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A Guide to

# Budget 2010

BUDGET 2010

*Budget 2010 at a glance... the key  
announcements from the Budget speech*

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“ At the centre of this Budget is the £2.5bn package for small and medium - sized businesses, funded primarily by better than expected receipts from the one-off tax on bankers’ bonuses. Banks will still face the one-off 50 per cent payroll tax on bonuses that was announced in the Pre-Budget Report, which is now expected to raise £2 billion. ”



# Securing the recovery

The Chancellor, Alistair Darling delivered his third Budget speech on 24 March 2010. He described the UK economy as being ‘at a crossroads’ and was delivering a Budget to ‘secure the recovery’ and provide ‘targeted support’ where it is needed. The Treasury produced 71 specific Budget Notes detailing the changes set out across 161 pages.

At the centre of this Budget is the £2.5bn package for small and medium - sized businesses, funded primarily by better than expected receipts from the one-off tax on bankers’ bonuses. Banks will still face the one-off 50 per cent payroll tax on bonuses that was announced in the Pre-Budget Report, which is now expected to raise £2 billion.

More measures were announced for small businesses, particularly aimed at assisting cash flow. There was also the extension of HMRC’s ‘Time to pay’ scheme. This scheme supports companies in distress struggling to pay their tax bills.

The Chancellor also expressed support for a ‘Bank Levy’ but stressed that international co-ordinated action is required on this so as not to damage the UK as a financial centre.

Britain’s record budget deficit remains front and centre for investors after some ratings agencies have suggested the UK’s credit rating could be under threat without a clear plan to cut debt.

The Chancellor said he was able to revise down his forecasts for the budget deficit in the current and next fiscal year. Public sector net borrowing in 2009/10, he said, would come in at 166.5 billion pounds, or 11.8 percent of GDP, compared with a December Pre-Budget report forecast of 177.6 billion pounds.

In 2010/11, borrowing is expected to come in at 163 billion pounds versus 176 billion

previously forecast. Future years have also been revised down.

Despite the need for the government to reduce its borrowing, the Chancellor did not announce any dramatic tax increases, there was no radical programme of large scale transformation for the public sector and he froze inheritance tax thresholds for four years.

As well as moving to lower borrowing, the Chancellor also found some measures to target the better off. He said he would scrap duty on house purchases of less than 250,000 pounds for first-time buyers and pay for this with a one percentage point rise in duty to 5 per cent for houses worth more than 1 million pounds.

“Those who have benefited the most from the strong growth in incomes in past years should now pay their fair share of tax,” the Chancellor said.

“The recovery has begun, unemployment is falling and borrowing is better than expected. The choice before the country now is whether to support those whose policies will suffocate our recovery,” the Chancellor told parliament.

For a more detailed summary of the Chancellors Budget statement, including his intention to continue to help people through the global recession, and secure the recovery, turn to page 8.

A full content listing appears on page 5.



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# What's the outlook?

## The economy and public finances

The Treasury kept its forecast for growth in 2010 unchanged from the Pre-Budget Report 2009 (PBR) in December at 1.0 -1.5 per cent. However, the forecast for 2011 was reduced slightly from 3.25 - 3.75 per cent to 3 - 3.5 per cent. This moves the Treasury forecast for 2011 closer to that of the Bank of England, but still leaves it well above the average independent forecast for that year of 2.1 per cent.

The Treasury's medium term economic forecasts remain unchanged at around 3.25 - 3.75 per cent on average for 2012 to 2014.

Public sector net borrowing forecasts were revised downwards relative to the PBR, although the level of borrowing remains high in absolute terms. The previous expectation of £177.6 billion borrowing in 2009/10 (12.6 per cent of GDP) has been reduced to £166.5 billion (11.8 per cent of GDP), while the PBR forecast of a £176 billion deficit in 2010/11 (12 per cent of GDP) has been reduced to £163 billion (11.1 per cent of GDP).



# Pension savings

## Restricting higher rate relief

The government issued on 24 March 2010 a summary of the responses to last December's consultation document on how to implement the restriction of higher rate relief on the pension savings of high income individuals from 6 April 2011. The summary outlines what they have decided on each of the points under discussion and what the next steps in the process are going to be.

Where the restrictions apply, higher rate relief will be reduced by 1 per cent for each additional £1,000 of income between £150,000 and £180,000, so that at incomes of £180,000 and above relief will be restricted to the basic rate. This will work by imposing a tax charge to recover the excess higher rate relief that the individual will claim through their tax return as normal.

The value of an employer's contribution to a defined benefit scheme will be determined using age-related factors which will take into account both the age of the individual and their normal retirement age under their pension scheme. This will result in a significantly higher deemed value for older scheme members compared with younger members. Members taking early retirement could be particularly affected. The factors will be reviewed at least every five years.

The government will consider the options for recognising 'negative'

deemed contributions to a defined benefit scheme, for example, where the deemed employer contribution is valued at less than the amount actually contributed by the employee.

**“ From 6 April 2011 the special annual allowance will have no further relevance, and normal ongoing regular pension savings will no longer be protected. ”**

These measures could affect employees with a salary substantially less than £150,000 who receive exceptional payments, for example termination payments. However, only the first £30,000 of any redundancy payments will be excluded from the income test. Respondents to the consultation suggested the exclusion should be much higher.

The charges will apply in the year in which pension benefits are drawn by using the income of the previous year, although there will be an exemption where the member retires through serious ill health or dies.

The tax relief restriction will apply equally to high income members of

overseas schemes that benefit from UK tax relief, although it is recognised that some members may have difficulty meeting the self-assessment deadline for reporting any charge payable by them, and further consultation will take place on this point.

There will be an obligation on employers, in conjunction with pension scheme administrators, to provide information to employees to enable them to be able to self assess their position. Further discussion will take place on this.

Where an individual's recovery charge exceeds £15,000 they can spread the payment (plus interest) over three years if their pension scheme is not able to pay it on their behalf.

From 6 April 2011 the special annual allowance will have no further relevance, and normal ongoing regular pension savings will no longer be protected. High income individuals will be affected whose annual taxable income is at least £150,000 before deducting personal pension contributions and payments to charity, but including any employer pension contributions made on their behalf. Individuals whose income on this basis is less than £130,000, ignoring any employer pension contributions, are not affected.

