17 October 2022: 'The Growth Plan' – a further update

At 6.00 am on Monday 17 October, the Treasury issued a [press release] announcing that the (new) Chancellor, Jeremy Hunt, would making a statement "bringing forward measures from the Medium-Term Fiscal Plan". The timing of the press release suggested that the Treasury was concerned it had not done enough the previous Friday to calm markets ahead of the end of Bank of England gilt purchase support.

The Chancellor's statement was in two parts: firstly, a pre-emptive media statement in the morning, then an official statement to the House of Commons in the afternoon. He announced what amounts to a near total unwinding of Kwasi Kwarteng's 'fiscal event' of 23 September.

Measures revoked

- The cut to 19% in the basic rate of tax (outside Scotland) from 2023/24 will not take place. Instead, basic rate will remain at 20% "indefinitely", meaning that even Rishi Sunak's 2024/25 scheduled timing has been dropped.

- The off payroll working rules in the public and private sectors (often referred to as IR35) will remain in place, reversing their removal at the start of the next tax year.

- The 1.25 percentage points reduction in dividend tax rates, due from 2023/24, will be scrapped.

- VAT-free shopping for overseas visitors will not be re-introduced.

- There will now be no freeze on alcohol duty for one year from February 2023.

Under review

- The Energy Price Guarantee (EPG), which was due to cap average domestic bills at £2,500 a year for two years from the start of October, will be scaled back to last only until April 2023. In the meantime, the Treasury will design "a new approach that will cost the taxpayer significantly less than planned whilst ensuring enough support for those in need". Any support for businesses from April 2023 "will be targeted to those most affected".

Measures retained

- The reduction in national insurance contributions, which reached its third reading in the House of Lords on 17 October, will go ahead.

- The stamp duty land tax cuts that took effect on 23 September will not be reversed.

- The extension of the £1 million annual investment allowance beyond March 2023 remains, as do enhancements to the seed enterprise investment scheme (SEIS) and company share option plans.

Financing

The measures unwound today account for about £11 billion of the extra £45 bn of borrowing by 2026/27 created by the 23 September 'fiscal event'. The U-turn on abolishing the top 45% rate of tax (outside Scotland) and Friday's decision to keep the already legislated for corporation tax increases were worth about £21 bn, implying that over 70% of Kwasi Kwarteng's planned borrowing spree has now disappeared.

Based on recent analysis by the Institute for Fiscal Studies, the 2026/27 financing black hole that remains after all the unwinding is about £32 bn, although press rumours at the weekend suggested that the Office for Budget Responsibility (OBR) could add another £10 bn to the IFS's debt projection.

The Chancellor stated that there will be "more difficult decisions" to come on both tax and spending. Government departments will be asked to find efficiencies within their budgets. In his initial statement Mr Hunt also said, "Some areas of spending will need to be cut."

Further changes to fiscal policy to put the public finances on a sustainable footing will be announced on 31 October alongside the publication of the OBR's Economic and Fiscal Outlook.