THE SPRING STATEMENT EXPLAINED

ECONOMIC OUTLOOK, FISCAL STABILITY AND PLANNING REFORMS

HjP
CHARTERED

WWW.HJPCHARTERED.COM
MAIL@HJPCHARTERED.COM
01442 872 878

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INTRODUCTION

The Government of the United Kingdom has typically held two major fiscal events each year – the Autumn Budget and the Spring Statement – with each updating on the economy's performance, significant tax changes, fiscal measures and adjustments to allowances. In 2024, however, Chancellor Rachel Reeves committed to limiting major tax changes to one fiscal event a year, meaning that she had no new tax policies to introduce at the Spring Statement on 26 March 2025.

Despite the absence of immediate changes to personal or business taxation, this Spring Statement remains highly relevant for individuals, business owners and accountants. The Office for Budget Responsibility (OBR) released its latest Economic and Fiscal Outlook (EFO) alongside the Chancellor's speech, containing revised forecasts for growth, inflation, borrowing and debt. These forecasts inform the government's approach to public spending, highlight existing economic challenges and shed light on how the government aims to meet its self-imposed "fiscal rules" in the years ahead.

The year so far has been characterised by continuing external uncertainties. The global economy continues to experience notable shifts in growth patterns, trade relationships and geopolitical concerns – many of them linked to the war in Ukraine, ongoing supply-chain disruptions and the tail-end pressures of the global pandemic. Higher interest rates in numerous major economies have raised the cost of government borrowing, while many countries confront stubborn inflation rates. Against this backdrop, the Chancellor's Spring Statement takes on additional importance as it clarifies how the government plans to navigate these uncertainties and improve the UK's fiscal position while attempting to foster growth and protect public services.

This guide aims to provide a clear breakdown of the Statement's content, its potential impacts on individual taxpayers and its significance for businesses. It also aims to clarify how the government's spending decisions may lead to opportunities or challenges for different sectors of the economy. Finally, it explores the relevant announcements regarding the welfare system, which may affect workforce participation rates, and the additional funding for defence and infrastructure projects, which in turn could stimulate employment and growth in specific industries.

OVERVIEW OF THE SPRING STATEMENT

On 26 March 2025, Chancellor Rachel Reeves delivered her Spring Statement in the House of Commons, followed by the publication of a series of official tax-related documents on gov.uk. While the Chancellor's speech itself contained no major new tax measures, these supporting documents clarify a number of supplementary items. In particular, they confirm:

- an increase in penalties for late payment of VAT and MTD for income tax
- guidance on draft legislation for potential future changes to Making Tax Digital (MTD) record-keeping requirements
- preliminary consultation points regarding possible alignments of tax deadlines across income tax and corporation tax.

These clarifications reinforce that no immediate changes to headline tax rates or allowances took effect on 26 March 2025 but shed light on the government's future direction. As a result, attention now shifts to the Autumn Budget, though small administrative adjustments or pilot schemes may still emerge in the interim.

Key themes that emerged from the Statement include the following.

- **Maintenance of fiscal rules:** The government insists it remains on track to balance the budget by 2029/30 (in line with its “stability rule”). Despite a downgraded growth forecast in the immediate term, careful management of departmental spending, efficiencies in welfare and the generation of additional tax revenue through enhanced compliance measures have enabled the government to maintain a projected surplus of £9.9bn in 2029/30.

- **No immediate tax announcements:** True to her word, the Chancellor introduced no new tax or duty changes. All eyes therefore remain on the Autumn Budget, where there may well be “tax gymnastics” (as some commentators have suggested) to tackle an uncertain fiscal outlook.

- **Defence spending and national security:** Against the backdrop of continuing global tensions, the government pledged an additional £2.2bn for the Ministry of Defence in the 2025/26 financial year. The priority here is ensuring military readiness, the acceleration of new technologies and supporting global alliances, which the Chancellor hopes will also offer an economic boost via growth in high-tech research and innovation.

- **Housing and planning reforms:** A significant portion of the government’s growth narrative revolves around boosting housebuilding to levels not seen in over 40 years. According to OBR analysis, the government’s planning reforms could deliver a major fillip to economic growth over the next decade, with forecasts indicating a cumulative uplift to gross domestic product (GDP) by 2029/30 (and potentially beyond).

- **Reduced projections for 2025 growth:** The OBR has revised its 2025 growth projection downwards from 2% to 1%. However, it simultaneously indicated slightly improved prospects for each subsequent year to 2029, suggesting that while caution is warranted for the current period, there remains some optimism for the medium term.

- **Efficiencies in the public sector:** Beyond the headline defence and housebuilding announcements, the Chancellor outlined a goal to bring public spending under tighter control by cutting costs, streamlining processes and cancelling thousands of government credit cards. She reiterated that while the government stands by its commitment to invest in strategic sectors, it also seeks to reduce inefficiencies in day-to-day operations.

