



## BUDGET BRIEFING 2010

The Chancellor Alastair Darling delivered his Budget on 24<sup>th</sup> March. The Budget will shape the political tax and spend debate for the coming General Election campaign.

There was further bad news for the industry. Whilst his colleague, John Healey, only last week set out a rescue package for community pubs, the Chancellor handed the alcohol industry a £160million tax bill. As previously announced, alcohol duties increased by 2% above inflation – a total increase of 5% for beer and wine and a whalloping 13% for cider, which was hit by a one off additional levy to bring it more into line with taxation on other alcoholic products. The duty escalator was reconfirmed and extended – meaning alcohol duties will increase by 2% above inflation until 2014.

The increases in alcohol excise duty have to be set in the context of the overall economy and government efforts to make in-roads into mountainous levels of debt. With the Chancellor battling to rein in Old Labour tax and spend tendencies, duty was again used to plug the gap between income and expenditure. No Government can afford to go to the polls pledging to cut public spending on front line services, and income tax increases had already been pre-announced so indirect taxation remained the only option.

### ***The Economy***

- Once again, the main focus of attention initially was on the Budget deficit and levels of debt. The Chancellor confirmed that borrowing will be slightly lower than forecast – largely thanks to better than expected income tax, VAT and bankers bonus receipts, the latter suggesting that it failed in its policy objective of deterring large bonuses - it is still running at record levels. Borrowing in 2009/10 will be £167 billion, not the £178 billion forecast but still £163 billion next year (compared to £35 billion as recently as 2007/8).
- The key challenge facing the Chancellor is how to reduce that deficit without jeopardising the fragile economy. The answer this time round appeared to lie in a combination of taxes and wishful thinking. Many questions about fiscal consolidation remain.
- The Chancellor reconfirmed his commitment to cut the halve the deficit over the next four years, (from 11.8% of GDP to 5.2% of GDP) but is relying heavily on economic growth to turn things around. The Budget forecast growth of around 1% in 2010, jumping to between 3-3.5% in 2011 and 3.25-3.75% in 2012. £25 billion of deficit reduction is to come from economic growth.
- No detailed plans to cut expenditure were outlined. In fact public expenditure overall will continue to rise and front-line expenditure on schools, the NHS and overseas aid were explicitly protected. The Institute of Fiscal Studies has warned that Whitehall departments will have to find savings of over £25 bn in the next 2 years to make the Budget calculations stack up. There is little doubt that the necessary cuts and pain will come after the General Election but it is not clear where the axe will fall and what it will mean to the economy.

### ***Business Taxes***

- Picking winners and industrial strategy, once thought of as relics of the Sixties and Seventies, are back big time. The interventionist Business Secretary's fingers were all over the announcements about new growth funds, finance packages and support for small businesses. A new UK Finance For Growth will consolidate existing business support mechanisms and there will be a "£2.5 billion one-off growth package" for investment in skills.



- Better access to capital and measures to improve liquidity were also in the spotlight. The Government will impose loan guarantees on the state-owned banks, requiring Lloyds and RBS to issue £41 billion in business loans. A new Small Business Credit Adjudicator will ensure small companies are treated fairly when applying for loans, with statutory powers to enforce judgements.
- Rates of business taxation remain unchanged. As previously announced in the Pre-Budget Report, the main rate of corporation tax will be 28% from 1 April 2011 and the small business rate will be 21% from 1 April 2010.
- A temporary increase in small business rate relief was announced. Properties with a rateable value of up to £6,000 will pay no business rates from October 2010 for one year. There will be a tapering relief with properties with a rateable value between £6-12,000, attracting significant reductions in rate bills.
- The 40% first year capital allowance will come to an end in April 2010 but the Annual Investment Allowance will be doubled, allowing the first £100,000 of capital expenditure incurred from April 2010 to be offset against taxable profits.
- The threshold for Enterprise Relief will be doubled from 6 April 2010, allowing the first £2million lifetime profits from disposals to attract a 10% rate of CGT.

#### ***Personal Taxes***

- The Budget re-confirmed the planned increases in levels of personal taxation. A new 50% top rate tax band will apply to incomes over £150,000 from April 2010 and those falling within it will have restricted pension tax relief. There will also be gradual withdrawal of personal allowances for those with incomes above £100,000 at the same time. From April 2011 there will be a 1% increase in NICS

#### ***Excise Duty***

- As announced at Budget 2008, alcohol duty rates on beer, wine and spirits will increase by 2 per cent above inflation on 29 March 2010 – effectively a 5% increase from 29<sup>th</sup> March 2010. This will add 2 pence to the price of a pint of beer, 10 pence to the price of a bottle of wine, and 36 pence to the price of a bottle of spirits.
- In a one-off move, rates of duty on cider will increase by 10% above inflation – equivalent to 13%, adding 5p to a litre of still cider and 9p to a 75cl bottle of sparkling cider. From 1 September 2010, the technical definition of cider will be changed to ensure that it is taxed “appropriately” going forward and in the same way as products that resemble made wines. The increase in cider duty will yield £30million in revenue.
- The beer duty escalator – whereby duties are automatically increased by 2% above inflation each year – was extended until 2014, raising an additional £300million in revenue.
- Duty on cigarettes increased by 1 per cent above inflation on Budget day. Tobacco duties will also increase by 2% above inflation in each subsequent year to 2014-15. Increases in petrol duty scheduled for 2010 will be phased: 1p in April, 1p in October and a further 0.76p in January 2011. Fuel will increase by 1p on 1 April 2011 and each April thereafter until 2014.
- Excise duty receipts now account for £46bn or 8.5% of government revenue.



### ***Other Measures***

- Time to Pay arrangements will be extended to help viable businesses facing difficulties in meeting their tax obligations to manage their cashflow and stage repayments.
- Empty property rate relief will be extended to £18,000 until April 2011.
- The VAT threshold will increase to £70,000. As soon as possible after the start of the next Parliament, the Treasury will consult on VAT reform, including restricting the zero rate for postage to only those services Royal Mail is obliged to provide rather than all postal services. It will also ensure that VAT reflects the non-business use of capital assets.
- An extension to March 2012 of the guarantee of work or training for anyone under the age of 24 without a job for six months.
- The commitment to broadband for 90% of the population by 2017, paid for by a 50p per month levy on all landlines, is reaffirmed.
- A new Better Regulation initiative will be taken forward with all departments being obliged to publish 12 month forward plans of new burdens and proposals for simplifications to aid business planning. All consultation will now be required to present a non-regulatory alternative and pass a new affordability test or cost-benefit ratio threshold.
- Amusement machine licence duty will increase in line with inflation from 26<sup>th</sup> March. No reference is made to a potential change away from a licence fee and towards a gross profits tax.

### ***Conclusion***

Mr Darling has sought to walk a narrow tightrope between reassuring the markets of a genuine intention to cut Government borrowing while winning over more of the swing voters Labour need to win. If his Budget leaves Labour no worse off politically, that will be an achievement in itself.