



BUDGET BRIEFING 2009

- The Chancellor, Alistair Darling, delivered his second Budget on 22 April. Not since World War II has a Chancellor addressed the House of Commons against such a gloomy economic backdrop. In the midst of a deflationary recession, he had to unveil rising unemployment, record government borrowing with no scope for tax cuts or public expenditure to soften the news. To quote Wellington, when it comes to public finances “the cupboard is bare”.
- This note supplements the initial briefing circulated to operators on the day and details additional measures contained within the supporting Budget Papers and press releases. It also highlights areas where future consultation was promised.

The Economy

- The Treasury forecasts the economy will continue to contract over the course of this year by 3.5%, with recovery later in the year. The Government predicts growth will pick up in 2010 (1.25%), with strong growth in 2011 (3.5%). These predictions have been widely dismissed as over-optimistic. The IMF is forecasting a 4.1% drop in output this year and a further 0.4% fall next year. Pricewaterhouse is predicting zero growth for 2010 and gradual expansion in 2011.
- Government borrowing is expected to reach £175 billion this year and then fall progressively to 2015/16 when the Budget will be back in balance. Public borrowing will equate to 11.9% GDP this year, 9.1% in 2011/12, 7.2% 2012/13 and 5.5% 2013/14. This equates to debt of £23,000 for every man, woman and child.
- If the Treasury growth assumptions do prove too optimistic, then the deficit will remain higher for longer, and further tax rises or spending cuts will be needed in 2011 and beyond. This has implications for future industry lobbying on tax and duties.

Excise Duty & VAT

- Alcohol excise duties increased by 2% from 22 April. This equates to:

	Budget Announcement	New duty rates
Beer	1p per pint @ 4.2%abv	£16.47 per hectolitre per cent alcohol
Wine	1p per 175ml glass 4p per 75cl bottle	£65.14 per hectolitre 1.2%-4% abv £90.68 per hectolitre 4%-5.5% abv £214.02 per hectolitre 5.5%-15% abv
Sparkling wine	5p per 75cl bottle	£207.20 per hectolitre 5.5%-8.5% abv £274.13 per hectolitre 8.5-15% abv
RTD Spirits	1p per 275ml bottle @ 5.4% abv	£22.64 per litre pure alcohol
Spirits	13p per 70cl bottle @ 37.5% abv	£22.64 per litre pure alcohol
Cider	1p per litre	£31.83 per hectolitre 1.2%-7.5% abv £47.77 per hectolitre 7.5%-8.5% abv
Sparkling cider	4p per 75cl bottle	£31.83 per hectolitre 1.2%-5.5% abv £207.20 per hectolitre 5.5%-8% abv

- Although no mention was made of the alcohol duty escalator this remains in place. The Finance Bill will confirm that alcohol excise duty will rise this year by 2% above inflation although, in a change to current practice, the inflation measure will be the projected rate of RPI this Autumn (forecast to be -1.25%). Normally index-linked increases are referenced back to the rate as at September prior to the Budget. If this measure had been used, excise duties would have increased by 7%.



- The Finance Bill implementing the Budget will also retrospectively confirm the excise duty increases of 8% pushed through in the Pre-Budget Report to take account of the changes to the VAT regime. There are at present no plans to reverse this increase when the VAT rates are increased from 1 January 2010.
- The Finance Bill will also be used to legislate for the changes to the VAT regime. This will confirm that the headline rate of VAT will remain at 15% rate during December and will revert back to 17.5% from 1 January 2010. The legislation will also ensure that VAT is paid at the correct rate on supplies made on or after that date.
- The rate of Amusement Machine Licence Duty will be increased by inflation. Category C duty will be £830 for a 12 month licence. However, the Budget Report states that the rates of AMLD will be recalibrated from 1 June to take account of changes to stakes and prizes. The report also states that a further consultation will be held on whether to base gaming machine duties on a gross profits basis.

Business Support

- The full Budget Report confirms that the rate of corporation tax will remain at 21% for this financial year. It should be noted that the proposed increase in tax has not been abandoned, just deferred and will take effect from next April.
- The proposed loss relief scheme unveiled in the Pre Budget Report is now confirmed and will apply for 2 years from 24 November 2008. This will allow businesses making a loss in the 2008/9 and 2009/10 financial years to carry losses of up to £50,000 back and offset these against profits made in the previous 1-3 years.
- The deferred payment scheme is also to be retained “for as long as it is needed”. This will allow companies to spread tax payments – corporation tax, VAT and PAYE - over a timetable of their choosing. Companies should speak to their local HMRC offices to agree payment schedules to take advantage of this.
- As part of this, the Government has announced that businesses facing an increase in their rates bills from April 2009 as a result of the end of the 2005 transitional relief scheme can spread their increased payments over three years – a 2% annual increase in 2009-10 and the remaining 3% increase over the following two years.
- Capital allowances for new investment will be increased to 40% for one year. Firms investing over £50,000 in qualifying plant and machinery will benefit from higher rate of tax relief. This is in addition to the Annual Investment Allowance which allows capital expenditure to be offset against taxable profits.
- A new ‘top up’ trade credit insurance scheme will be established, under which the Government will temporarily match private sector trade credit insurance provision (for up to 6 months) where insurers reduce cover to any UK business.

Personal Taxes

- A new 50% rate of tax for those earning more than £150,000 pa will be introduced from April 2010 – a year earlier than envisaged. At the same time, personal allowances for those earning more than £100,000 will be fully withdrawn. From April 2011, pensions tax relief will be restricted for those with incomes over £150,000 to taper to just 20%.



- These are significant tax increases for higher earners – and undoubtedly captured the headlines on the day - but are likely to bring in less revenue than the 2p increase in fuel duties. It should also be borne in mind that the Chancellor has already announced plans to increase NICs for all workers from April 2011. This means that whilst the Government will go into the next election promising tax increases for higher earners, we will all pay more tax after the election.

Other Measures

- Motorists will be given £2000 to scrap cars over 10 years old to encourage them to buy new ones. This will be launched next month and details are unavailable.
- £500m of extra financial support will be made available to kickstart the construction industry and promote home building. £750m investment fund for emerging technologies will be established and investment will also be made in 'green collar' jobs and low carbon technologies. An unspecified amount will be invested in broadband expansion.
- The ISA tax free limit will be increased to £10,500 of which £5,100 can be saved in cash.
- £1.7billion will be made available to help the long term unemployed with training and work experience in growth industries.

Conclusion

- Overall this Budget was a set piece event which the Chancellor clearly did not want to participate in but could not avoid. There was little here to mask the grim news of record debt and an empty cupboard. For the trade, the clear message is that there is no scope for excise duty cuts in the foreseeable future – any changes must be revenue neutral.