# Budget 2010 at a glance

## Were you a winner or a loser?

Take a look at our guide and see how your finances may have been affected by Budget 2010.

### BUDGET 2010 HIGHLIGHTS

#### ECONOMY

- Net government borrowing estimate this year will fall from the £178 billion target by £11 billion this year, to £167 billion or 11.8 per cent of GDP.
- Borrowing will fall to £163 billion next year, which is equal to 11.1 per cent of GDP. It will then fall to £131 billion in 2011/12, or 8.5 per cent of GDP. Borrowing will then decline to £110 billion, or 6.8 per cent of GDP, to £89 billion in 2013/14, equal to 5.2 per cent of GDP and to £74 billion in 2014/15 at 4 per cent of GDP.
- Growth forecast for 2011 revised down to between 3 per cent and 3.5 per cent. Predicted growth of 1.0 - 1.5 per cent in 2010 in line with forecasts.
- Net debt as a share of GDP will reach 54 per cent this year. It will then increase to 75 per cent by the end of the forecast period in 2014/15 and will then begin to fall.

#### JOBES AND EDUCATION

- The number of civil servants in London is to be reduced by one third over the long term, with 15,000 posts relocated within the next five years to help to save £11 billion. One thousand civil servants in the Ministry of Justice will be moved out of London, saving £41 million.

- Consultation on reform of employers' right to make people retire at 65, which examines options including scrapping the default retirement age, raising it or giving employees stronger rights.
- Guarantee to provide a job or training to 18 to 24-year-olds out of work for more than six months will run until March 2012, instead of ending in March 2011.
- Government to set up a £35 million University Enterprise Capital Fund to support "innovation and spin-out companies".
- To make available £270 million in 2010/11 to fund an extra 20,000 university places in areas such as science, technology, engineering and maths as part of a University Modernisation Fund.
- The £2.5 billion cost of training young people and extra university places will be partly funded from the tax on bankers' bonuses.

#### HOUSING

- A new stamp duty holiday introduced for properties of up to £250,000, from 25 April 2010, to be funded through an increase in stamp duty from 4 per cent to 5 per cent on properties worth £1 million or more from April next year.
- From October 2011, the most expensive properties across the country will be excluded from the Housing Benefit calculation in each area to save £250 million a year.

#### FAMILY FINANCES AND PENSIONS

- One million people will be provided with bank accounts over the next five years.
- Higher winter fuel payment will be guaranteed for another year, to be paid by closing tax loopholes.
- Inheritance tax threshold will be frozen for four years.
- Extension of the tax credit system for people aged over 60. People will have to work less minimum hours to qualify for tax credits.
- Parents of one and two-year-olds to receive £4-a-week increase in child tax credit from 2012.

#### ENVIRONMENT

- Government to set up a new green investment bank, which will control £2 billion of equity, to fund a low-carbon economy. Half the cost will come from asset sales, including the Channel Tunnel Rail Link, with the rest matched by private investment.
- To provide an extra £60 million to fund offshore wind farms.

#### TAXES

- 2.5p rise in fuel duty to be staggered. Will increase by 1p in April, 1p in October with the remainder in January, at which point the government expects inflation to be in line with the Bank of England's target of 2 per cent.

- Confirmation that the 50 per cent rate of income tax will commence in April for people earning more than £150,000.
- To continue the drive to prevent tax evasion and avoidance. Will sign tax information agreements with Dominica, Grenada and Belize.
- Duty on alcohol and tobacco will rise by 1 per cent above inflation, then 2 per cent above inflation for two years from 2013.
- Tobacco duty will increase by 1 per cent above inflation and by 2 per cent each year until 2014.
- Confirmed 0.5 per cent increase in National Insurance for people earning more than £20,000, which will come into effect from April next year.

#### PUBLIC FINANCES

- Public sector pay rises will be held at 1 per cent for two years from 2011.
- Budget plans will raise an extra £19 billion to reduce borrowing.
- The government will provide £100 million to repair roads and a further £285 million to fix motorways.
- The government will go ahead with plans to sell the Tote as part of plans to pull in £16 billion from asset sales.
- Government finalising options on the sale of the Dartford Crossing.
- An extra £4 billion will be used to fund operations in Afghanistan.





# A Budget for business

## The highlights at a glance

At the centre of Budget 2010 is the £2.5bn package for small and medium - sized businesses. The Chancellor used this Budget to announce a number of new measures intending to improve the cash flow situation of SMEs, but many won't actually come into force until next year.

The Chancellor's speech addressed the issues facing SMEs recognising the value they contribute to the UK economy. The main bank lenders into the SME sector (RBS and Lloyds) have been mandated to lend £94 billion to struggling small businesses.

Other government support was offered in the form of a new venture capital fund with

£200 million committed to providing additional capital to SMEs and he also introduced some specific tax measures to help with cash flow with the extension of the 'Time to pay' scheme, throughout the life of the next parliament.

### BUSINESS HIGHLIGHTS

- RBS and Lloyds must provide £94 billion in new business loans, half of which must be provided to small to medium-sized businesses.
- A credit adjudicator service to be set up to help SMEs to deal with complaints and examine lending decisions to determine whether they are fair.

- The government will set UK Finance for Growth to help to expand the financial sector. The FSA to speed up the licensing process for new banks.
- Commitment to G20-approved levy on banks.
- Business rates will be cut for one year from October.
- The computer games sector in Britain will receive investment. Will also set up a £35 million University Enterprise Capital Fund.
- To double the annual investment allowance to £100,000. The main rate of capital gains tax will not increase.
- Entrepreneurs' relief for capital gains tax to be increased to £2 million.
- 15 per cent more of government contracts will go to small to medium-sized businesses, many of which count the central government as one of their key clients.
- The 'Time to Pay' scheme for tax payments from SMEs will be extended for the whole of the next parliament.
- Pledges that the government will pay 80 per cent of invoices from small business within five days.

# 2010/11 tax tables

What do the numbers mean to you?

