Perspective
MANAGING WEALTH

Autumn Budget Statement
October 2021

When the Chancellor stood up in March to introduce his Spring Budget, we were still in the midst of the pandemic and debt levels were at record highs. At that time, we were warned that the economy could take some time to recover and as a result, many tax allowances such as the Personal Allowance, Pension Lifetime Allowance and Inheritance Tax Threshold were frozen until 2025/26.

This concern over debt levels and lower than expected economic growth was further acknowledged in September when, rather surprisingly, the main National Insurance levels were increased by 1.25% to help fund the NHS and Social Care bill.

Therefore, when the Chancellor arose and confirmed his Spending Review, it was somewhat of a surprise to hear that the economy has recovered much better than had been expected back in March. This then took us further by surprise when he confirmed that the extra cash will not be used to manage the debt or reduce some of the changes announced earlier in the year. Instead, it would be used to increase Public Spending, with the announcement that every Government Department would see a real rate of increase in their funding levels.

Chancellor Rishi Sunak (image source: The Times)

This left us in the rather unusual space of having a Conservative Government managing an historically high tax burden, a phrase that is very rarely used.

However, in terms of Personal Finance, we are pleased to confirm that no news is definitely good news. So often, we have had to manage changes to taxation, pension legislation tinkering or Inheritance Tax rules being created. Therefore, it is sometimes quite a relief to announce that nothing has changed concerning any of these matters.

However, that must not deflect from the increases in both National Insurance or Dividend allowances that were announced recently and further details concerning those matters are confirmed below. These increases once again highlight how important it is to consider all options when considering remuneration from your Employment, as both Employer and Employee pension contributions are not affected by these increases.

National Insurance and Dividend Tax Increases

In September, the Government decided that it required further income to fund increased health and social care costs. Therefore, they confirmed that certain national insurance contributions (NICs) paid by both employed and self-employed workers will rise by 1.25% from April 2022.

This will then be amended slightly in 2023, when the new 'health and social care levy' element will be separated out and the exact amount employees pay will be visible on their pay slips. They also confirmed that it would be paid by all working adults, including workers over the state pension age, unlike other NICs. Finally, it was also established that UK Dividend tax rates will rise by the same amount from the next tax year as well.

The increases from April 2022 are as follows:

National Insurance

Class 1 Employee – Increase from 12% to 13.25%
Class 1 Employer – Increase from 13.8% to 15.05%

Dividend Tax

Basic Rate – Increase from 7.5% to 8.75%
Higher Rate – Increase from 32.5% to 33.75%
Additional Rate – Increase from 38.1% to 39.35%

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Perspective Financial Group Ltd
Lancaster House, Ackhurst Business Park,
Foxhole Road, Chorley, Lancashire PR7 1NY

Tel: 0161 244 9759
Web: www.pfgl.co.uk
Email: enquiries@pfgl.co.uk