

The 2009 Budget

Introduction

On Wednesday 22 April 2009, the Chancellor of the Exchequer, Alistair Darling, presented his first Budget since Britain officially went into recession.



Today's Budget is widely regarded as the most important in decades: with continued economic uncertainty and rising unemployment on the one hand, and sharply deteriorating public finances and soaring levels of public borrowing on the other. The

Chancellor himself acknowledged that this is the most serious global economic turmoil in 60 years, whilst David Cameron has said that this Budget demonstrated that any claim Labour have ever made to economic competence is now "dead, over, finished".

The forecasts announced today represent a significant downgrading on the previous predictions made in last November's Pre-Budget Report. In terms of the UK's economic outlook, Alistair Darling has made the biggest revision of growth forecasts in British economic history. In terms of public debt, the Chancellor has announced an unprecedentedly high level of public debt, which will rise to 79 per cent of GDP by 2013/14.

Despite this, Gordon Brown and Alistair Darling are keen to use this statement to put political distance between them and the Conservative Party, through providing a modest stimulus for growth and promising a "budget for jobs" in order, they claim, to reduce "the length and the severity" of the recession. In addition, the new top tax rate of 50% for those earning more than £150,000 will be viewed by many as politically designed to force the Opposition into a fight on tax and spend.

The Conservatives meanwhile, have argued that today's Budget would prove "the day of reckoning" for Labour and will demonstrate their "record of failure" in handling the economy. The Conservatives have made clear that they would clamp down on spending as a priority to tackle the "atrocious" state of the UK's public finances, should they win the next General Election.

The measures contained in the Budget will, therefore, be almost certain to set the terms for an electoral contest that will in effect run between now and this time next year.

Economic Outlook and Public Finances

UK economic outlook

- The UK economy grew by 0.75 per cent in 2008, compared to 3 per cent in 2007.
- It is forecast to contract by 3.5 per cent in 2009. This represents the biggest revision of growth forecasts in British economic history (down from the 0.75 to 1.25 per cent forecast contraction in last November's Pre-Budget Report).
- The Chancellor forecast that the economy would begin to grow by the end of 2009 and that there would be growth of 1.25 per cent in 2010, and 3.5 per cent in 2011.
- UK export markets had grown by 2 per cent in 2008, but are now forecast to contract by 8.75 per cent in 2009 and a further 1 per cent in 2010.

Inflation forecasts

- The Budget confirmed that the 12-month inflation target remains unchanged at 2 per cent.
- Consumer Price Inflation (CPI) peaked at 5.2 per cent in September 2008. CPI was 2.9 per cent in March 2009, while Retail Price Inflation (RPI) was negative 0.4 per cent.
- The Chancellor said that CPI inflation was forecast to be 1 per cent by Q4 2009 remaining at this figure for 2010, and rising to 2.25 per cent by 2011. He said that RPI would fall to negative 3 per cent by Q4 2009, returning to 0 per cent by Q4 2010.

Borrowing forecasts

- Government borrowing in 2009/10 will now be £175 billion – 12.4 per cent of GDP. Further borrowing forecasts were:
 - £173 billion or 11.9 per cent of GDP in 2010/11;
 - 9.1 per cent of GDP in 2011/12;
 - 7.2 per cent of GDP in 2012/13;
 - 5.5 per cent of GDP in 2013/14.
- Net debt is expected to come down in 2015/16.
- UK net debt as a share of GDP, which includes the cost of the banking sector recapitalisation, is forecast to increase from 59 per cent in 2009, to 68 per cent in 2010, 74 per cent in 2011/12, 78 per cent in 2012/13 and 79 per cent in 2013/14.

Tax receipts forecasts

- The Chancellor announced that, due to the impact of the recession, the tax take by the Government had fallen 1.2 per cent as a share of GDP in 2008.
- The 2008/09 Treasury projections for Government tax receipts were £575 billion. For 2009/10 HM Treasury is projecting that the Government tax receipt total will be £496 billion, down £79 billion from 2008/09.

Spending, efficiency and asset sales

- Current spending is forecast to grow by an average of 0.7 per cent a year in real terms between 2011-12 and 2013-14 and public sector net investment will move to 1.25 per cent of GDP by 2013-14.
- The Chancellor announced that he was looking for a further £5 billion of efficiency savings in 2010/11, and a further £9 billion by 2013/14.
- The Government have said that they currently aim to realise up to £16 billion of property and other asset sales in the three years from 2011-12, though no asset was named as part of this figure.

