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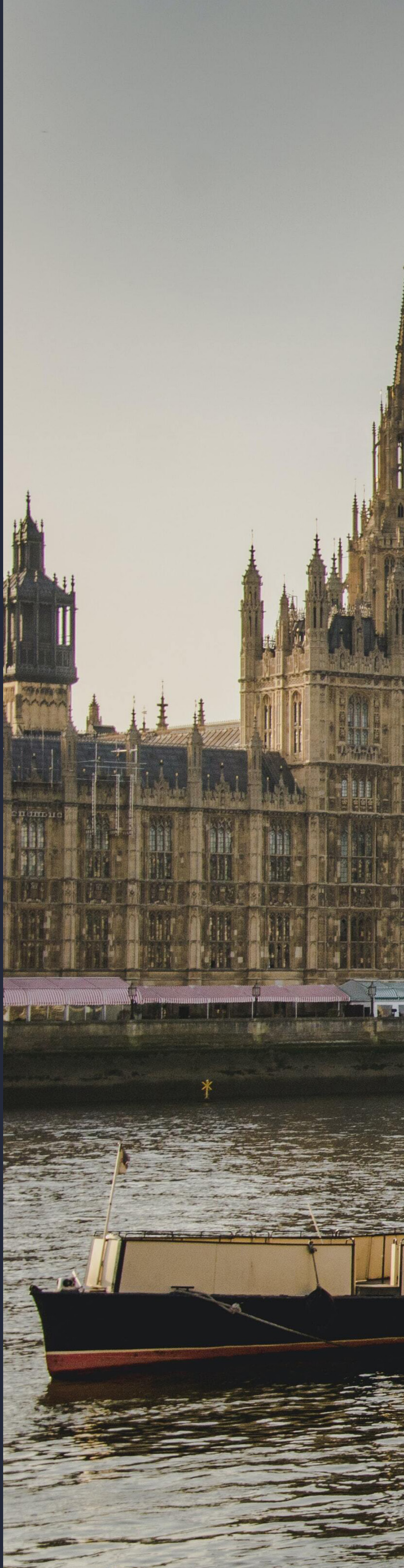
Mini-Budget Key Takeaways and Reaction

September 2022



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Last week's 'Mini-Budget' and Growth Plan 2022 from new Chancellor Kwasi Kwarteng set out several measures aimed at kickstarting the UK economy. While the reaction so far has been mixed, many of the measures highlights the UK Government's increasing focus and attention on small and medium-sized enterprises (SMEs) and the role they can play in driving the UK's economic growth. We outline the key takeaways below, and offer our insight into what it means for our core business areas.

Key Takeaways

- The basic rate of Income Tax will be cut to 19p in the pound from April 2023, while the 45% Income Tax rate for higher earners is to be abolished.
- The 1.25% increase in National Insurance contributions announced in April 2022 is to be reversed from 6th November 2022.
- The Treasury estimates these tax cuts combined will cost roughly £45bn a year by 2026.
- Stamp Duty is cut from today, and will not be paid for the first £250,000 of a property's value (twice the current threshold). The threshold for first-time buyers is increasing from £300,000 to £425,000.
- The 2023 planned rise in Corporate Tax from 19% to 25% is cancelled.
- Tax reliefs available through Venture Capital Trusts (VCTs) and the Enterprise Investment Scheme (EIS) have been extended (see below for more details).
- Regulations will change to increase investment by pension funds into UK assets, benefiting savers and boosting economic growth, while also incentivising investment into Britain's science and tech companies.
- The Annual Investment Allowance – a tax relief for businesses on plant and technology investment – will remain permanently at £1m, rather than the planned reduction to £200,000 previously scheduled for March 2023.
- New 'investment zones' will be introduced across 38 regions of the UK, which will offer businesses tax cuts and reduced regulation.

