflation continued to rise and their purchasing power was diminished. The triple lock commitment will see the full new state pension – for those reaching state pension age from 6 April 2016 – rise to £203.85 per week, or £10,600.20 per year as a result of the 10.1% inflation figure seen in September.

"Committing to the triple lock will be extremely costly to the Treasury, but given soaring inflation, the alternative would have been too politically damaging. Inflation has already increased by a further 1% to 11.1% since the triple lock inflation linked increase was set in September, so the government had to act to prevent more pensioners from slipping into poverty as everyday costs soar.

"While the government has confirmed the triple lock has been reinstated for now, there is still a chance we could come across the same issue next year. The Bank of England has predicted inflation may drop to 7.9% by Q3 next year, so keeping the triple lock in place may prove less expensive from 2024. However, given the turbulence in government decision making we have seen in recent times, we know there are no real guarantees that the triple lock will go untouched for a second year.

"Reinstating the triple lock this year was ultimately the right move and it will go a long way towards supporting pensioners through these challenging times. However, the triple lock does not work for everyone, and perhaps it is time the government assessed whether there is a fairer way to raise the state pension going forward, while preventing more people slipping into the poverty net and having to choose between heating or eating."

	Full new state pension	**Basic state pension**
2022/23	£185.15	£141.85
CPI Sept	**10.1%**	

2023/24	£203.85	£156.20
CPI Sept (assumed Q3 2022)	**7.9%**	
2024/25	£219.95	£168.55

Weekly figures rounded to the nearest 5p.

Capital Gains Tax - Rachael Griffin, tax and financial planning expert at Quilter

"As was expected the Capital Gains Tax allowances have been slashed to help plug the fiscal blackhole the UK is suffering. It was ripe for the chopping block as just 323,000 taxpayers in 2020/21 suffered a CGT charge and so will not turn out to be politically damaging when the Conservatives need to help bolster their image with the general public.

"The annual tax-free allowance for capital gains will be cut from £12,300 to £6,000 next year and fall to £3,000 from April 2024. This will spell bad news for anyone looking to sell shares, other assets or second homes.

"Take for example a second homeowner who bought their property five years ago for the average house price in 2017 of £227,000. They would have made a gain of £67,559 at today's average house price of £294,559 and therefore next year when the allowance is cut to £6,000 would pay £17,236 in CGT and if they sold the year after would pay £18,076 when the allowance is £3,000 assuming they are higher rate taxpayers.

"These changes will only come into effect from April 2023 so while the sale of a second property is hard to shield from these changes to CGT, there is still time use up ISA allowances which would be exempt from CGT altogether if you were to sell shares. So the message after today's budget is seek advice and make changes while you still can."

Inheritance Tax - Rachael Griffin, tax and financial planning expert at Quilter

"As had been widely anticipated, the Chancellor has confirmed that inheritance tax (IHT) thresholds will be frozen for a further two years – a move which is likely to net more than an additional £1 billion for government coffers by the 2027/28 tax year according to OBR forecasts.

"The number of people caught in the IHT net has been rising for several years now, largely due to the significant rise in house prices which has led to more estates being pulled in due to property wealth. While house prices have seen a small dip already and are expected to cool further given the current economic circumstances, this is unlikely to help reduce IHT bills for some time yet so people must take action to mitigate the costs themselves where possible by making the most of other tax and thresholds.

"The average UK house price was £294,559 in September 2022 – this is just £30,441 lower than the nil rate band which has now been frozen for a further two years. While house prices have been tipped to drop by around 10% during 2023, in previous years we have seen house prices grow considerably. Should we see a rebound in house price growth following any fall – which is very likely given the levels of supply and demand in the UK – in the years the nil rate band is frozen, the average house price is almost certain to tip over the threshold. Likewise, the residence nil rate band has also remained frozen at £175,000.

"Extending the frozen thresholds for an additional two years will amount to an inheritance tax raid by stealth, but the government has clearly deemed this acceptable as it struggles to cope with the significant debt it took on to survive the events of the past couple of years, as well as the unenviable task of alleviating the cost-of-living crisis.

"In addition to the extended freeze on IHT thresholds, it is important to remember that gifting allowances have also been greatly diminished as they have not increased with inflation, which also reduces people's ability to mitigate IHT. The government opting to leave gifting allowances untouched as well as freezing the IHT threshold amounts to a double whammy that will not only see IHT bills mount, but also prevents people from increasing the flow of intergenerational wealth which could have helped to take the sting out of the financial hardships many are facing."

Dividend allowance - Shaun Moore, financial planning expert at Quilter

"Jeremy Hunt has slashed the dividend allowance from £2,000 to £1,000 from next year and to £500 from April 2024. The dividend allowance was introduced to help savers in 2017. Having initially been at £5,000, it has been frozen at £2,000 for the past five years, however, the £2,000 allowance covered the majority of savers' dividend income. The Chancellor's move will mean more people end up paying tax on their dividends.

"For a basic rate taxpayer, the reduction in the dividend allowance to £1,000 will mean they will end up paying £87.50 more in tax. Similarly, if you are a higher rate taxpayer this rises to £337.50 more in tax and £393.50 if you are an additional rate taxpayer. From April 2024, a basic rate taxpayer will pay £123.75 more, increasing to £506.25 and £590.25 for a higher rate and additional rate taxpayer respectively.

Dividend allowance			
	Cost for basic rate taxpayer	Cost for higher rate taxpayer	Cost for additional rate taxpayer
£1,000	£82.50	£337.50	£393.50
£500	£123.75	£506.25	£590.25

"Dividends are a popular way of creating a regular income from investments and therefore reducing the allowance will mean those who rely on dividends for the bulk, or all of their regular income will see this taxed at a much higher level when held outside of a 'tax wrapper' such as an Isa or pension.

"To avoid paying more tax than is necessary on dividends, you should ensure you are making use of all available tax shelters, such as the generous £20,000 Isa allowance. Furthermore, if you are a higher rate taxpayer, it may make sense to plan as a family and transfer shares to another family member who is in a lower tax bracket. You can also make use of children's Jisa allowance which is set at £9,000 annually."

Lifetime allowance - Jon Greer, head of retirement policy at Quilter

"Future retirees will be pleased that the government have not announced any plans to continue freezing the lifetime allowance past 2026. Having done so would drag significantly more people into paying the charge each year. It is clear the government was treating pensioners and those about to retire with kid gloves during this budget likely because they see them as the only way to another election win in two years' time.

"It is also worth remembering that one of the groups worst impacted by the lifetime allowance freeze is doctors and the uncomfortable consequence of maintaining LTA at the current level for longer would have also potentially meant there was a knock effect to NHS too.

"We know that the previous reductions in the lifetime allowance were linked to a number of doctors leaving the NHS, or reducing their hours significantly, because many doctors see the LTA as a cap to their pension and the point at which they should consider retiring or reducing their workload. Decisions on retirement had the LTA remained frozen may have been expedited. This would have meant there was a serious reduction in the number of highly experienced doctors leaving the profession at an already difficult time for the NHS.

"While today may be one of celebration for pensioners, uncertainty over the state pension age remains for those who are a few decades from retiring and we will have to wait and see what the review of the state pension age brings when its published in early 2023.

"The triple lock is eye wateringly expensive, and it seems inevitable that eventually push will have to come to shove and the policy is tweaked otherwise we will have this continual argument each year."