SPRING BUDGET 2024

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Government attempts to draw dividing lines over tax in pre-election Budget

This was a Budget not of big bangs but of incrementalism, aimed at dangling some reforms now with a promise of potentially far more tomorrow. A message that the Conservatives were back to being the responsible party of government and that by sticking with them the public could expect a pathway to bigger, bolder changes down the line.

The radicalism many were hoping to see in what could be the last major fiscal event before the election did not materialise, though, with the Chancellor Jeremy Hunt opting for cuts to national insurance over income tax, the better understood and more totemic of the two.

Cuts to national insurance contributions (NICs) are, though, as the Institute for Fiscal Studies noted, a less risky way to go. Many firms will have been hoping to see the further 2p cut matched with reductions to employer NICs, but the focus was firmly on employees and the self-employed. “Helping working people” has a ring to it - especially in an election year - and this theme looks set to continue with hints from the Chancellor that phasing NICs out altogether might be an election offer.

KEY ANNOUNCEMENTS

- 2p cut to National Insurance
- Abolition of the current non-dom tax regime
- Covid Loan Recovery Scheme for small businesses extended by two years
- Full Expensing scheme expanded
- VAT registration threshold for SMEs to increase from April
- New levy on vapes and a rise in tobacco duty

As trailed in the run up to the Budget, the Chancellor was more than happy to copy and paste some of Labour's headline pledges in the hope that he will get the credit while putting them in a bind. He therefore confirmed he was abolishing "non-dom" tax status – which Labour called a "desperate move" from the government after so many years opposing it - and extended the oil and gas windfall levy. Both parties will need to be careful in Scotland, however, where the latter is welcomed neither by industry nor indeed the unions.

Rather than voting against Conservative moves to cut taxes, Labour are backing the NIC reductions, and likely to quietly support moves to support small business in raising the threshold for VAT registration. The latter has been a key ask from the SME community, led by the Federation of Small Businesses, although it has not increased as far as many would like (rising from £85,000 to £90,000).

The Chancellor was quick to pin the blame for this on Brussels, citing limitations on replication in Northern Ireland due to the UK's Brexit deal and an unwillingness to have substantial differences in VAT between Great Britain and NI. As a sweetener and mark of the recent deal to restore devolved government there, the sole Budget trade measure was also a £2 million funding pot earmarked for boosting trade opportunities for Northern Ireland.

For the financial sector, there was a re-emphasis of the government's push to require various pension schemes to disclose their investments in UK equities as well as confirmation of the Treasury's mooted intention to regulate ESG ratings. Fuel and alcohol duties were also frozen, with the caveat that complex post-Brexit changes to the way wine taxation is calculated have been confirmed to go ahead in 2025.

Incrementalism to attract investment also seems to be the name of the game for energy reforms as well as other parts of the financial sector. The introduction of British Savings Bonds and a new British ISA perhaps deflects from the fact that much of the FS market really wants more simplification of the existing ISA regime. And while the confirmation of a budget for the next clean power auction round may have seemed substantial on the surface (£1 billion with £800 million ringfenced for offshore wind projects), it follows on from government increasing the reserve price late last year. Context – as ever - is everything.

Jeremy Hunt and Rishi Sunak have made much of their quest to stabilise the UK's finances to allow for the 'responsible reforms' that enable them to say they are cutting taxes at the next election. This Budget was part of that pathway, and the question is just how much bolder they can be in the Conservatives' economic offer to the country when it goes to the polls.

Because if Sunak and Hunt remain convinced they need a big bang on the economy to give them a chance of overturning Labour's huge lead in the polls, this Budget on its own won't be enough.

BY ALLIE RENISON

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Labour attacks 'desperate' government and looks to dodge political traps

Labour leader Keir Starmer described the Budget as the "last desperate act of a party that has failed."

The Chancellor's announcements attempted both to achieve cut through with voters ahead to the next general election and to lay political traps for a Labour Party that looks on track to form the next government. These included a 2p cut to employee national insurance, reforms to the non-dom tax status, expansions to child benefit eligibility, and extensions of cost-of-living support schemes.

Responding to Hunt's promises of "permanent cuts in taxation" and the prospect of further tax reductions in the future, Starmer criticized the Chancellor's approach as one of "giving with one hand and taking even more with the other." Despite this, Labour pledged support for the national insurance cuts, citing their longstanding calls for reducing the tax burden.

The Budget also saw a significant U-turn from the Conservatives on the non-dom tax relief scheme on overseas earnings. Hunt announced plans to scrap the scheme, getting ahead of a major Labour proposal which was intended to fund several of the party's top line manifesto commitments. Labour seized upon the reversal, labelling it as "humiliating" for a Conservative party that had until recently been criticising the idea as the wrong move. Members of the shadow frontbench team are already briefing that Labour has been anticipating this move for some time now, claiming that it will have little impact on its manifesto plans.

Nevertheless, if Labour does indeed win the election, this Budget has undeniably left them with a challenge. There will be £800 million less available for day-to-day departmental spending from 2025-26, making it even harder to see how Labour's ambitious plans to reform struggling UK public services could be realised without raising taxes.

Labour's commitment to its fiscal rules and cautious economic messaging is electorally sensible. Yet some of its current careful balancing act may not survive contact with being the party of government – and Labour will need to figure out a way to manage this if it ends up writing the next Budget.

BY IMOGEN SHAW

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ABOUT SEC NEWGATE

SEC Newgate's public affairs team draws on cross-party political experience to shape policy and deliver campaigns that reach the right people, change perceptions and achieve results. If you have any questions or would like to discuss how the measures announced in the Budget 2024 – and the upcoming general election - affect your organisation, please contact: publicaffairs@secnewgate.co.uk