## Income Tax allowances

Income Tax allowances	2009/10	2010/11
Personal Allowance (1)	£6,475	£6,475
Income limit for Personal Allowance	Not applicable	£100,000
Personal Allowance for people aged 65-74 (1)(2)	£9,490	£9,490
Personal Allowance for people aged 75 and over (1)(2)	£9,640	£9,640
Married Couple's Allowance (born before 6th April 1935 but aged under 75) (2)(3)(4)	Not applicable	Not applicable
Married Couple's Allowance - aged 75 and over (2)(3)	£6,965	£6,965
Income limit for age-related allowances	£22,900	£22,900
Minimum amount of Married Couple's Allowance	£2,670	£2,670
Blind Person's Allowance	£1,890	£1,890

### Notes:

(1) From the 2010/11 tax year the Personal Allowance reduces where the income is above £100,000 – by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age.

(2) These allowances reduce where the income is above the income limit – by £1 for every £2 of income above the limit. For the 2009/10 tax year it will never be less than the basic Personal Allowance or minimum amount of Married Couple's Allowance. However, from the 2010/11 tax year the Personal Allowance for people aged 65 to 74 and 75 and over can be reduced below the basic Personal Allowance where the income is above £100,000.

(3) Tax relief for the Married Couple's Allowance is given at the rate of 10 per cent.

(4) In the 2009/10 tax year all Married Couple's Allowance claimants in this category will become 75 at some point during the year and will therefore be entitled to the higher amount of the allowance - for those aged 75 and over.

## Income Tax allowances

Income Tax rates and taxable bands	2009/10	2010/11
Starting rate for savings: 10%*	£0-£2,440	£0-£2,440
Basic rate: 20%	£0-£37,400	£0-£37,400
Higher rate: 40%	Over £37,400	£37,401-£150,000
Additional rate: 50%	Not applicable	Over £150,000

### Notes:

\* From 2008/09 there is a 10 per cent starting rate for savings income only. If your non-savings income is above this limit then the 10 per cent starting rate for savings will not apply.

The rates available for dividends for the 2009/10 tax year is the 10 per cent ordinary rate and the 32.5 per cent dividend upper rate. For the 2010/11 tax year, as well as these rates there is a new dividend additional rate of 42.5 per cent.



## Stamp duty

### A boost for first-time home buyers

For the next two years, first-time homebuyers will be able to buy properties worth up to 250,000 pounds without paying stamp duty, the Chancellor, Alistair Darling announced during his Budget 2010 speech.

“I can announce I will double the stamp duty limit for first time buyers from midnight tonight for this year and next,” the Chancellor told parliament. “This means 9 in 10 first-time buyers will pay no stamp duty at all.”

The Chancellor said the relief would be funded through an increase in stamp duty to 5 per cent on residential property selling for over one million pounds, but not until April 2011.

#### NEW STAMP DUTY PROPERTY RULES

Property value up to £125,000 zero (up to £250,000 at zero for first-time buyers)  
£125,001 to £250,000 1 per cent  
£250,001 to £500,000 3 per cent  
£500,001 to £1,000,000 4 per cent  
Over £1,000,000 5 per cent (from April 2011)

## Inheritance tax

### Threshold frozen for a further four years

The inheritance tax (IHT) threshold has been frozen for a further four years at £325,000, rather than rising in line with inflation. This could mean that more households are caught by this tax. In addition, the amount collected from estates that pay these “death duties” will inevitably increase, as a greater proportion of estates are likely to become subject to this charge.

Prior to Budget 2010 many people had expected this allowance to rise in line with the higher values of suburban houses that are in the ownership of many elderly people. This announcement will mean that many more people could fall into the IHT net in the next few years. The value of any estate over the nil-rate band value of £325,000 is charged at 40 per cent.

Over the past 10 years this “nil-rate band”, along with other tax allowances has risen in line with inflation. The

Chancellor has frozen a number of tax allowances for the this year, and announced the inheritance tax threshold will remain static for the life of the next parliament in order to raise funds to help meet social care costs.

The Chancellor had previously made concessions on this tax. Since November 2007, married couples have been able to transfer this allowance, effectively allowing them to pass on assets worth £650,000 to their children (or other beneficiaries) before any IHT is due.

But the Chancellor signalled that he will be clamping down on complex tax avoidance schemes, used by many wealthier families to minimise future IHT bills. In his Budget 2010 speech he indicated that for the first time IHT schemes will soon fall under the Disclosure of Tax Avoidance Scheme rules, which previously have only covered income tax, corporation tax and capital gains tax.

# Close companies

## New measures announced

The widely utilised area of loans written off by close companies for the purpose of obtaining a corporation tax deduction for a dividend is being closed following new measures announced in Budget 2010.

Prior to the Budget announcement, where a close company (under the control of five or fewer individuals) makes a loan to a 'participator' (very broadly a shareholder) or to an associate of a participator, and subsequently releases or writes off that loan, under the loan relationship provisions the company may be entitled to a corporation tax deduction on the amount released or written off. In the hands of the participator the release is taxed in the same way as a dividend.

These rules broadly provide that the taxable and relievable credits and debits brought into account arising to a company under its loan relationships are those arising under generally accepted accounting practice (GAAP). A loan released or written off will normally give rise to an expense recognised in the company's accounts under GAAP.

The new rules, which will be introduced in the Finance Bill 2010, will prohibit any deduction being brought in by the company for loan relationship purposes if the loan is wholly or partly released or written off. The income tax treatment of the person to whom the loan was made is unaffected by the measure.

# Small businesses

## Annual investment will double

The Chancellor, Alistair Darling, has said he's going to double the annual investment for small businesses to £100,000 to allow expansion.

Going against opposition suggestions to scrap investment allowances to pay for a reduction in the overall rate of corporation tax 'makes no sense', Alistair Darling said. 'It would mean, for example, that

manufacturers and many smaller companies would see their tax bill increase,' he added.

The doubling of the allowance is a good simplification measure, as well as encouraging capital investment. But it will mean more businesses claiming tax loss reliefs and HMRC will need to gear up to process those claims promptly.

## Budget 2010 In brief

The savings industry has given a mixed reaction to news announced in Budget 2010 that from April next year Individual Savings Account (ISA) limits will automatically increase in line with inflation.

Since October last year savers aged over 50 have been able to put up to £10,200 a year in the tax-free savings wrapper, £5,100 of which can be held in cash, and, as announced in last year's Budget, this will come into effect for everybody from 5 April this year.

From 6 April 2010 the annual ISA is £10,200. Investors can put all of this money into a stocks and shares ISA. Alternatively they can put up to £5,100 (previously £3,600) into a cash ISA, with the remainder available for stocks and shares.