Taxation and Regulation

Income tax

- Income tax for those earning more than £150,000 is to rise to 50 per cent from April 2010. This rate has been revised from the 2008 Pre-Budget Report from 45 per cent.
- In addition, top rate tax band earners will have dividend income taxed at a rate of 42.5 per cent and the income tax personal allowance will gradually be restricted (at a rate of £1 for every £2 over £100,000 until completely withdrawn) for those earning more than £100,000. This replaces the two-stage withdrawal announced at the 2008 Pre-Budget Report.
- Trust funds will also be subject to a 50 per cent tax rate.

VAT

- VAT will remain at 15 per cent until December 2009.

Alcohol and Tobacco

- 2 per cent (one penny on the price of a pint of beer; 13 pence to the price of a bottle of spirits and four pence to the price of a bottle of wine) will be added to alcohol duty rates on 23 April 2009. Tobacco duty also rises by 2 per cent (seven pence on a packet of 20 cigarettes).

Fuel duty

- Duty on fuels will rise by 2 pence per litre on 1 September 2009 and subsequently by one penny per litre above inflation each year from 2010 to 2013.

Inheritance tax

- As of 22 April 2009, inheritance tax agricultural property and woodlands relief has been extended to the European Economic Area.

Child tax credit

- The child element of the Child Tax Credit will receive an additional £20 a year from April 2010.

Working tax credit

- Half a million people entitled to Working Tax Credit (WTC) are not currently receiving it. HMRC will use Pay As You Earn Records to identify potentially eligible people and work with employers and Jobcentre plus to increase take up.

National Minimum Wage

- The Low Pay Commission (LPC) will publish in May 2009 their recommendations for October 2009 National Minimum Wage rates.

Corporation Tax

- Corporation Tax for small companies will remain at 21 per cent for 2009-10, as announced in the 2008 PBR.

Company Car Tax

- From 6 April 2011, CO₂ emissions thresholds for main CCT bands will be shifted down by 5g CO₂ per km. The £80,000 cap on company car list prices will be abolished, whilst a system of rewarding lower tailpipe CO₂ emissions will be introduced, replacing the current system of discounts for early-uptake Euro 4 standard diesel cars, higher-emitting hybrid vehicles, gas-powered and biofuel-capable cars.

Tax simplification

- A consultation will be launched this summer on proposed improvements to transactions in securities legislation.
- Corporate gains rules will also be simplified for notional transfers within a group of companies. A discussion document will be launched this summer.
- The three-line account threshold for income tax self-assessment will be aligned with the VAT registration threshold, enabling around 800,000 businesses to submit shorter tax returns.

Tax compliance

- A package of measures designed to prevent tax evasion and avoidance was announced – protecting £3 billion of tax receipts a year by 2010-11. These include:
 - Legislation granting HMRC the authority to publish the names of both corporate and individual taxpayers who deliberately understate more than £25,000 of tax

- A statutory requirement for senior accounting officers of major businesses to personally certify that adequate procedures are in place to prepare accurate tax returns
- More stringent tax reporting regimes for up to five years for those who have incurred a penalty for deliberate understatement of over £5,000 of tax
- HMRC will also be issuing a draft code of practice on taxation for the banking sector shortly.

Tax evasion and avoidance

- The following will be introduced with immediate effect:
 - a foreign exchange targeted anti-avoidance rule to prevent tax avoidance schemes that seek to exploit the foreign exchange tax matching provisions
 - legislation to stop abuse of the manufactured overseas dividend rules, and clarification of the double tax relief rules to counter abusive schemes
 - legislation to clarify the rules of the corporate intangible fixed asset regime by confirming that goodwill is treated as intended
 - legislation to target avoidance schemes involving financial products
- HMRC will also soon be publishing a “Spotlight” on tax avoidance, detailing avoidance schemes that will be challenged when encountered.

Banking and Financial Services sector

Remuneration

- The Financial Services Authority (FSA) recently published a Code of Practice on remuneration which it intends to include in the FSA handbook once the consultation responses have been received and reviewed on 18 May 2009.

Banking industry structure

- The Government has rejected calls to separate investment banking activities from the traditional retail banking functions. Instead, it believes that banking stability is best supported by restraining inherently risky activities through new capital and liquidity requirements.
- With immediate effect, tax barriers to transfers of business between mutual societies will be removed.
- The Treasury will publish a White Paper with recommendations for reforming the banking sector before the summer. This will build on the work already undertaken in the Banking Act 2009, the Turner Review of financial regulation, action at the G20, the Walker Review of corporate governance, and the Foot Review of offshore financial centres.

