



BUDGET BRIEFING 2009

The Chancellor, Alistair Darling, delivered his second Budget on 22 April. Seen as a Budget the City will loathe, he outlined massive increases in government borrowing, over optimistic forecasts for future economic growth and a big tax increase for higher rate earners. Old Labour, welcome back – farewell ‘prudence’.

There was little immediate good news for the industry – with 2 per cent increases in alcohol excise duty from midnight tonight. Reference to the alcohol duty escalator and increases over and above inflation were not mentioned nor was their any change to VAT proposals.

Aside from the unveiling pretty dismal economic figures and forecasts for the UK economy, the Budget contained few real surprises or headline grabbing initiatives. The Chancellor seems to be pinning his hopes on an upswing in economic growth from early next year to get him out of a hole. Further details may emerge when the full report and supporting papers are published. This note will be updated to provide a comprehensive update on plans.

The Economy

- Following turbulence in the international economy, Treasury forecasts for growth have been comprehensively slashed. Last year the Chancellor predicted growth of 2.5% this year but it is now expected to shrink by 3.5%, with a contraction of 1.6% in this quarter alone. Future growth forecasts are also scaled back. The Treasury expects the economy to pick up in 2010 with 1.25% growth and 3.5% annually thereafter.
- Given that the Treasury last year confidently predicted 3.5% growth in 2010 these forecasts appear very optimistic. Most commentators do not expect the economy to start growing again until late 2010 – with growth of just 0.3% in 2010. Indeed, the IMF is predicting negative growth in 2010. Even if the economy does pick up, growth is anticipated to be much slower than these forecasts suggest. to pick up more slowly.
- Inflation is forecast to continue falling – with RPI predicted to drop to -3% this September and even CPI to fall to just 1%.
- Although the Budget contained only modest spending commitments, the big news of the day was the historic increases in public debt forecast for the next 5 years. The big rise in borrowing was justified as “investment to help the country grow out of recession”, but many will see it as a very high price to pay.
- The Chancellor argued that fiscal easing of some 0.5% of GDP this year, followed by year on year tightening until 2013/14 will result in the budget deficit being halved over the next 4 years.
- Government borrowing is expected to reach £175 billion this year and then fall progressively to 2016/16 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. The Chancellor argued that this was largely as a result of declining tax revenues – tax as a share of GDP is 1.2% lower than last year.

Business Taxes

- There was no reference to corporation tax, capital gains tax or other business taxes in the Budget. Small measures may be referred to in the full Budget Report and proposals.



- The only announcement in the speech of relevance to business was the confirmation that loss making companies will be able to reclaim taxes on profits made in the last 3 years.

Personal Taxes

- In last year's Pre-Budget Report, the Chancellor floated the idea of a new higher rate tax for those earning more than £150,000 per annum. This has now been confirmed and will now come into effect from April 2010 – a year earlier than envisaged – and at a higher rate of 50%. At the same time, personal allowances for those earning more than £100,000 will be fully withdrawn. This is a significant tax increases for higher earners, but has been criticised by many commentators as raising little money and being too easy to avoid.
- From April 2011, pensions tax relief will be restricted for those with incomes over £150,000 to taper to just 20%. There will be full consultation on the implementation of this later this year.

Excise Duty

- Alcohol excise duty will increase by 2% from midnight tonight. This equates to just under 1p per pint.
- The Chancellor has previously announced that alcohol duties will automatically increase by 2% above inflation over the next 4 years. As inflation is currently almost at zero – and forecast to fall further later this year – this appears to leave the policy unchanged. However, no mention was made of increases in future years and references to indexation and the escalator were conspicuously absent. We suspect that this is designed to give room to manoeuvre.
- Duty on cigarettes will be increased by 2% from 6pm tonight.
- Whilst the Chancellor will keep an eye on oil prices before confirming the increase, fuel duty is expected to increase by 2p per litre from September and by 1p above inflation in the future – this is an effective reintroduction of the fuel duty escalator.
- The new indirect taxes are expected to raise more than £6 billion by 2012.

Other Measures

- Motorists will be given £2000 to scrap cars over 10 years old to encourage them to buy new ones.
- £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.
- £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. A case of grin and bear it.