ECONOMIC OUTLOOK AND GROWTH FORECASTS

The OBR is an independent body charged with providing objective analysis of the UK's public finances and the macroeconomic environment. Its forecasts have a significant influence on government policy, shaping the context within which Chancellors deliver Budgets and Statements. For the Spring Statement 2025, the OBR outlined a central scenario based on available data through early March 2025. While it is impossible to predict every factor in a constantly shifting global economy, the OBR uses a blend of recent economic data, known policy positions, and modelling assumptions to produce its best estimate of future growth, inflation, borrowing and other key indicators.

GROWTH FIGURES FOR 2025

According to the latest OBR economic and fiscal outlook, the UK's real GDP growth for 2025 is now forecast at 1%, which is half of the previous 2% estimate from October 2024. Multiple factors drove this revision: persistent inflationary pressures, higher global borrowing costs, geopolitical uncertainties and lingering disruptions to trade. Furthermore, the ongoing conflict in Ukraine continues to cast a shadow over energy prices and supply chains, making both businesses and consumers more cautious.

It is important to note that the OBR's forecast aligns with global concerns that many advanced economies are seeing downward revisions in short-term growth, especially given uncertainties around commodity pricing, fiscal tightening and monetary policy shifts (such as rising interest rates).

MEDIUM-TERM UPGRADES (2026-2029)

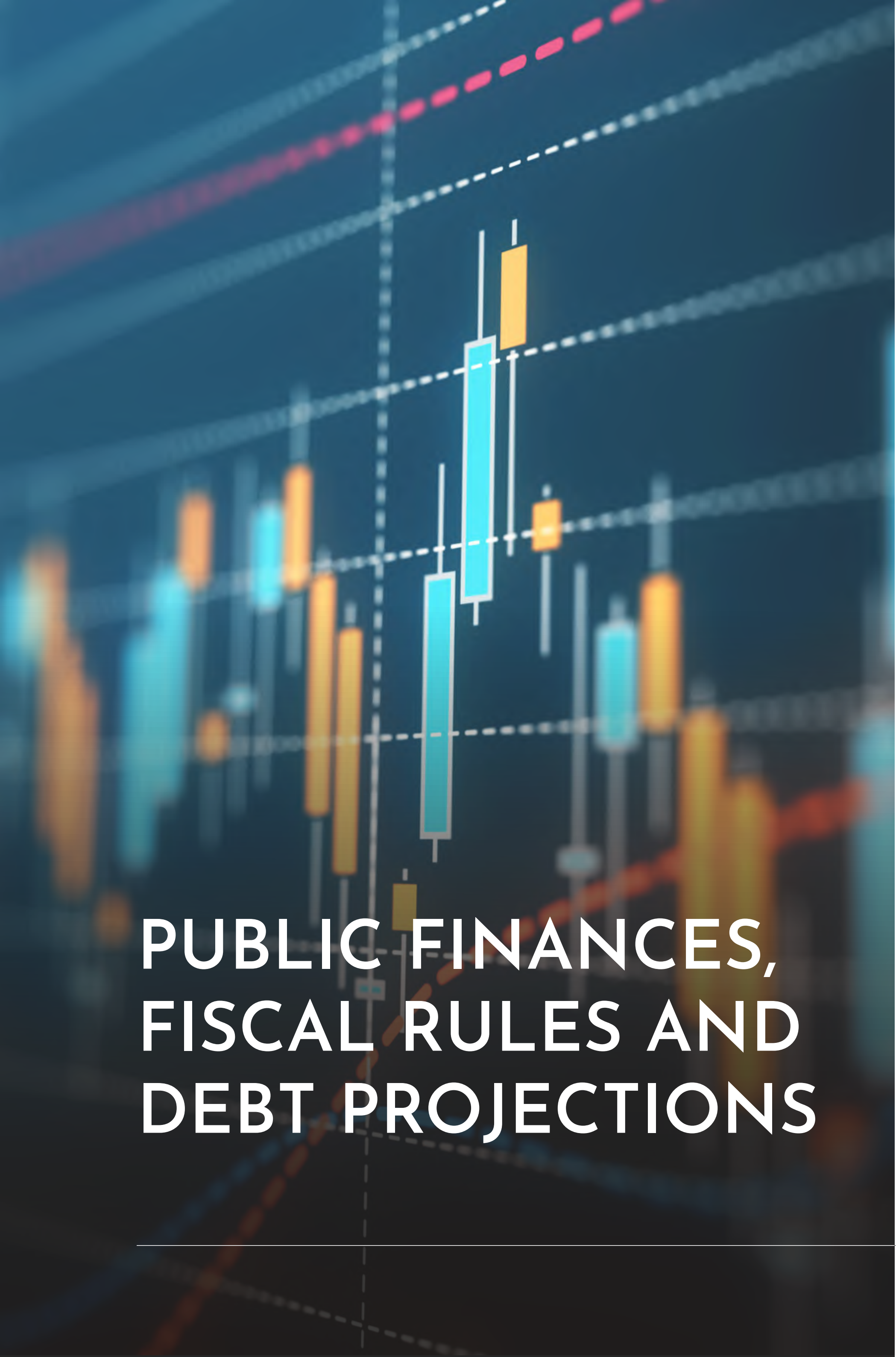
Despite the downgrade for 2025, the OBR upgraded its growth outlook for every year from 2026 through 2029. The projected figures (ranging from around 1.7% to 1.9%) reflect an expectation that some of today's headwinds, particularly inflation, energy price volatility and supply-chain constraints, will gradually subside. This outlook also incorporates potential economic boosts from higher levels of infrastructure spending, defence expenditure and an anticipated uptick in housing construction.