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Blackfinch Asset Management Insight

Gareth Deacon
Investment Director

Gareth Deacon, Investment Director, said:
"The most acute reaction to last week's Mini-Budget has been on the value of sterling. In what has already been a torrid year for the currency, sterling fell to below $1.10 against the US dollar, a low not seen since before decimalisation in 1971. Confidence in the UK, from an international viewpoint at least, has clearly taken significant damage, and it will take time for this to be repaired. This damage is also evidenced by another drop in the value of UK government debt, with a significant amount of additional public borrowing required to fund the tax cuts, bringing losses on a passive basket of gilts to more than 28% year-to-date.

Fixed income markets have clearly been dealt a significant amount of damage from the inflationary pressures and monetary policy revisions we have seen this year, and with the UK Government's actions also impacting bond values, it seems to have led some to believe there is no chance of bonds recovering any time soon. However, with any fall in asset values comes potential opportunities for investors to look past the short-term volatility and focus on a medium to long term investment horizon. With some economists calling for an emergency Bank of England meeting, in the hope that a further rise in interest rates may help calm the storm, investors will be watching very closely for any further announcements from both the UK Government and Bank of England in the coming days."

Ventures Insight

Within its September Mini-Budget and Growth Plan 2022 the Government announced it was extending both EIS and VCT schemes beyond their 2025 sunset clause. In a further commitment to supporting entrepreneurs in the UK, the Seed Enterprise Investment Scheme (SEIS) will also be significantly expanded. Further detail is expected shortly but in summary:

- From April 2023, companies can raise up to £250,000 of SEIS investment, a two-thirds increase.

- To enable more companies to use SEIS, the gross asset limit will be increased to £350,000.
- The age limit for SEIS investment will increase from two years to three years.
- The annual investor limit will be doubled to £200,000.
- These changes will help more than 2,000 companies a year that use the SEIS to grow.

As Kwasi Kwarteng noted, *"We want this country to be an entrepreneurial share owning democracy. The Enterprise Investment Scheme and Venture Capital Trusts, we will extend beyond 2025. The Seed Enterprise Investment Scheme and Company Share Option Plans, we will increase the limits to make them more generous. Crucial steps on the road to making this a nation of entrepreneurs."*

Mark Brownridge
Blackfinch Strategic Relations Director

Mark Brownridge, Blackfinch Strategic Relations Director and former Director General of the EIS Association, the trade body for the EIS and SEIS industry, said: *"This is the culmination of years of lobbying during my time at EISA, and a long overdue vindication of the merit and worth of SMEs in the UK. As the Government notes, these change will help at least 2,000 companies get the funding they most desperately need to deliver on their ambitions. For Blackfinch, this enables us to work with even more progressive founders and fund even more innovative and growth-orientated businesses. We look forward to the opportunities this Mini-Budget presents."*

Mark added: *"The changes announced amount to the most radical shake up to the VCT, EIS and SEIS market since 2017. By making this announcement as part of its very first budget, this Government has signalled just how importantly it views these schemes, and the key role individuals play in fuelling investment into early-stage businesses. Investors have been crying out for a stable, positive environment that enables them to invest with confidence in this market. They now have it."*

Dr Reuben Wilcock
Head of Ventures

Dr Reuben Wilcock, Head of Ventures, said:
"This announcement gives assurances to businesses and investors alike that VCTs, the EIS and the SEIS are here to stay for the long term, and are considered a vital and much-valued part of the funding ecosystem for small companies in the UK. As early investors, we know companies rely on a continuum of funding. These changes will allow us to invest and work alongside our portfolio at every stage of their growth journey, helping them turn cutting-edge technologies into successful businesses."

Richard Cook
Founder and CEO

Richard Cook, Blackfinch Group's CEO, said:
"This was clearly a Mini-Budget, despite its many critics, that placed businesses at the heart of the UK's planned return to growth. With Corporate Tax remaining at 19% all businesses will benefit, but we are particularly excited about the positive effect this will have on our renewable energy business. As champions of renewable energy, we are playing a key role in the UK's transition to a greener energy mix, and these measures will provide the renewables sector, and ultimately the UK, with a welcome boost towards achieving a clean energy future."

For more information on Blackfinch Group, please visit **www.blackfinch.com**, or speak to one of our team on **01452 717070**. If you would like to find out more about our tax efficient investments and how we can support your work with clients, please contact your local Business Development Manager.