The main rate of capital gains tax (CGT) remained unchanged at 18 per cent. However, the CGT exemption allowance is being frozen at £10,100 for 2010/11. In addition, the Chancellor said that he was doubling the level of Entrepreneurs' Relief from £1 to £2 million. Entrepreneurs' Relief allows those selling businesses they started up to have up to £1 million of gains over a lifetime taxed at a lower rate of 10 per cent.

The Chancellor announced he was freezing the threshold for inheritance tax (IHT) at £325,000 for another four years.

# Budget 2010 questions answered

## You and your finances

Some major tax changes come into affect from 6 April 2010 that had been announced in previous Budgets. From April 6, there is a new higher rate of income tax set at 50 per cent on earnings above £150,000. In addition income tax allowances and bands will be frozen – meaning that everyone will pay more tax on their earnings if they receive a pay rise.

Following Budget 2010 we have provided answers to some of the most asked questions we've received from clients.

**Q: I'm a first time buyer – what help was announced to help me get on to the property ladder?**

**A:** For two years commencing from 25 March 2010 stamp duty has been scrapped on home purchases made by first-time buyers on properties worth up to £250,000. Couples buying homes jointly where one partner has previously bought a property will not be eligible even if the other partner is a first-time buyer.

**Q: We're currently looking to sell our house valued at £1.4m – how will Budget 2010 impact on the sale?**

**A:** If you are able to sell your house before 5 April 2011, you will not be subject to the stamp duty increase announced, however after this date the stamp duty rate payable on a property

purchase of more than £1 million will increase from 4 per cent to 5 per cent.

**Q: Following Budget 2010 – will we need to review our current inheritance tax planning provisions?**

**A:** The pledge to increase the inheritance tax threshold (IHT) to £350,000 will now not take place - the Chancellor announced he was freezing the current threshold of £325,000 for the next four years. The freezing of the IHT band for a further four years could cost a couple an additional £37,000 in IHT in real terms. If the value of your estate increases further and falls outside of your current IHT provisions, it makes sense to seek professional advice and review your particular situation, especially if the value of your estate increases considerably over the next four years. Freezing the IHT threshold for another four years will mean more families may need to consider estate planning opportunities by maximising reliefs and exemptions.

**Q: I'm an entrepreneur and plan to sell my business within the next year – how will Budget 2010 affect me?**

**A:** The Chancellor confirmed that the rate of capital gains tax (CGT) will remain at 18 per cent. However, the annual amount of gains exempt from the tax is to be

frozen at £10,100. The good news is that for entrepreneurs from April 2010, you will only have to pay 10 per cent on the first £2 million of capital gains. Depending on the value of your business, this could save you up to £80,000 when you sell.

**Q: I'm a small business owner – were there any good news announcements in Budget 2010 for me?**

**A:** At the centre of this Budget was a £2.5bn package for small and medium - sized businesses. Business rates will be cut for a year from October and the investment allowance for small firms will be doubled to £100,000. Measures announced for small businesses aimed at assisting cash flow, included the extension of HMRC's 'Time to pay' scheme. This scheme supports companies in distress struggling to pay their tax bills. The Chancellor has also ordered state-funded banks RBS and Lloyds TSB to provide £94 billion in small business loans, and he has created a new credit adjudication service for business owners who feel they have been unfairly rejected for credit.

**Q: I earn £50,000 – how will my income be affected by Budget 2010?**

**A:** As previously announced, the



Chancellor has decided to freeze all income tax bands, which will lead people to pay more tax on their earnings. There will be a 0.5 per cent increase in National Insurance contributions from 6 April 2011. The threshold at which you start paying tax at 40 per cent will remain at £43,875 for the 2010/11 tax year. This could mean you end up paying an extra £1,248 a year based on a £50,000 annual salary. The top rate of tax for people earning more than £150,000 is 50 per cent, up from 40 per cent, commencing 6 April 2010.

**Q: I'm aged 42 and want to take out an Individual Savings Account (ISA) – is it correct that I will be able to save a higher amount?**

**A:** The Chancellor had already announced that the total ISA limit for everyone would increase to £10,200 from 6 April 2010. Depending on your attitude towards risk for return, on or after this date you could put all of your money into a stocks and shares

ISA, or alternatively put up to £5,100 (previously £3,600) into a cash ISA, with the remainder available for stocks and shares. The Chancellor also announced that from 6 April 2011, the ISA limits would increase in line with inflation for every year of the next parliament. The level of the increase will be set by the level of the Retail Price Index (RPI) the preceding September.

**Q: I currently receive pension tax relief – following Budget 2010 will it be limited?**

**A:** It really depends on your level of income. If you earn over £130,000, the Chancellor confirmed that tax relief on pension contributions will be restricted from 6 April 2011. If your pre-tax income (including your own pension contributions) is less than £130,000 you will not be affected. Previously, up to 100 per cent of an employees' salary could be paid into a pension tax-free. In an extensive report on the proposed

changes, the government said: 'It is neither fair nor sustainable in the current fiscal context to offer the greatest incentive to save in a pension to those who need it least. For these reasons, the government has acted to address the disproportionate levels of relief going to individuals on the highest incomes'. The rate of relief will be tapered down so that those on incomes of £180,000 and over will receive relief at 20 per cent, the same rate as a basic-rate taxpayer.

**Q: We are over 80 – what did Budget 2010 mean for us?**

**A:** Last year's temporary increase to the winter fuel allowance was renewed for another year. This means each household with someone over the female state pension age will receive £250, and each household with someone over the age of 80 will receive £400. The Chancellor is also making it easier for over 60s to claim working tax credit by cutting the number of working hours needed to qualify.



# Relief for entrepreneurs

## What were the unexpected initiatives?

The 2010 Budget delivered some unexpected initiatives for entrepreneurs. The doubling of the Annual Investment Allowance will allow businesses to claim immediate tax relief of up to £100,000 each year for capital assets (excluding cars) purchased from April 2010. This will mean an additional saving of £10,500 for companies and up to £25,000 for unincorporated businesses. In a further concession, businesses that purchase new zero-emission goods vehicles from between April 2010 and April 2015 will benefit from a 100 per cent first year allowance.