From a macro perspective, the OBR seems to suggest that once short-term pressures ease, the UK economy has the capacity to expand at a moderate but sustainable pace. The government's stated objective is to catalyse growth via targeted investment – especially in skill-building, advanced technologies and the construction sector – rather than relying on broad-based tax breaks or large-scale spending in multiple policy areas.

INFLATION AND THE COST OF LIVING

The OBR forecasts an average Consumer Prices Index (CPI) inflation rate of around 3.2% for the full year 2025, dropping further to 2.1% in 2026 and then stabilising at 2% from 2027. While the government welcomes the downward trend, many households and businesses have had to manage a period of elevated prices, especially for energy. The OBR's projections indicate that the worst may be behind us in terms of sustained inflation, though actual outcomes will hinge on global energy prices, interest rate policies and the state of consumer confidence.

For individuals, an easing of inflation translates into more stable household budgets and less pressure on disposable incomes. For businesses, it may lead to more predictable operating costs and potentially reduced wage demands over time – though much will depend on sector-specific factors, labour market tightness and continued uncertainties in the global environment.



PUBLIC FINANCES, FISCAL RULES AND DEBT PROJECTIONS

A prominent feature of this year's Spring Statement is the government's reaffirmation that it remains on course to meet its fiscal rules: balancing day-to-day spending (the "current budget") by 2029/30 and ensuring net debt is falling as a share of GDP from 2027/28.

FISCAL HEADROOM

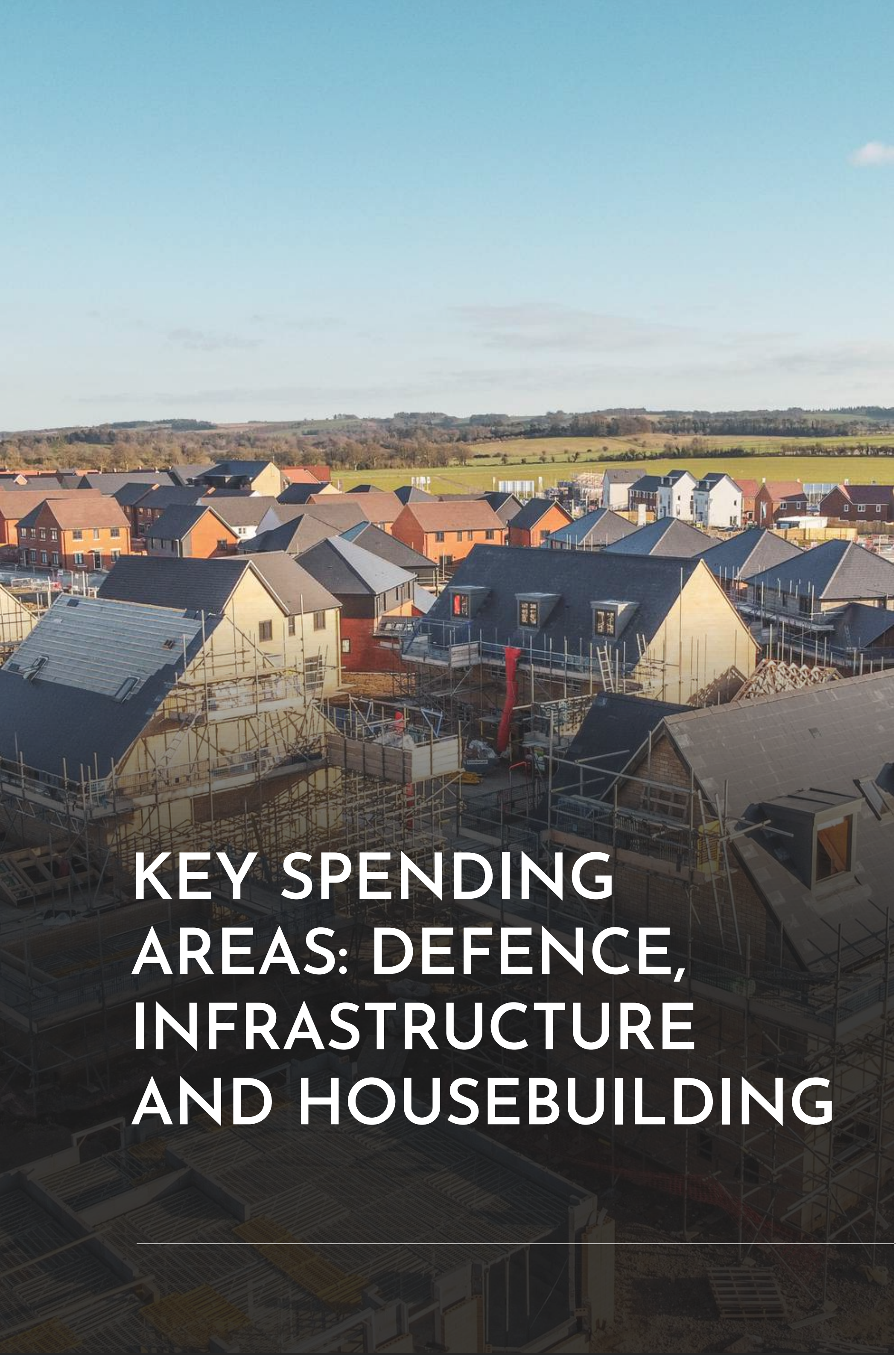
When the Chancellor delivered the Autumn Budget in October 2024, she claimed to have around £9.9bn of "fiscal headroom" for the 2029/30 year. Subsequent changes in the economic outlook – particularly higher interest rates and altered productivity assumptions – threatened to erode that headroom, to the extent that some officials predicted a £4.1bn deficit in the same year. However, the government has responded by cutting back day-to-day departmental spending, introducing efficiencies in the welfare system and allocating resources in a way designed to maintain a target surplus of roughly £9.9bn by 2029/30.

