

BUDGET BRIEFING

The Chancellor, Alistair Darling, delivered his first Budget on 12 March. Widely labelled a 'bad news budget', the Chancellor significantly increased the tax take. In total, the Government will raise an extra £1865 million by 2010, despite significant spending commitments to eradicate child poverty and improve health and education services.

With an economic slowdown and consumer credit crunch, the Chancellor had little room to manoeuvre and has therefore reached for duty increases with immediate bite as the means to pay for tax cuts for vulnerable voters. Not only does the Budget increase taxes immediately on discretionary spending, it also builds in automatic tax increases for 4 years.

Aside from increases in duty, the Budget contained few real surprises or headline grabbing initiatives. Indeed, most of the decisions had been announced in Gordon Brown's Budget of 2007 - again tax increases - but will only take effect this year. As a result, the impact of the Budget will be more significant as direct tax changes begin to bite.

2007 Budget Changes

- In his last Budget as Chancellor, Gordon Brown set out significant changes to direct tax which will take effect for the first time on 6th April 2008. The 10p tax rate will be abolished and the basic tax rate will fall to 20p – a tax increase for the lowest paid.
- All personal allowances will rise in line with inflation to £5435. The 20% tax rate will apply to all earned income over this up to £36,000.
- The most significant change relates to NICs, however. From April 2008, the upper earnings limit will rise by £100 a week, meaning that an employer rate of 12.8% will be applied to all earnings over £105 per week. From April 2009, the upper earnings limit will again increase to be aligned to the level at which higher rate tax is levied.

The Economy

- The stated aim of the Budget was to maintain stability in an economic slowdown and keep inflation low. The 2% inflation target is reiterated - at the expense of growth.
- The economy grew by 3% last year, but following turbulence in the international economy, Treasury forecasts for growth have been downgraded. . Economic growth will slow over the coming year to between 1.75% and 2.25%. There will be a mid-term bounce back to growth of 2.25% to 2.75% in 2009 and 2.5% to 3% in 2010.
- With most commentators agreeing that growth this year will be around 2%, these forecasts appear reasonable but not cautious. The significant point about the growth figures was that the Chancellor acknowledged that whilst growth would return to 2007 levels within 3 years, the growth lost in the meantime would not be made up.
- Chancellor is confident that the UK economy will avoid recession – and went out of his way to talk up our prospects, concerned that we are in danger of talking ourselves into a recession. He boasted that we are better placed than our international competitors and UK growth will continue to outstrip other major economies – avoiding a single quarter of negative growth over the past decade.
- The Budget contained only modest spending commitments, more than funded by the immediate indirect tax increases. Public spending will grow modestly by 2.2% a year for the next 3 years and borrowing will increase by 2.9%.

Business Taxes

- The main rate of corporation tax will fall from to 28% from April this year. This was announced in Budget 2007. The small companies rate of 21% for profits below £300,000. This is the lowest ever UK rate and G7 rate.
- The Budget also confirmed changes to the Capital Gains tax regime. This will see taper relief being withdrawn and a flat rate of 18% being applied. A 10% entrepreneur's rate will be applied to the first £1million of gains over a lifetime. The tax free annual exempt amount will rise to £9,600.
- From April 2008, firms will have an Annual Investment Allowance of £50,000 per annum for investment in plant and machinery. New capital allowance schemes will be introduced to allow companies to write off unrelieved expenditure when capital allowance pools reach a de minimis of £1,000. This removes the need to track small pools over several years to get a relatively small amount of relief. In addition, a new 10% capital allowance rate will be introduced initial and replacement expenditure on integral features of buildings.
- The Budget also launched a series of consultations on further business tax reform. These will report later this year and be taken forward in 2009. They include measures to simplify the returns and calculation of corporation tax for the smallest companies, new PAYE rules for working students and benefits in kind and expense payments.
- Consultation will also take place this summer on a new tax regime for property investment funds, to include the expansion of securitisation transactions into real estate, simplifying the tax treatment of dividends paid by Real Estate Investment Trusts (REITs) into share incentive schemes.
- Stamp Duty Land Tax will also be reformed, with the introduction of a new de minimis threshold abolishing the requirement to certify that no tax is due on transactions below £40,000. Stamp duty and reserve tax barriers to securitisation transactions will also be removed. The SDLT thresholds for non-residential property will increase from £600 to £1000.
- On company cars, the 100% capital allowances for low emission cars will be extended until 31 March 2013. However, the emission levels have been reduced to cars not exceeding 110g/km. There will be a transitional regime for cars leased under the old rules which allowed emissions of up to 120/km.
- Company car tax rates will also be aligned to emissions and increases imposed for all but those emitting less than 135g of carbon dioxide per kilometre. Changes will also be made to the fuel benefit charge from April 2009 to encourage company car users to drive fewer miles.