The Chancellor highlighted the need to support the industries of the future. This regime should introduce a new 10 per cent corporate tax rate from April 2013 on income from patents registered in the UK. The video games industry will also receive a special tax relief following recommendations of the Digital Britain report.

A new Small Business Credit Adjudicator with statutory powers will review applications for finance that have been declined.

The government also introduced the housing of its £4bn suite of finance products for small and medium-sized businesses under one roof, which is now known as UK Finance for Growth. This aims to streamline the various initiatives previously announced. The fund will support businesses that need £2m- £10m in financing and are struggling to access capital through traditional routes.

A new Small Business Credit Adjudicator with statutory powers will review applications for finance

that have been declined. Finally, there was a commitment to allow early stage businesses to get a larger slice of government expenditure by mandating a 15 per cent increase in the central government spending allocated to small and medium-sized enterprises - an estimated increase of £3bn.

The Business Payments Support Scheme which has been utilised by 200,000 businesses to date is now extended for a further five years.

On the investment side, the lifetime limit on Entrepreneur's Relief - the rate at which capital gains tax is limited to 10 per cent - was doubled to £2m, providing a further £80,000 of relief (total £160,000) for entrepreneurs who meet the conditions. Despite speculation, the main rate of capital gains tax will not increase from its current level of 18 per cent.

The territorial rules contained within the Enterprise Investment Scheme, the Venture Capital Trust regime and the Enterprise Management Investment scheme has been relaxed. Previously, qualifying activities were to be 'wholly or principally' in the UK. Now a 'permanent establishment' in the UK will suffice.

Finally, there were a number of measures announced to combat tax avoidance and evasion, including higher penalties and even more disclosures. This follows the announcements made in the 2009 Budget Report about the new 50 per cent top rate of income tax and the 1 per cent increase (for employees and employers) in national insurance and the new pension restrictions.

## The green bank

### Funding for businesses in the renewables sector

The Chancellor during his Budget 2010 speech referred to the "green bank". While the measures proposed under this scheme will be welcome in making available funding to businesses in the renewables sector, the mechanisms for doing so are limited.

In addition to this headline scheme, more detailed measures included in the Budget to increase rates of green indirect taxes and the introduction of a new green tax were;

- the introduction of a landline tax (physical electronic communication networks) from 1 October 2010 at a rate of 50p per line per month;
- increases to landfill taxes and a review of material subject to the lower rate;
- increases to rates in relation to climate change levy;
- an increase in the aggregates levy rates;
- amendments to hydrocarbon oil duty rates; and
- an increase of air passenger duty rates for travel on or after 1 November 2010 - including for those who have already booked tickets.

## Tax administration

### Further refinements and streamlining of the rules

**Late filing and payment of returns** - Measures will be introduced to encourage filing and payment by the correct dates by introducing an escalating series of penalties depending upon the number of failures within a set penalty period. Further penalties will arise if there is a prolonged delay in filing returns or paying the tax due.

**Financial security for late payment of PAYE and NIC** - Legislation is to be introduced to allow HMRC to require a financial security from employers where amounts due under PAYE or NICs obligations are seriously at risk. This would be in line with the current practice for VAT.

**Penalties for offshore tax avoidance** - Finance Bill 2010 will introduce larger penalties for taxpayers who fail to provide a full account of their income tax or capital gains tax liabilities, where the failure is linked to an offshore matter.

# Budget 2010 summary

## The main tax points

### BUSINESS TAXES

**Corporation tax** - the main rate of corporation tax remains at 28 per cent.

**Small companies rate** - the small companies rate of corporation tax remains at 21 per cent.

**Close company loans** - from 24 March 2010, if a loan made by a close company to a participator is released or written-off, a corporation tax deduction will not be available.

**Consortium relief** - the consortium relief rules will be amended so that EEA resident companies engaged in UK consortia will be able to pass on their losses to UK resident subsidiaries. However rules ensuring that consortium relief is only given in proper proportion to the member company's involvement in the consortium will be tightened.

**Annual Investment Allowance (AIA)** - from 6 April 2010, the AIA is being doubled to £100,000; a targeted anti-avoidance rule to ensure that the AIA supports only genuine business investment is being introduced.

**Video games industry tax relief** - subject to state aid approval, a tax relief for the UK video games industry will be introduced.

**Company car tax** - from 6 April 2010 for 5 years, company car tax for ultra-low carbon cars will be halved.

**Zero-emission goods vehicles** - a 100 per cent first-year allowance for business expenditure on new and unused zero-emission goods vehicles will be introduced for 5 years from 6 April 2010.

### EMPLOYEE INCENTIVE ARRANGEMENTS

**Employee reward arrangements** - the government has announced that it is currently considering its options for future action to tackle the use of employee benefit trusts put in place for the purpose of avoiding, deferring or reducing income tax or National Insurance liabilities. Any forthcoming legislation will take effect from April 2011. In addition a consultation on the use of growth shares, JSOPs and similar arrangements has been announced in order to ensure that "income from employment is taxed correctly".

### Venture Capital and Enterprise

**Investment Scheme** - the majority of the changes previously announced to the VCT and EIS regimes in order to ensure that they continue to benefit from state aid approval will be legislated for in a Finance Bill in the next parliament. VCTs will now be able to hold shares with preferential dividend rights.

Enterprise Management Incentives (EMI), as announced in the PBR 2009, the EMI regime will be extended to apply to companies which have a UK permanent establishment in order to comply with state aid rules. This will be implemented by legislating in a Finance Bill in the next parliament.

**Company Share Options Plans** - from 24 March 2010, CSOP share options can no longer be granted over shares in a company which is under the control of a listed company.

### PERSONAL TAXES

**Income Tax** - the previously announced increase in the rate of income tax to 50 per cent for those earning over £150,000 p.a. will come into force on 6 April 2010, as



will the restriction of personal allowances in 2010/11 for income over £100,000. Most other rates and allowances are frozen at 2009/10 levels.

**Inheritance Tax** - the threshold for inheritance tax will be frozen at £325,000 until 2014/15.

**Individual Savings Accounts (ISAs)** - from 6 April 2010, the ISA limit for all savers will increase to £10,200, up to £5,100 of which can be saved in cash. From 6 April 2011, the ISA limits are indexed in line with the RPI.