The Chancellor's statement emphasised the significance of this surplus figure. It essentially means that, if the OBR's forecasts prove accurate, the government will still meet its stability rule two years ahead of schedule, providing a buffer should the economic situation deteriorate. While a £9.9bn surplus is modest when considered in the context of total government spending, it represents critical headroom that might protect the UK from unexpected shocks, such as sudden interest rate hikes or further geopolitical turmoil.

DEBT DYNAMICS

Public sector net debt, as a share of GDP, is forecast by the OBR to fall from 95.9% in 2024/25 to 95.1% in 2025/26, then climb back to 96.1% by 2029/30. Although these levels remain high by historical standards, the brief decline in 2025/26 provides a short-lived easing in the debt path, aligning with the government's "investment rule."

From 2026 onward, debt edges upward again, highlighting potential fiscal pressures if borrowing costs rise more than projected. As long as interest rates remain around current expectations, the government anticipates this level of debt will stay manageable. However, a sharp increase in bond yields or other market shocks could quickly undermine these forecasts, pushing debt-servicing costs higher and limiting fiscal flexibility



KEY SPENDING AREAS: DEFENCE, INFRASTRUCTURE AND HOUSEBUILDING

The Spring Statement shed light on three major spending avenues that underscore the Chancellor's fiscal priorities: defence, infrastructure and housebuilding.

DEFENCE

A heightened threat environment, particularly in Eastern Europe, has prompted the UK Government to promise a noteworthy additional £2.2bn in defence spending for 2025/26. Specific allocations include accelerating technological upgrades – such as directed-energy weapons for the Royal Navy – and improving the accommodation and welfare for service personnel.

From an economic perspective, increased defence expenditure has a potential multiplier effect, particularly when invested in cutting-edge research, domestic manufacturing capacity and innovation. Academic studies suggest that targeted defence spending, especially in advanced technologies, can stimulate growth by fostering high-tech clusters, encouraging collaboration between universities and the private sector, and creating highly skilled jobs.

INFRASTRUCTURE

In the pursuit of sustainable growth, the government announced an extra £13bn in capital investment in infrastructure projects, on top of the £100bn uplift introduced at the previous Autumn Budget. This funding aims to spur a wide range of public works, including transport improvements (for instance, expansions to major airports), enhancements in digital connectivity, and upgrading local and regional amenities.

The Chancellor emphasised that well-chosen infrastructure projects can catalyse private investment, boost productivity and support the broader economy. Projects under consideration could include expansions in key corridors such as the Oxford-Cambridge region, which is recognised for its growth potential in technology and research-driven industries. By linking new housing developments with improved transportation, for example, the government hopes to realise significant knock-on benefits for both businesses and communities.

HOUSEBUILDING AND PLANNING REFORMS

One of the centrepieces of this Statement is a renewed focus on boosting housebuilding. Updated planning reforms aim to streamline the approvals process and increase the supply of new homes, with an explicit target of reaching levels of housebuilding not seen in four decades. According to the OBR, successful implementation of these reforms could raise economic output by 0.2% in 2029/30 (around £6.8bn in today's terms) and push borrowing £3.4bn lower in the same period, thanks to broader economic gains.

