

## **Pre-Budget Report summary – November 2008**

### **The Pre-Budget Report 2008 24 November 2008**

Chancellor of the Exchequer Alistair Darling has delivered a much-anticipated Pre-Budget Report against a backdrop of economic slowdown and turbulence in the global economy, which has steadily deteriorated since the 2008 Budget on 14 March.

He emphasised that the measures set out were designed to help families and businesses through “economic uncertainty not seen for generations” and to position the UK to take full advantage of a future recovery in the UK economy.

#### **Summary of key proposals**

- VAT reduced from 17.5% to 15% from 1 December 2008 until 31 December 2009
- £120 increase in personal tax allowances made permanent
- A new, higher rate of income tax of 45% will be introduced for those with incomes above £150,000 from April 2011. The income tax personal allowance will be restricted for those with incomes over £100,000 from April 2010
- Employer, employee and self-employed rates of national insurance to rise by 0.5% from April 2011
- The 1p planned increase in the small companies’ rate of corporation tax will be deferred for one year. It will remain at 21% during 2009-2010
- A commitment for the coming year by the major mortgage lenders not to repossess homes within three months of the owner-occupier going into arrears
- Phased introduction of new vehicle excise duty bands, with smaller increases
- Bringing forward £3bn of capital spending in areas including the motorway network, schools and social housing from 2010-2011 to 2008-2009

#### **Setting the scene**

Mr Darling began with a summary of the world economy, which he described as an “unprecedented global crisis” in which global losses could total three trillion dollars, according to a Bank of England estimate.

He said that restoring and maintaining financial stability was crucial and that the government was working through other world governments, including the G20 group, to take action to do so. He pledged: “I will do whatever it takes to support people through these difficult times” and that it was right to increase borrowing to help businesses and families.

Borrowing would reach £78bn this year and £118bn next year but would start to fall from 2010 so by 2016 Britain would once again be borrowing only to invest.

He told MPs the Pre-Budget Report represented a £20bn fiscal stimulus between now and April 2010. He forecast gross domestic product (GDP) of between -0.75% and 1.25% in 2009, with inflation forecast to come down sharply, reaching 0.5% by the end of next year. In 2010 growth is forecast at between 1.5% and 2% and the economy would continue to recover after that.

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Mr Darling said that £3bn capital spending brought forward from 2010-11 would stimulate the economy through spending on increasing motorway capacity, improving and building new social housing, renewing primary and secondary schools and investing in energy efficiency measures.

A government priority would be to ensure that the UK financial system is able to support the wider economy, including providing appropriate levels of lending to businesses and households.

### VAT and duty

There will be a temporary reduction in the standard rate of VAT to 15% from 1 December 2008 to 31 December 2009, a move to stimulate spending.

Mr Darling said that the move would make goods and services more affordable, encouraging spending to stimulate the economy, and was the equivalent of the government giving back £12.5 billion to consumers.

A 2p per litre increase in fuel duty on petrol and diesel will take effect on 1 December 2008.

### Income tax

The main rates of income tax for 2009-2010 will remain at 20% for basic rate taxpayers and 40% for higher rate taxpayers.

The £600 increase in the income tax personal allowance, announced in May 2008, will be made permanent, with a further increase of £130 in April 2009. Mr Darling said this meant that 22 million basic rate taxpayers would pay £145 less tax per year in real terms in 2009-2010.

From April 2010, the personal allowance will be restricted to half its value for those with incomes above £100,000, so that it is worth the same as to a basic rate taxpayer, and to zero for those with incomes above £140,000.

From April 2011, an additional higher rate of income tax of 45% will be introduced for incomes above £150,000. From the same date, the lifetime and annual allowances for tax-free pension savings will be held constant at £1.8 million and £225,000 respectively, up to and including 2015-2016.

### Income tax – personal and age-related allowances 2009-2010

	£
Personal allowance (age under 65)	6,475
Personal allowance (age 65-74)	9,490
Personal allowance (age 75 and over)	9,640
Married couple's allowance* (aged less than 75 and born before 6 April 1935)	6,865
Married couple's allowance* (age 75 and over)	6,965
Married couple's allowance* (minimum amount)	2,670
Age allowances income limit	22,900
Blind person's allowance	1,890

### National Insurance

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From April 2011, there will be a 0.5% increase in the employer, employee and self-employed rates of national insurance contributions (both main and additional rates).

There will also be an increase in the point at which people begin to pay national insurance to bring this into line with the income tax personal allowance.

Mr Darling said this arrangement meant that no-one earning under £20,000 per year would pay any extra.