**Pensions tax relief** - details of the operation of the previously announced restriction of pensions tax relief for those on high incomes have been published. Broadly, those with income up to £150,000 receive relief at 40 per cent and above this figure relief is restricted.

**Landline duty** - as announced in Pre-Budget Report 2009 ("PBR 2009"), from 1 October 2010 a duty of 50p per month will be introduced on all land-lines.

**Capital gains tax** - the annual exemption (£10,100) and main rate (18 per cent) remain unchanged.

**Entrepreneurs' Relief (ER)** - from 6 April 2010, the lifetime limit of gains which can benefit from ER and can therefore be taxed at 10 per cent is being doubled to £2 million.

**Furnished holding letting (FHL)** - it appears that ER will apply to the disposal of FHL property within 3 years of 5 April 2010.

## PROPERTY

**Stamp duty land tax (SDLT)** - from 25 March 2010 for 2 years, relief from SDLT for first-time buyers of residential properties of up to £250,000 who intend to occupy the property as their only or main home has been introduced. In order to fund this, SDLT on residential properties of more than £1 million will be payable at a rate of 5 per cent from 6 April 2011.

**Empty Property Relief (EPR)** - as announced in the PBR 2009, the threshold for EPR will be extended to £18,000 for 2010/11.

**Small business rate relief** - for 1 year from October 2010, small businesses occupying properties with a rateable value of up to £6,000 will pay no business rates. Those properties that benefit from rate relief taper (i.e. rateable value of up to £12,000) will also see reductions.

**Landfill tax** - from 1 April 2014, landfill tax will be increased by £8 per tonne.

**Aggregates Levy** - from 1 April 2011, the rate of aggregates levy will be increased to £2.10 per tonne.

## VAT

**Standard rate** - the standard rate of VAT remains at 17.5 per cent.

**Registration and de-registration thresholds** - the registration threshold for VAT will, from 1 April 2010, be £70,000, and de-registration threshold decreased to £68,000.

## HMRC AND TAX ADMINISTRATION

**Systemic risk tax** - the government believes that progress could soon be made on an internationally coordinated systemic risk tax on financial institutions.

**Time to Pay** - HMRC will continue to offer 'Time to Pay' to all viable businesses experiencing difficulty in paying their tax on-time.

**Offshore bank accounts** - individuals who fail to pay taxes on offshore income and gains will be subject to new penalties of up to 200 per cent for funds held in countries which have not agreed to exchange financial information with the UK. However where the account is in a jurisdiction which agrees to share tax information annually with the UK, the penalties will only be 100 per cent.

**Disclosure regime** - a package of measures have been announced, effective from the autumn, which will introduce enhanced penalties for failing to disclose; a requirement for promoters to provide lists of clients to whom they have issued scheme reference numbers; and changes to the "hallmarks" to target those trying to avoid paying the new 50 per cent rate of income tax.

**Security for payment of PAYE** - where a trader has been associated with businesses which have failed to deduct income tax and National Insurance under PAYE, HMRC want the power to demand a deposit as security as a condition of trading. If implemented this will not become law until 6 April 2011.



# VAT

## The changes announced

Although the rate of VAT remains at 17.5 per cent, a number of changes were announced:

Supplies of postal services by the Royal Mail which are not made under a licence duty (e.g. Parcelforce) and services provided on terms and conditions that have been freely negotiated, will, from 1 January 2011 be subject to VAT at 17.5 per cent rather than being VAT exempt.

The definition of aircraft for zero-rating purposes will change from 1 September 2010, such that supplies of aircraft will be zero-rated only where used by 'airlines operating for reward chiefly on international routes'.

To minimise fraud, a reverse charge on the sale of emissions allowances is effective from 1 November 2010. This means that VAT will be accounted for by the customer. The interim zero-rating for such services will be removed.

The 'Lennartz' principle, which allows taxpayers who use immovable property, boats and aircraft for both business and non-business purposes to recover all the VAT on such assets up front and pay for private use through ongoing charges, is to be removed.

VAT fuel scale charges have been amended and will be introduced from 1 May 2010.

The VAT registration threshold will increase to £70,000 from 1 April 2010.

As set out in Pre-Budget Report 2009 (PBR), the rate of Bingo duty will reduce from 22 per cent to 20 per cent for accounting periods beginning on or after 29 March 2010. Amusement machine licence duty will increase on new licences from 26 March 2010 and gaming duty bandings will increase in line with inflation from 1 April 2010.

## Crackdown on offshore account holders

### Further penalties on those keeping untaxed wealth

The Chancellor, Alistair Darling set out his measures in Budget 2010 for a crackdown on offshore account holders. In the pre-election Budget, Alistair Darling had already laid out a number of anti-avoidance measures, namely signing tax sharing agreements with Dominica, Grenada and Belize, and imposing a 200 per cent tax penalty for those with irregularities relating to offshore accounts.

Also in the small print are the findings of the Hidden Economy Advisory Group that was set up after the pre-Budget report, which said there is 'currently no clear route for those with undeclared tax to establish their position and disclose their liabilities'.

HMRC said it will also be looking at how to educate people on the "unacceptability of evading tax". The crackdown on wealthy individuals and large companies using offshore accounts will raise an extra £1.5bn for the Treasury, the Chancellor said in his Budget speech.

Further penalties on those keeping untaxed wealth in offshore havens will

increase from April, while attempts by companies to "lose" profits offshore and pay less tax will come under closer scrutiny.

Measures will also safeguard £4bn of tax receipts that Treasury officials feared would be unpaid by businesses and individuals using homegrown tax avoidance schemes or offshore trusts.

The Chancellor said: "While people are suffering hardship, it is all the more unfair that some are escaping their tax obligations. I am determined to continue our successful drive to prevent avoidance and evasion. Measures in this Budget will bring in additional tax worth half a billion pounds while protecting £4bn worth of revenues by 2012/13."

The Treasury said that by 2012/13 it expects to save at least £155m from limiting double taxation reliefs on company profits. An improved disclosure regime, which forces those with money offshore to declare the amounts, will raise £125m by 2012/13, while a deal with Liechtenstein is due to bring in £500m over three years.