Housebuilding is not only critical for addressing the UK's chronic housing shortage but also for stimulating the construction sector, which in turn supports suppliers, tradespeople and services related to property development. The government has also outlined a "construction skills package" worth £625m over the Parliament, intended to train an additional 60,000 skilled construction workers to help deliver these projects. These reforms may signal opportunities for expansion, increased subcontracting work and the potential for improved margins if skilled labour supply becomes more readily available. However, it remains essential for businesses to maintain robust financial planning, as the volatility of construction costs and the cyclical nature of the sector can introduce risks.

TAX MEASURES AND HMRC COMPLIANCE INITIATIVES

While the Chancellor did not announce any new tax rates or allowances in this Statement, tax-related documents published that day on gov.uk outline additional details on the government's approach to compliance and enforcement.

LATE PAYMENT PENALTIES

- **Alignment of penalty triggers:** HMRC is examining how best to create a unified penalty framework across different taxes, so that behaviours like late filing or late payment are addressed in a more consistent way.
- **Possible transitional easements:** The consultation explores whether smaller businesses or certain taxpayer groups might benefit from additional time or reduced penalties when adjusting to any new or revised rules.
- **Incentivising positive engagement:** The government is considering how penalties could be tailored to reward taxpayers who take prompt corrective action, make voluntary disclosures or otherwise demonstrate good-faith efforts to comply.

RESEARCH-AND-DEVELOPMENT RELIEF ELIGIBILITY

- **Proposed advance-clearance service:** HMRC is consulting on a new or improved mechanism for businesses to confirm, in advance, which projects are eligible for research-and-development (R&D) tax relief – potentially reducing uncertainty and speeding up the claims process.

- **Scope and eligibility:** The consultation seeks views on what types of R&D activities and businesses should qualify for such pre-approval and what supporting evidence or documentation would be required.

- **Streamlining administration:** By clarifying eligibility before work begins, the aim is to minimise disputes, lessen administrative burdens on businesses and help HMRC allocate resources more efficiently.

- **Stakeholder engagement:** Responses will inform how HMRC designs and implements the service (if adopted), including any fees, timeframes or legislative changes needed to provide certainty to claimants.

Given rising economic pressures, speculation persists about possible changes at the Autumn Budget, such as extending the freeze on thresholds for income tax, national insurance or inheritance tax or potentially introducing new levies to manage budgetary pressures. Nevertheless, no decisions have been confirmed in the Spring Statement.

MAKING TAX DIGITAL EXTENSION

While not framed as a “new” tax measure, the Spring Statement did confirm the timetable for extending MTD.

- **From April 2026:** Sole traders and landlords with incomes above £50,000 will be required to comply with MTD requirements.

- **From April 2027:** Sole traders and landlords with incomes above £30,000 will follow suit.

- **From April 2028:** Sole traders and landlords with incomes over £20,000 will join MTD.

Although around 4 million businesses with incomes below £20,000 remain outside the scope of these expansions, this rolling schedule underscores the government’s broader shift toward digital-first tax administration.

STRENGTHENING HMRC COMPLIANCE

The Spring Statement outlined a plan to raise an additional £1bn per year by 2029/30 through a range of compliance-focused initiatives.

- **Investment in HMRC staff and technology:** An additional 600 staff will be recruited into HMRC's debt management teams, along with 500 compliance officers from April 2025. The Chancellor expects the resulting revenue gains to be significant.
- **Third-party debt collectors:** The government will allocate around £80m in new funding for third-party debt collectors, projected to recover £1.3bn over the next five years. This equates to around £16 of recovered tax revenue for every £1 spent.
- **Late-payment penalties:** Penalties for late payment of VAT and MTD for income tax will be increased, for instance from 2% to 3% at 15 days, 2% to 3% at 30 days, and 4% to 10% from day 31 onwards. This is designed to incentivise timely payment, reflecting the government's need to reduce outstanding tax debt.

Overall, these measures indicate that HMRC will continue to take a more robust approach to tackling unpaid tax, late payments and avoidance schemes. From a practical perspective, all taxpayers – both corporate and individual – should ensure that they maintain accurate records, meet deadlines, and are fully aware of the penalty structures if they fail to comply.

WELFARE REFORMS AND PUBLIC SECTOR RESTRUCTURING

WELFARE SYSTEM OVERHAUL

Although not introduced as an immediate measure, the government reiterated its intent to overhaul certain aspects of welfare assessments, particularly for those with long-term health conditions. The government is aiming to restart Work Capability Assessment (WCA) reassessments for certain cohorts whose condition may have changed.

The OBR factored these proposed welfare reforms into its forecasts, concluding that the net effect could reduce welfare spending by £4.8bn by 2029/30. However, these savings partly rest on assumptions that more individuals with mild-to-moderate conditions will enter employment once certain disincentives are removed and that reformed assessments will better target benefits to those who truly cannot work.

