RAYMOND JAMES

# Spring Statement: What does it mean for your finances?

Chancellor Rachel Reeves' second round of fiscal announcements since last year's general election took place yesterday. How might it affect you?

The Budget is the traditional occasion for the government to announce broad tax and spending measures. Yet with a backdrop of weak growth and higher borrowing costs, not to mention additional strain from renewed defence spending, yesterday's Spring Statement was a little bit more than a routine economic update.

Explaining that her fiscal rules are "non-negotiable", the Chancellor announced cuts to government spending to avoid a breach. The rules involve balancing the budget by 2029/30 so that day-to-day spending is met by tax receipts and ensuring overall national debt falls by that time.

## A rock and a hard place

Despite some fire and brimstone in the Chancellor's delivery in the House of Commons yesterday, the revised forecasts for the UK economy and public finances from the government's official forecaster, the Office of Budget Responsibility (OBR) paints an uncomfortable picture.

The OBR slashed the GDP growth outlook for this year to just 1% from the 2% it predicted last October. It also upped its inflation forecast to 3.2% and predicts price rises will not fall to the target before 2027. This economic cocktail of weak growth and high inflation is an unpleasant one to swallow and would have resulted in the Chancellor shattering her fiscal rule without taking corrective action in the form of £14bn of spending cuts.

There was, however, a more optimistic picture for the next four years with the OBR revising growth assumptions marginally upwards, almost making up for the 2025 downgrade over the five-year time frame. This was largely the result of the Chancellor's planning reform policies now being integrated into longer-term forecasts.

Ahead of the day, Ms Reeves had emphasised this was not to be a "tax and spend" event so it was not a surprise to see her resist new tax rises. The government's promise not to raise personal or corporate tax rates alongside some worrying early signs in the jobs markets will have also prevented her from opting for hikes. There is just too much risk in terms of upsetting profitability, growth and employment. The focus was therefore on reducing spending. However, there were a few items of note for personal finances in the accompanying documents.

## Possible changes to ISA rules ahead

There have been rumours circulating for the past few weeks that the government is considering making changes to ISAs to encourage more people to invest rather than save.

Treasury documents released after the Spring Statement confirmed it is investigating reforms to "strike the right balance" between cash and equities to earn "better returns for savers, boost the culture of retail investment and support the growth mission".

This implies the cash ISA limit could be cut in future. Under current rules, savers and investors can split their £20,000 ISA allowance across the different ISA types, primarily Cash ISAs and Stocks and Shares ISAs, as they see fit.

Encouraging greater use of the Stocks and Shares ISA over their cash equivalent could help more people build wealth over the long term and help direct capital towards productive investment, so it's understandable why the government wants to examine this. However, a convoluted system of an ISA allowance with a sub-allowance in cash could introduce unwanted complexity into the ISA landscape. It's also important for those with shorter-term objectives or who cannot tolerate any risk are not penalised.

Elsewhere, it was confirmed that ISA limits will remain at current levels up to and including the 2029/30 tax year. This provides some certainty, though the overall limit of £20,000

has now been in place since 2017 at which time earnings and the cost of living are much higher. If the allowance had been uprated by inflation since it went up to £20,000 it would be over £26,000 by now, which means today's savers and investors are more restricted in building a tax efficient pot.

## Inheritance Tax receipts set to grow

There has significant pushback around some of the Chancellor's planned measures around inheritance tax (IHT) announced in October's Budget. However, there was no further update on the cap on exemptions on business assets and agricultural land from 2026, nor the inclusion of pension pots in estates from 2027.

The changes will be of great concern to owners of family businesses and farms who aim to pass assets to the next generation. They potentially face additional complexities and large tax bills, especially in the absence of judicious financial planning.

According to OBR projections released alongside the Spring Statement, IHT will bring in around £67 billion between 2024/25 and 2029/30, a £2.5bn boost to government coffers compared with forecasts made in the Autumn Budget. Frozen tax-free bands have long been dragging more families into paying IHT, but the net is set to widen to vast proportions with the Chancellor's scheduled changes.

*If you have any questions about how the Spring Statement might impact you, please contact your wealth manager or financial planner. They can provide personalised advice and guidance tailored to your financial situation.*

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