# Corporate matters

## Business taxation

### EMPLOYMENT RELATED SECURITIES

Anti-tax avoidance legislation will be introduced in relation to share incentive plans (SIPs) and company share option plans (CSOPs), effective immediately. In relation to SIPs, corporation tax deductions will not be allowed where companies pay money into a SIP as part of a tax avoidance scheme. In relation to CSOPs, new grants of CSOP options over unlisted shares in a company which is under the control of a listed company will not be permitted.

During 2010, there will also be a consultation in relation to the taxation of employment related “geared growth arrangements”, e.g. hurdle shares. The government has also announced that it intends to take action to tackle avoidance of tax through employee benefit trusts and other vehicles, effective 6 April 2011.

### SDLT AND PARTNERSHIPS

Rules are being introduced in relation to SDLT applying to transactions between members of a partnership. Existing anti-avoidance rules currently apply SDLT in respect of ‘notional land transactions’ and these rules are being extended to prevent the special partnership rules from applying to such transactions.

### DISCLOSURE OF TAX AVOIDANCE SCHEMES (DOTAS OR TAD)

Legislation will be introduced to revise the DOTAS rules to increase penalties

for non-compliance and to “fine-tune” some of the notification requirements. The revised regulations will extend the DOTAS “hallmarks” and similar provisions relating to National Insurance will be aligned with these changes.

### LOANS TO PARTICIPATORS

Legislation effective from 24 March 2010 will deny a corporation tax deduction for the amount of the release, or write-off, of a loan made by a close company to a relevant person (participator). The release or write-off will continue to be treated as a distribution in the hands of a relevant person.

### CORPORATE TAXES CAPITAL DISTRIBUTIONS

It was confirmed that new legislation will be introduced (“as soon as possible in the next parliament”) confirming that company distributions will not be prevented from falling within the UK dividend exemption because they are capital in nature. The legislation will be retrospective and there will also be an option for companies to elect for the retrospective application to be disapplied.

### WORLDWIDE DEBT CAP LEGISLATION

Following consultation with UK businesses, a number of changes have been made to the debt cap legislation to clarify areas of uncertainty and so the rules work as originally intended.

### ANNUAL INVESTMENT ALLOWANCE (AIA)

From 1 April 2010, the AIA for capital expenditure on items qualifying for capital allowances becomes £100,000. The relief will be increased for income tax purposes from 6 April 2010. However, a new anti-avoidance rule will be introduced that will disallow property losses to the extent that they are due to AIA, if the losses arise as a result of relevant tax avoidance arrangements. It is worth noting that the current 40 per cent FYA rules have not been extended.

### TAX BREAKS FOR ZERO AND LOW EMISSION VEHICLES

As announced in Pre-Budget Report 2009 (PBR), 100 per cent first year allowances will be available on the purchase of new goods vehicles that are not capable of producing CO2 emissions. The relief will be available for companies incurring such expenditure on or after 1 April 2010 and before 1 April 2015 (6 April 2010 and 6 April 2015 for individuals).

Similarly, there will no taxable benefit for an employee that is provided with a zero emission van or car and a reduced taxable benefit percentage of 5 per cent for an employee provided with a car that produces less than 75g/km of CO2. These reductions will apply from 6 April 2010 to 5 April 2015.

# Chancellor of the Exchequer's edited Budget statement

Mr Deputy Speaker, this Budget takes place as the UK economy is emerging from the deepest global recession for over 60 years.

It has been a testing time which has required governments across the world to make difficult choices and take unprecedented actions. We had to decide whether to intervene to rescue the financial system or stand on the sidelines.

Whether we should support the economy, business and families or let the recession take its course. The record shows the right calls were made. Global recession has not turned into depression. Unemployment here in the UK has not risen as much as was feared.

Borrowing, as I will explain later, is lower than forecast last year. But the recovery is still in its infancy. There are equally tough choices ahead. Choices that will shape our economy and society for decades to come. The task now is to bring down borrowing in a way which does not damage the recovery or the front-line services on which people depend.

The challenge now is how we invest as a country to support the industries of the future and allow the talent of the British people to flourish. At the heart of our decisions is a belief that government should not stand aside, but instead help people and business achieve their ambitions.

My Budget today builds on this belief and our confidence in our country.

This will be a Budget to secure the recovery, tackle borrowing and invest in our industrial future. It will continue targeted support for businesses and families where and when it is needed.

It will set out how we stick to our plan to halve the deficit within four years.

Mr Deputy Speaker, our economy is at a cross-roads. Having come through this global recession, this Budget will set out a route for the country to long-term prosperity.

At its heart is a £2.5bn one-off growth package – to help small business, promote innovation, invest in national infrastructure and key skills. This package will be paid for by switching spending from within existing allocations and the extra proceeds from the tax on bank bonuses – in line with a Budget that is balanced over the period.

Mr Deputy Speaker, the world is still recovering from the severest economic shock of our lifetime. Despite what some try to suggest, the recession has not been restricted to the UK, nor did it begin here. A storm which began in America spread rapidly around the world. It was the biggest test countries had faced in modern times.

When I presented my Budget a year ago, world leaders had just met in London to agree unprecedented action to rescue the global economy. Governments of all political colours acted to stabilise their banking systems and to use fiscal and monetary policy to boost demand and protect jobs.

Not everyone here supported the action taken. But with hindsight, it is even clearer that the right calls were made. Economic disaster was averted. Growth has begun to return across the major world economies. The prospects for the global economy are much more positive than a year ago.

But Mr Deputy Speaker, there is nothing pre-ordained about continued recovery.

There are still uncertainties. Financial markets are febrile. Oil prices have increased by over 50 per cent.

Bank credit, while improved, still remains weak in many parts of the world.

Confidence has not fully returned to either businesses or consumers.

And this is particularly the case in Europe, which is the market for 60 per cent of our exports.

Germany saw no growth last quarter. Ireland, another key trading partner, has

contracted by over 10 per cent. Spain is still in recession. Italy has slid back into negative growth. Unemployment at 10 per cent across the euro area is adding to uncertainty. All these factors are having an impact, particularly on open trading economies like the UK.

So it is imperative that EU countries act with renewed energy and vigour to get the European economy moving forward again. We need to support trade, discourage protectionism, and take forward structural reforms.

Such continued international action is crucial – not only to global prospects – but to each and every country's future. Over the last two years, we have been reminded of the force for good that governments can be in protecting people.