TRANSFORMATION FUND

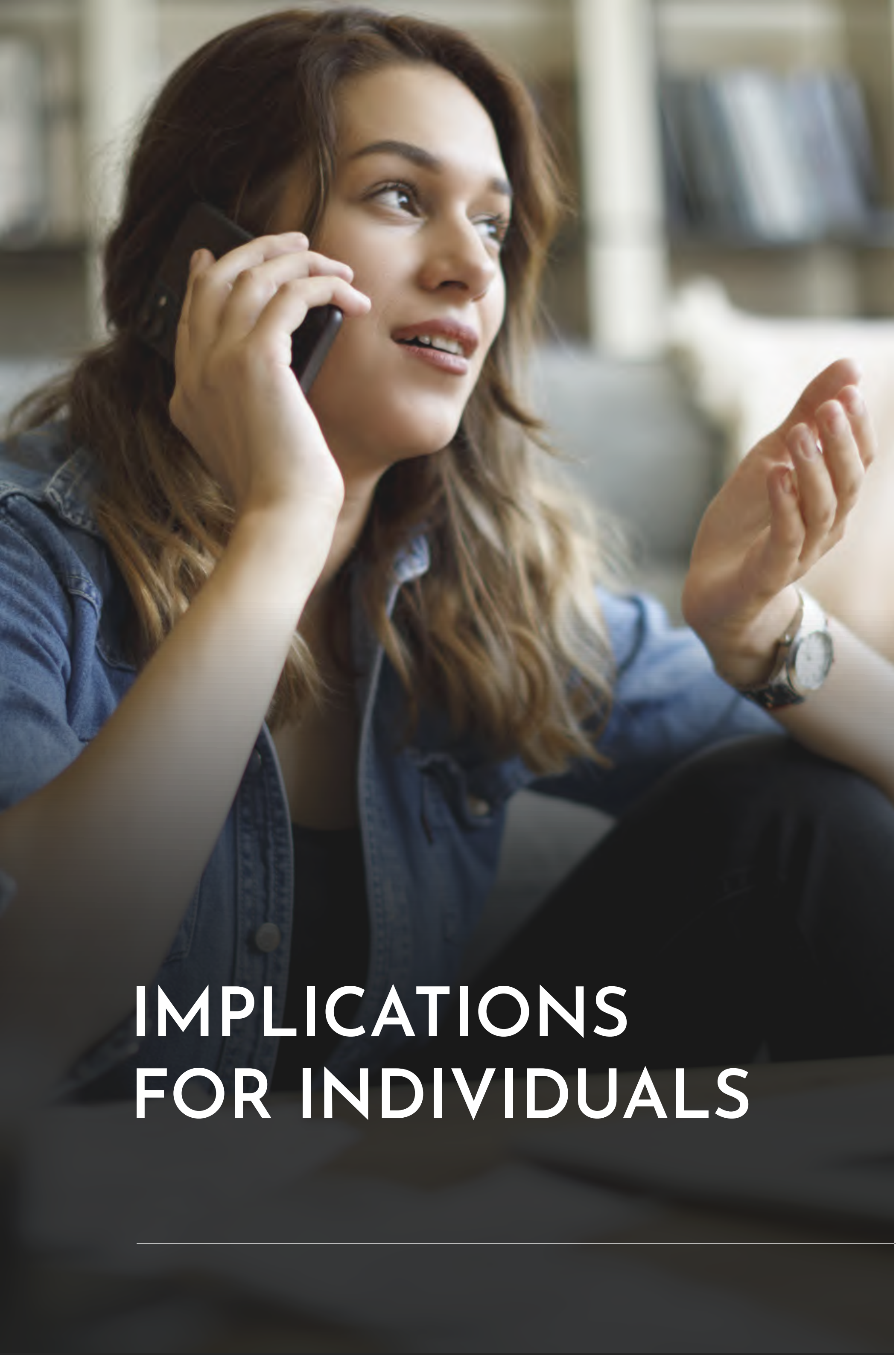
A new £3.25bn Transformation Fund has also been unveiled, dedicated to modernising and digitising public services, delivering frontline improvements and ultimately helping lower long-term administration costs. The government will invest a portion of this fund into the social care system, the probation service and advanced AI-driven administrative processes.

In practice, the success of such measures depends on how effectively local authorities and government departments deploy these funds. If the Transformational Fund meets its goals of improving public service delivery and unlocking efficiency gains, it could help the Chancellor protect key front-line services from deeper spending cuts in the future.

REDUCTIONS IN THE CIVIL SERVICE

Another measure aims to achieve greater efficiency by reducing the headcount in the Civil Service. In parallel, the government is revamping procurement systems, with the aim of cutting wasteful spending on so-called “government credit cards” and centralising certain back-office functions.

Any immediate net effect on the economy is uncertain, as job cuts can initially reduce household incomes. However, if these roles are transferred into the private sector or if re-skilling efforts succeed in placing former civil servants into more productive employment, the net macroeconomic impact could be negligible or even positive. The government’s stance is that maintaining a “lean and agile state” will not only reduce day-to-day departmental expenditure but also potentially free up resources to be invested in new growth-generating initiatives.