International banking framework

- The Government intends to press for the strengthening of supervisory colleges’ role in monitoring and dealing with individual firms, and with plans for the FSA and the Bank of England to set up cross-border stability groups with countries with shared financial market interests.
- The Government also wants offshore financial jurisdictions’ business models to be reviewed.

Public spending and key initiatives

Jobs and training

- An increase in the level of statutory redundancy pay, making the weekly rate £380.
- £1.7 billion further funding for Jobcentre Plus.
- A guarantee that everyone under 25 unemployed for 12 months or more will receive either a job or training placement.

Business support

- A £750 million Strategic Investment Fund will be set up to support emerging technologies such as biotech, advanced manufacturing and low carbon technology.
- A 'top-up' trade credit insurance scheme will be introduced whereby the Government will supplement private sector trade credit insurance provision for six months.
- The Business Payment Support Service will be extended until further notice and loss-making businesses will be allowed to offset tax bills on profits from the last three years from 22 April 2009.
- The VAT eligibility threshold for companies will be raised from £67,000 to £68,000 from 1 May 2009.
- The Insolvency Service will consult on ensuring funding is prioritised for companies in Company Voluntary Arrangement (CVA) or administration and extending the moratorium on creditor action against companies entering into CVAs to medium and large companies.
- The Export Credits Guarantee Department (ECGD) will consult on providing Government support for short-term trade finance by sharing risks with banks when approving letters of credit.

Pensions and Savings

- Total annual limits on ISAs will be increased to £10,200 for those over 50 years of age, half of which can be cash, for 2009-10. These limits will be applied to all savers from 6 April 2010.
- The Government will scrap higher-rate tax relief for pensions savings. From April 2011, tax relief on pensions contributions will be restricted for those with incomes of £150,000 and tapered down until it is 20 per cent.
- From April 2011, grandparents and other adult family members who care for their grandchildren or other members of their family aged 12 or younger for 20 hours or more a week will be able to gain National Insurance credits toward the basic State Pension.
- Capital disregards in Pension Credit, and pensioner-related Housing and Council Tax Benefit, will be raised from £6,000 to £10,000 in November 2009.
- Government will contribute additional £100 a year to the Child Trust Fund accounts of all disabled children and £200 for severely disabled children.
- Additional winter fuel allowance payments of £100 for households with someone aged over 80 and £50 for households with someone aged over 60.

Housing

- The Stamp Duty holiday on properties below £175,000 will be extended until December 2009.
- The Standard Interest Rate used to calculate Support for Mortgage Interest will be maintained at 6.08 per cent for six months and then will be reviewed.
- The eligibility criteria for the Mortgage Rescue Scheme will be widened to include households in negative equity.
- A guarantee scheme for asset-back securities will be introduced to run until October 2009 to support banks' lending.
- The introduction of the Community Infrastructure Levy will be delayed until 6 April 2010
- An £80 million extension will be provided to HomeBuy Direct, the Government shared equity mortgage scheme.
- A £400 million package of support will be initiated to kick-start stalled building projects, and £100 million will be allocated to local authorities to build low-energy housing.
- £50 million will be invested to accelerate the modernisation of armed forces' housing.

Energy & Climate Change

- The Government will introduce three Carbon Budgets aimed at cutting emissions by 34 per cent by 2020 and will aim to meet these without purchasing carbon credits from outside the EU Emissions Trading scheme.
- £100 million will be allocated through the Decent Homes programme to improve insulation for 150,000 homes in the social sector. A further £100 million will be granted in Carbon Trust loans to provide energy assistance to small and medium businesses and £65 million will be invested in installing energy saving devices in public buildings.
- £45 million will be invested in bringing forward the installation of small scale electricity and heat generation technologies and £25 million will be invested in community heating schemes.
- The Government intends to provide £525 million of support to offshore wind by rebanding the Renewables Obligation Certificate system and increasing ROCs for offshore from 1.5 to 2.0.
- £405 million of funding will be made available to support green manufacturing and investment in technologies such as wind and marine energy.
- The standard rate of landfill tax will increase by £8 per tonne, as previously announced, on 1 April each year from 2011 to 2013, the rate for inactive waste will be frozen at £2.50 per tonne from 2010-11. The Government will also consult on reforms to modernise the landfill tax system.
- A £10 million grant system will be established to support the development of anaerobic digestion and in-vessel composting infrastructure.
- The Government intend to deliver up to four carbon capture and storage (CCS) demonstration projects. Companies currently undertaking CCS studies will benefit from a £90 million support fund.
- Electricity generated from combined heat and power will be exempted from the climate change levy, following state aid approval, until 2013. The climate change levy will remain at current levels.
- Reforms will be introduced to incentivise the reuse of North Sea oil and gas infrastructure for other projects such as gas storage, carbon capture and storage and offshore wind projects.