### Business and enterprise

Describing the UK's 4.7 million small and medium-sized enterprises (SMEs) as the "engine of the economy", Mr Darling unveiled a package of measures to help businesses respond to economic challenges. They included:

- The launch of a Small Business Finance Scheme early in 2009, a temporary guarantee scheme to enable up to £1 billion of new government-supported lending by banks
- Working with the banks, the Export Credits Guarantee Department will introduce a temporary guarantee scheme to support a £1 billion facility, providing smaller exporters with better access to short-term working capital
- £1 billion of European Investment Bank funds will be available through UK banks to SMEs by the end of 2008
- To help the cash flow position of businesses that have recently become loss-making, trading loss carry back will be temporarily extended from one to three years for up to £50,000 of losses. The measure will apply for a year from 24 November 2008 to companies and unincorporated businesses. Mr Darling said 75,000 businesses would benefit.
- HM Revenue & Customs will work with businesses in temporary financial difficulties so that they can spread their tax bills over a timetable they can afford. The arrangement will cover all taxes paid by businesses, including corporation tax, VAT, income tax and national insurance.
- The planned increase in the small companies' rate of corporation tax to 21p will be deferred for a year until 2009-2010.
- For the financial year 2009-2010, empty properties with a rateable value of less than £15,000 will be exempt from business rates. Mr Darling said this would exempt an estimated 70% of empty properties.
- The Finance Bill 2009 will include a package of reforms for the taxation of foreign profits to deliver an exemption from tax for most foreign dividends received by large and medium-sized groups, regardless of the level of shareholding
- The government will advertise government contracts worth more than £20,000 on a single, free on-line portal, as part of its drive to help small firms win a larger share of public procurement.

There was further good news for businesses anticipating measures to outlaw the practice known as "income shifting", common in family-run firms, where income is transferred from one person to another to maximise tax efficiency. The government has consulted on the issue but has decided

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to defer action and will not bring forward legislation in the Finance Bill 2009. Instead, it will keep the issue under review.

### **Housing and mortgages**

Mr Darling announced a range of support to help people and households in financial difficulty. This included:

- A commitment for the coming year by the major mortgage lenders not to repossess homes within three months of the owner-occupier going into arrears
- Establishing a lending panel to monitor to both households and businesses. It will bring together lenders, trade bodies, consumer groups, the government, regulators and the Bank of England
- Increasing the capital limit for help under the Support for Mortgage Interest scheme for homeowners who lose their jobs to £200,000
- Bringing forward £775 million of housing and regeneration investment
- The government will also seek European Commission approval to help the mortgage market by providing for a temporary period guarantees for securities backed by new mortgages.

### **Benefits and working families**

Mr Darling announced that the increase in child benefit from £18.80 per week to £20 per week for the first child (and from £12.55 to £13.20 per week for subsequent children) would be brought forward from April 2009 to January 2009.

The child element of child tax credit will be increased by £25 above indexation from April 2009 rather than April 2010. This means the child element will rise by £75 above indexation to £2,235.

Mr Darling announced that additional government funding of nearly £16 million would be available to ensure that free debt advice was available to anyone who needed it.

An extra £1.3 billion will be set aside for the Department for Work and Pensions over the next two years to ensure that Jobcentre Plus capacity can respond effectively to rising unemployment.

The government will also develop existing schemes to help people facing redundancy move into new jobs. This includes extending the Train to Gain scheme to provide new training to people before they are made redundant.

Prime Minister Gordon Brown will also chair a National Employment Partnership, bringing together representatives of more than 20 leading companies – including Tesco and Royal Mail – which together employ two million people to support the government.

### **Savings**

People on lower incomes will be encouraged to save through the new national Savings Gateway scheme, which will be introduced in 2010.

Around eight million people on qualifying benefits and tax credits will be able to open Saving Gateway accounts through banks, building societies, credit unions and the Post Office. They will receive 50p for every £1 they save.

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### **Pensions and retirement**

The level of the full state pension will rise to £95.25 per week in April 2009. Mr Darling also announced that the government would make a payment in the new year of £60 for each pensioner. Another 2.5 million people receiving certain benefits will also receive the £60 payment.

He said that the Pension Credit minimum income guarantee would rise to £130 for single pensioners and £198.45 for couples in 2009-2010.

### **Alcohol and cigarettes**

Duty on alcohol and tobacco will be rise to match the cut in VAT. For cigarettes, this will take effect from 24 November 2008 and for alcohol, it will apply from 1 December 2008.

### **Vehicle Excise Duty (VED)**

New VED rates, designed to encourage motorists to drive fuel-efficient vehicles, will be introduced in 2009 but there will be no significant rate changes until 2010.

Six new bands will be introduced in April 2009, taking the total to 13. However, VED rates will not increase by more than £5 for any car.

From April 2010, the government will start to separate out the 13 rates but no driver in a given band will pay more than £30 more in that year.

### **Company cars**

A new emissions-based approach to tax relief will replace the existing regime for business cars. This will take place from 1 April for corporation tax and 6 April 2009 for income tax. The government will publish draft legislation shortly.

### **The environment**

Mr Darling said that the Warm Front initiative to make homes more energy-efficient would benefit from £100 million of new funding, on top of £50 million brought forward now to benefit the economy. This investment will help around 60,000 households to cut their energy bills through insulation and better heating systems.

£300 million will accelerate delivery of up to 200 new train carriages to expand capacity on the rail network. A further £20 million will be spent on flood defences.

From 1 November 2009, air passenger duty will be structure around four distance bands, set at intervals of 2,000 miles from London. This will ensure that those who fly further, and contribute more emissions from aviation, will pay more.

The government is to extend its Renewables Obligation – which requires generation of a certain percentage of energy from renewable sources – to 2037, to encourage long-term investment in renewable electricity generation, making it more viable.