IMPLICATIONS FOR INDIVIDUALS

Although the main speech contained no direct tax changes for individuals, the official tax-related documents do provide important clarifications.

- **Personal allowance management:** A technical note confirms that the personal allowance will remain frozen until April 2028, in line with previous announcements. This might increase "fiscal drag" as more taxpayers fall into higher bands over time.
- **MTD implementation guidance:** For landlords or the self-employed who earn above £20,000 per year, the documents detail the minimum software features that must be in place by April 2028. It specifically underscores the need for digital links between invoice data and returns, ending the practice of manual transposition.
- **Consultation on benefits in kind:** One of the policy papers points to a forthcoming consultation regarding green employee benefits, which could potentially affect how electric vehicle charging or company bike schemes are taxed. Although no formal changes are confirmed, individuals using such benefits should monitor future announcements.

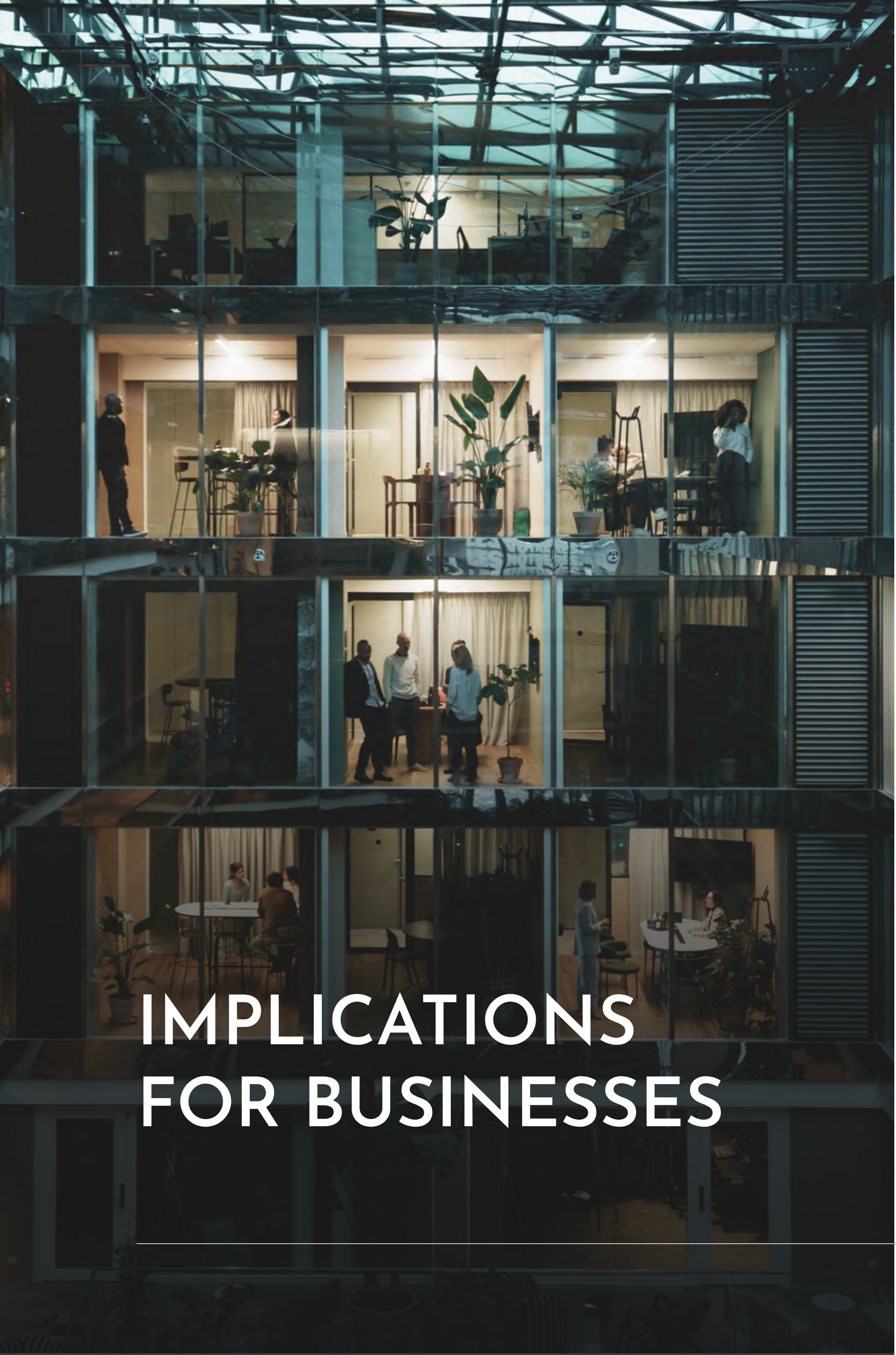
Other primary considerations include the following.

- **Inflation outlook:** Inflation has been trending down (2.8% in February 2025), and the OBR expects it to meet the Bank of England's 2% target from 2027 onwards. A steadier cost-of-living environment could ease pressure on household budgets, although the decline in inflation is gradual rather than precipitous, which means that real wage growth could remain under pressure in some sectors.

