**BUDGET 2009 – THE HIGHLIGHTS**

CHANCELLOR Alistair Darling delivered his second Budget to the House of Commons on Wednesday 22nd April 2009 at 12.30 p.m. .

The main feature of his speech was the severe slowdown in the economy and the need to manage the country's finances in this environment. There was a massive change in the forecasts.

A summary of this Budget's highlights are below:

• **Income Tax**

The main feature of today's budget was to increase the top rate of tax to 50%. This will affect all taxpayers earning above £150,000.

The planned new top income tax rate of 45% on incomes above £150,000 is increased to 50% coming into effect from next April - a year earlier than planned. There will be a new rate of 42.5% for dividends for such taxpayers.

Personal allowances to be fully withdrawn for those with incomes over £100,000 from next April.

• **Pensions**

There were fears for the abolition of the full rate relief on pension contributions. Whilst this was not removed for all taxpayers paying tax at 40%, those with incomes above £150,000 will be affected with contributions restricted and the rate of relief tapered until it reaches 20%.

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The Chancellor confirms his commitment to increase the basic state pension by at least 2.5%, regardless of RPI. This is particularly relevant given the deflationary data which would have otherwise impacted pension increases.

**• National Insurance**

The lower threshold for 11% National Insurance increased to £844. Higher earners will continue to pay 1% extra on income earned above the upper limit.

**• Corporation Tax**

The main rate of Corporation Tax remains unchanged at 28%.

The Small Company Rate of Corporation Tax remains at 21%.

**• Economic Outlook / Performance**

The UK economy contracted by 1.6% in the last quarter of 2008. GDP growth for the wholes year is an unexpected -3.5%.

The Chancellor forecasts growth of 1.25% in 2010. From 2011, the economy will continue its recovery with growth of 3.5%. In future years the economy will recover towards an expected trend growth of around 2.75%.

Inflation is expected to reach 1% by the end of this year. RPI inflation is expected to remain negative, dropping to minus 3% by September, before returning above zero next year.

**• Government Finances**

Public sector net borrowing is expected to be £175bn this year, 12.4% of GDP. From 2010, borrowing will fall to £173bn, then £140bn, £118bn and £97bn.

As a % of GDP, borrowing is expected to be 11.9% next year, 9.1% in 2011/12, 7.2% in 2012/13 and 5.5% in 2013/14.

UK net debt, including the costs associated with rescuing the banking system, will increase as a share from 59% this year to 68% next year, 74% in 2011/12 and then 78% and 79%. After stabilizing it will begin to fall in

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2015/16.

The UK's current deficit is expected to halve within four years.

• **Trading Losses**

The Chancellor extends relief allowing loss-making companies to reclaim tax on profits made in the three years to November 2010. There is a limit of £50,000 per accounting period available to carry back 3 years (pro-rated for shorter periods).

• **Capital Allowances**

The main capital allowance rate for business is doubled to 40%, providing enhanced tax relief to support investment of £50bn this year. This is not relevant to companies spending under £50,000 as all expenditure will be covered by this.

• **Investment**

In the last year investment grew by 6%. Business investment grew by 7% and inward investment by 10%. Business investment is set to grow by more than 7% in the next year.

• **Jobs**

Statutory redundancy pay increases from £350 to £380 a week.

£1.7bn extra is provided for Job Centre Plus and the New Deal. Additional support is provided for people who have been out of work for 12 months.

From January 2010 everyone under the age of 25, jobless for 12 months will be offered a job or a training place and additional money on top of benefits whilst in training

• **Personal Allowances**

The Personal allowances are to rise in line with inflation. The personal allowance will rise from £6,035 to £6,475 for 2009/10.

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Capital Gains Tax Allowance rises from £9,600 to £10,100 for 2009/10.

**• Inheritance Tax**

The threshold for inheritance tax is raised to £325,000 in 2009/10.

Married Couples have an allowance of £650,000 in 2009/10.

**• Child Benefit Increases**

Child benefit rises to £20.00 a week from April 2009, a year earlier than announced in Budget 2008.

**• Encouraging Saving**

The Chancellor raised the annual ISA limits to £5,100 for Cash ISAs and £10,200 overall.

**• Car Scrappage scheme**

This will be implemented next month to provide motorists with a £2,000 discount on new vehicles bought when trading in cars over 10 years old. The scheme ends in March 2010. To prevent abuse, buyers will need to show that they have owned the vehicle for the previous 12 months before ordering the car Half of this is funded by government with the motor industry funding the rest.

**• Tax Avoidance**

The Treasury will continue to target schemes designed to avoid paying tax.

**• Pensioners**

The tax free allowances for pensioners under 75 rises to £9,640 in 2009/10. For over 75s, the tax free allowance rises from £9,180 to £9,640 in 2009/10.

**• Efficiency and Savings**

Efficiency drives will result in savings each year, with an additional £5bn in 2010/11 raising targeted savings of £35bn a year by 2010/11 to improve

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frontline services and support the economy.

**• Stamp Duty**

The stamp duty holiday on properties costing less than £175,000 is extended until 31 December 2009.

**• Property**

An additional £80m is to be given to HomeBuy Direct, the Government's shared equity mortgage scheme.

£500m of additional financial support to hasten building on housing projects stopped as a result of the credit crunch. Support includes £100m for councils to build new energy-efficient housing. £50m of spending has been brought forward to accelerate modernisation of armed forces housing.

£435m of additional support to deliver energy efficiency measures for homes, firms and public buildings. £525m of additional support for offshore wind projects over the next two years.

Fuel duty rises by 2p per litre in September and then 1p above indexation every April for the next 4 years.

Finally, From Alcohol duties will go up by 2% from midnight on 22nd April 2009. There will be an increase in tobacco duty of 2% from 6pm on Budget Day 22nd April 2009.

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