Business Support & Red Tape

- A new package of measures to improve access to finance and provide better support to new and growing companies was introduced. There will be temporary 20% increase in the funds available to companies through the Small Firms Loan Guarantee Scheme and eligibility will be extended to businesses over 5 years old.
- A new Enterprise Capital Fund will be set up to support mezzanine finance and a fund of £12.5 million will be made available to encourage women entrepreneurs. The investor limit of the Enterprise Investment Scheme will be increased to £0.5 million and further consultation will be held on simplifying the scheme.

- The individual option grant limit for the Enterprise Management Incentive Scheme – which allows smaller, higher risk companies to grant tax advantaged share options to staff – will also be increased to £120,000. This will be restricted to firms with fewer than 250 staff.
- The Chancellor restated the Government’s commitment to reduce red tape and the administrative burden in particular. A consultation will be held on the introduction of regulatory budgets to cap new annually recurring costs of regulation. They will look to pilot this in a sector or across all SMEs.
- The VAT registration threshold will rise in line with inflation to £64,000.

Alcohol Excise Duty

- Alcohol duty will increase by **6% ahead of inflation** this year. A new alcohol duty escalator will be introduced, automatically increasing alcohol duties by 2% above inflation over the next 4 years. This is explicitly designed to ensure prices keep pace with rising incomes.
- Over recent years, alcohol duty increases have been indexed and spirits duty has been frozen. The average increase has been 1p per pint. This year’s increase is 6% above the normal index increase, making it more significant and closer to 9-10%

	Impact of tax increase (duty + VAT)	Volume
Beer	4p	Pint
Wine	3p 14p	175ml glass 75cl bottle
Sparkling Wine	18p	75cl bottle
Spirits	55p	75cl bottle
Spirits based RTD (5.4% abv)	3p	275ml bottle
Cider	3p	Litre bottle
Sparkling Cider	14p	75cl bottle

- The changes will generate an additional £400m revenue in 2008/9, £505m in 2009/10 and £625 in 2010/11. As alcohol forms part of the basket of goods used to calculate RPI, this will have a clear inflationary impact.
- HMRC will also consult later this year on the introduction of a common method of calculating excise duty on all categories of drinks.
- These tax hikes have been introduced despite the Chancellor claiming in February that this was not the way to tackle binge drinking. The Conservatives have condemned the move as penalising the responsible majority.

Other Indirect Taxes

- Duty on cigarettes will be indexed, pegging the increase to inflation or 11p per packet.
- Amusement Machine Licence Duty will also rise by inflation from 4pm on 14th March. Gaming duty bands will rise in line with inflation for accounting periods on or after 1 April 2008.
- This year’s 2p increase in fuel duty will be postponed until October 2008. Main road fuel duties will rise by 1.84p per litre from 1 April 2009, and the fuel duty escalator will be reintroduced from 2010, with a 0.5p per litre above inflation increase.

- From 2009, vehicle excise duty will be reformed, with the introduction of 6 new bands based on carbon dioxide emissions. The standard rate of VED for all new and existing cars emitting less than 150g of CO2 per km will be reduced, but the rate for the most polluting cars will rise to £425 a year.
- For new cars from 2010, the lowest polluting cars will pay no road tax in the first year. Higher polluting cars will pay more, with those with the highest emissions paying £950 in the first year.
- A lower VED rate will also apply to diesel vans meeting EU emission standards.

Training

- Government funding for training will rise to £1 billion by 2010. The Train to Gain scheme for employers will be extended and additional funds will be made available if demand exceeds supply. New Skills Accounts for Learners will be established for all adults to supplement this.
- £60 million additional funding will be made available over 3 years to equip people for the workplace. This will allow opportunities to retrain and for employers to take on adult apprentices.
- New National Skills Academies to drive employer-led excellence in the delivery of skills training by sector will be established by the end of the year.

Conclusion

- Overall this Budget ensured that heavy drinkers and drivers of gas guzzling cars will get a financial hangover whilst promising that the British economy need not suffer one even as the world does.