- **Welfare changes:** Those receiving long-term health benefits or disability benefits should be aware that future reforms to WCAs could alter how eligibility is determined. While this may simplify processes, it could also change the overall benefit amounts individuals receive, depending on their circumstances.

- **Housebuilding initiatives:** On a more indirect level, the large-scale government push for new housing may influence the property market. In areas that see significant new development, the increase in available housing stock could impact house prices and potentially create new opportunities for first-time buyers or those looking to move within the UK housing ladder.

Overall, the absence of significant personal tax changes in the Spring Statement provides short-term certainty. However, individuals should anticipate that the Autumn Budget could bring adjustments to thresholds or the scope of allowances if the economic outlook shifts or if the government deems further revenue-raising measures necessary.



IMPLICATIONS FOR BUSINESSES

Businesses across all sectors can glean several insights from the Spring Statement and the accompanying tax-related documents.

- **Compliance and enforcement:** A new set of HMRC penalty calculators has clarified how fines for persistent late payment will be calculated over time. Small and medium enterprises should carefully review these examples, as they highlight scenarios involving multiple missed deadlines in a single year.
- **R&D tax relief:** HMRC has proposed an R&D tax relief advance clearance service, letting businesses confirm eligibility before undertaking projects. The consultation seeks stakeholder feedback on practicalities, scope, potential benefits, and overall compliance, aiming to streamline relief claims, reduce uncertainty, and encourage innovation-focused investment.
- **Digital record-keeping:** HMRC reconfirms that bridging software remains permissible for MTD compliance, yet encourages businesses to adopt direct application programming interfaces (APIs) for more robust data security. If your business uses older software or manual processes, additional HMRC guidance is available to facilitate a smooth transition.

- **Stability in the near term:** With no new taxes, duties or major regulatory changes introduced immediately, businesses have a window of stability. This is especially beneficial for small and medium-sized businesses that rely on consistent tax regimes to plan their investments and expansions.

- **Infrastructure opportunities:** The additional £13bn in capital investment could result in more contracts and supply-chain opportunities for businesses involved in construction, engineering, digital infrastructure and related services. For smaller contractors, forming partnerships or consortia might be a way to bid for some of these government-supported projects.

- **Defence-sector growth:** Companies operating within or adjacent to the defence and security sectors may find new opportunities as the government increases investment in emerging defence technologies. This might also have a knock-on effect for professional services firms, technology startups and companies with strong R&D capabilities.

- **Housebuilding and construction skills investment:** The pledge to build up to 1.5m homes in England over the Parliament, along with large-scale planning reforms, may be a positive sign for property developers, construction firms and suppliers of building materials. For such businesses, a focus on recruiting and retaining skilled workers could be crucial given the potential competition for labour, even as the government invests in construction skills training.

- **Compliance risks:** The expanded staffing and investment in HMRC signals a continued zero-tolerance approach to late payment, evasion and avoidance. Businesses of all sizes should ensure strong internal processes for record-keeping and timely tax submissions. The revised late-payment penalty regime makes it even more important to stay on top of compliance.

- **Labour market implications:** Although the government is attempting to encourage more people into work through welfare reforms, the labour market remains tight in some sectors. Businesses reliant on skilled workers – particularly in technology, healthcare or engineering – should keep an eye on any relevant government-led employment incentives and training programmes.

LOOKING AHEAD: AUTUMN BUDGET AND BEYOND

The government has stated it will only hold one major fiscal event a year to implement substantial tax changes – namely the Autumn Budget. As a result, many of the potential policy shifts are expected to arise later this year. Given that the OBR's current forecasts underscore ongoing risks, it is entirely possible the Chancellor could choose to do the following:

- **Extend the freeze on tax thresholds** for income tax, national insurance, inheritance tax and others.
- **Raise certain tax rates** (for example, the higher rate of income tax or specific duties) if growth remains below trend or interest costs rise unexpectedly.
- **Introduce new levies or targeted taxes** – similar to the health and social care levy introduced in previous years – to address potential gaps in health, social care or other priority funding.
- **Revisit capital allowances or corporate tax** structures to incentivise investment while attempting to maintain adequate revenue levels.

The next key milestone before the Autumn Budget will be the Spending Review on 11 June 2025, which promises to provide further detail on departmental budgets for the coming years. The Chancellor has made it clear that it will not be "business as usual" and there could be substantial reorganisation and data-led analysis of how public resources are allocated.

Talk to us about your finances.

IMPORTANT INFORMATION

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to change in the future. The information in this report is based on our understanding of the Chancellor's 2025 Spring Statement and the OBR forecast, in respect of which specific implementation details may change when the final legislation and supporting documentation are published.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based on its content. Pension eligibility depends on individual circumstances.

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First Floor, Audley House, Northbridge Road, Berkhamsted, Hertfordshire, HP4 1EH