Transport

- Fuel duty will rise by 2p per litre from 1 September 2009 and by a further 1p per litre in line with indexation each April from 2010 to 2013.
- Vehicle Excise Duty will be frozen on heavy-goods vehicles during 2009-10 and the Government will introduce measures to incentivise the uptake of vehicles meeting the Euro IV standards.
- The Government will implement a £300 million scrappage scheme to support the motor industry until March 2010, with £2,000 discounts on new cars when owners scrap models more than 10 years old.
- Increases in rates of Bus Service Operators Grants will be tied to achieving fuel efficiency improvements.

Health

- The Department of Health will increase allocations to PCT's by 5.5 per cent
- As part of the Public Value Programme, the Budget states that the Department of Health will deliver billions of pounds per year of cash savings and quality improvements by 2013-14 through improving the capability and planning capacity of NHS commissioners and extending the success of the NHS tariff pricing system into new areas, most notably community services and mental health.
- They will also roll out new metrics to improve utilisation of the NHS estate, reducing the need for new hospital space and saving up to £100 million per year of estate costs by 2013-14.

Education

- New funds for extra 54,000 sixth form and further education places next year, and Scotland, Wales and Northern Ireland will get funding to pay for equivalent measures, in order to meet the guarantee of a place in education and training for every 16 and 17 year old who wants one.
- The Chancellor announced more than £260 million to be spent on training and subsidies to help them get work in sectors with strong future demand (such as technology).
- Over £800 million will be brought forward from 2010-11 into 2009-10 in the priority schools capital programmes. This means more than 100 local authorities can now invest in their priority capital programmes one year earlier; and all head teachers in England are receiving an advance of their devolved formula capital to invest in smaller projects as they see fit.
- Building on the £442 million brought forward in the 2008 Pre-Budget, Budget 2009 announces an additional £300 million of capital funding for investment in Further Education colleges in the 2007 Comprehensive Spending Review (CSR) period. This will enable the Learning and Skills Council to fund a limited number of further projects through the Building Colleges for the Future programme starting in 2009-10, based on prioritisation criteria to be agreed with the LSC and the sector.

Telecommunications

- The Chancellor announced in his speech that he is allocating extra funding for digital investment, to help to extend the broadband network to almost every community. The Government are looking to draw on money from the Digital Switchover Help Scheme to fund Universal Service and take-up. If necessary, the cost would also be met through additional funding mechanisms, as set out in the Digital Britain Interim Report. Details will be set out in the Final Digital Britain Report.
- The Chancellor also states that the Government will review the powers and duties of Ofcom to ensure it can strike the right balance between delivering competition and encouraging investment in the communications infrastructure.
- The Chancellor said that doubling the main capital allowance rate will encourage firms to bring forward investment, in particular those companies in the growth sectors including communications. He said it will mean enhanced tax relief to support investment of £50 billion this year, including £10 billion of investment in the communications sector.
- To stimulate economic activity, the Government has also approved 'Digital Region', a £100 million project led by Yorkshire Forward, which will roll out next-generation broadband to South Yorkshire.

Reaction



Conservatives: Rt Hon David Cameron MP

"This isn't just boom and bust, it's the worst boom and bust ever. As of today, any claim they have made to economic competence is dead; finished."

"This Prime Minister has certainly got himself in the history books - he has written a whole chapter in red ink: Labour's decade of debt."

"What on earth is the point of another 14 months of this Government of the living dead? If they don't have the courage, why not make way for the team that can?"

Liberal Democrats: Rt Hon Nick Clegg MP

The Liberal Democrat leader has blasted the chancellor's Budget announcement as "mish mash of recycled announcements from a government skilled in raising false hopes and incompetent at delivering real help".

"The biggest disappointment of all in this Budget is its failure to sort out Britain's unfair tax system, to put money into people's pockets to help them make it through this recession"



SNP: Stewart Hosie MP

"Labour have chosen to stab at the heart of crucial Scottish budgets in health and education, skills, housing and enterprise. The price will be paid by Scottish families and communities in lost jobs."

CBI: Richard Lambert, Director-General

"The key question for this Budget was whether it set out a credible and rigorous path for restoring the public finances to health. The CBI's preliminary judgement must be that it does not."

TUC: Brendan Barber, TUC General Secretary

"While we can welcome some significant changes in direction and good individual policies, this is still some way short of what was needed to maximise the fight against unemployment and ensure that we emerge from the recession as a fairer, greener and better balanced economy."

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