The role of government is now equally critical in regulating the global financial system and putting in the right foundations for future growth, jobs and prosperity.

Mr Deputy Speaker, the crisis in the world economy started with the banking sector. So improved global financial regulation must be the key priority.

Our first test in the UK came with the problems of Northern Rock. This government intervened to protect savers and underpin the financial system. The unprecedented decision to nationalise a high-street bank was controversial, as was our action later that year to recapitalise the banking system. Other governments, right across the globe, also acted to stabilise the financial system. I believe this judgement has been proved correct. In the UK, the latest figures from Northern Rock show it is returning steadily to normality.

RBS is now being restructured and is rebuilding. Last week Lloyds predicted a return to profitability this year. We will sell our shares in RBS and Lloyds, as well as Northern Rock, in a way that maximises value for the taxpayer and recoups the

money we invested. We intend to get all taxpayers' money back.

In the meantime, I can tell the House that the Treasury has already received over £8bn in fees and charges from the banks, in return for our support. And, Mr Deputy Speaker, at the Pre-Budget Report I put in place a one-off 50 per cent tax on the excessive bonuses of bankers. I made it clear that banks had a choice of whether to pay bonuses or not.

But if they did, given the amount of support the taxpayer had provided, I believed it was right that the country as a whole should benefit. I can tell the House that this tax has raised £2bn, more than twice as much as was forecast. This is money paid by the banks. Those receiving the bonuses will also, of course, have to pay income tax at their highest rate.

Mr Deputy Speaker, as well as supporting the banking system during the crisis, we need long-term reform to prevent excessive risk-taking. Under our presidency of the G20 last year we put in place a plan to reform the international regulatory system.

But we still need to do more to strengthen global banking. The G20 countries must put in place new rules on capital and liquidity by the end of the year.

And we also need to reform remuneration practices, improve cross-border resolution for when banks fail, and ensure international standards are implemented.

Mr Deputy Speaker, we cannot continue with a situation where the banks are rewarded for creating excessive risk, but the taxpayer foots the bill when things go badly.

More countries now agree on the need for an international systemic tax on banks.

This must be brought forward quickly, as I will urge international Finance Ministers in Washington next month.

I agree with all those who think that such a tax should be internationally co-ordinated.

Going it alone would cost thousands of jobs, not just in London, but across the country. Global efforts must be complemented in each country with a drive to implement existing banking reforms, as we are in the UK.

As part of the reform of banking, I want to make it easier for everyone to access banking services.

Since 2003, the number of people without a bank account has been halved.

I can announce today we will do more to combat financial exclusion, through a guarantee that everyone can have a basic bank account. This will mean, over the next five years, up to a million more people will have access to bank accounts – something essential in the modern world.

Mr Deputy Speaker, we must be careful that, as banks begin to return to profit, the sense of urgency around reform is not diminished. There can be no return to business as usual for the banks. But we also must remember that their success is vital not just for the global economy but for Britain's future.

London is the world's leading financial centre. Across the country, the sector supports over a million jobs including in Edinburgh, Leeds, Manchester, Cardiff and other cities. A healthy, strong financial services industry is essential for our long-term prosperity.

Mr Deputy Speaker, the crisis might have started in the financial sector, but it spread rapidly to the entire global economy – underlining why intervention was essential.

The impact has meant the UK economy has contracted by around 6 per cent over the course of the recession. This compares to 8 per cent in Japan, 7 per cent in Germany and 4 per cent in America.

Businesses in the UK have taken painful decisions. Many families have seen their incomes squeezed. Given the intensity of the global storm, no government could prevent all jobs being lost or all businesses from closing.

But governments have the ability to act – and I believe the responsibility – to reduce the length and severity of the recession. Which is why we took decisive action to stimulate the economy, cutting taxes for families and business, as well as bringing forward capital spending.

We also introduced initiatives such as the car scrappage scheme to protect jobs and skills. I can tell the House, this helped drive an increase in sales of nearly 30 per cent in the past year. These decisions, of course, have a cost. But the cost would have been far greater, for families and the economy, if we had failed to act.

For, Mr Deputy Speaker, we could have followed previous governments and watched from the sidelines. We could have listened to those who opposed all these measures last year. But if we had, I

believe we would still be in recession. I am also certain that the pain caused would have been worse and more widely felt. Indeed, in the recession of the 1990s the rate of home repossessions was twice as high as now.

That would have been the cost of abandoning families to their fate. Double the rate of business failures.

That would have been the cost of failing to support business through this recession.

And, because of the policy decisions we made, the Bank of England has been able to take decisive monetary policy action during the downturn.

Interest rates have been held at record lows – below one per cent – while they were at double figures for almost three years in the early 1990s. But more than anywhere else, we can see the impact of our choices in the state of the jobs market. Unemployment has been rising in this country, as it has around the world.

Last week's figures, however, showed that UK unemployment had fallen, and is lower than in the euro area and America. Even after the severity of this recession, the claimant count stands today at 1.6m people. This compares with three million people in the recessions of the early 1980s and 90s. Nor, because of a decade of welfare reform, has there been the massive increase in the numbers on inactivity benefits seen in the past.

And, Mr Deputy Speaker, the claimant count is still lower today than we inherited in 1997. This has not happened by chance – but by choice. It is because of the tremendous efforts by businesses and workforces to keep people in jobs.

It is also because, as the global storm hit our country, we responded with an additional £5bn to help people find new work quicker.

For older workers, I want to extend the support provided by tax credits.

Mr Deputy Speaker, low mortgage rates have reduced costs for homeowners.

But many families still face fears over repossession.

The Support for Mortgage Interest scheme, which I enhanced during the recession, is already helping 220,000 homeowners who lost their jobs. To maintain this help during the recovery, I will continue to pay this support at the higher rate for another six months.

I am also determined to do more to help families take that crucial first step on the housing ladder. We have introduced new help through shared equity schemes.

In 2008, we also brought in a Stamp Duty holiday on all transactions under £175,000, which ended in December. By helping 260,000 home-buyers, it supported the entire housing market when it needed it most. The housing market has now stabilised and has begun a slow recovery.

But many first-time buyers, particularly those without large deposits, still find it hard to get a mortgage. I want to help them, but do so in a way that is properly funded.

I can announce I will double the stamp duty limit for first time buyers from midnight tonight – from £125,000 to £250,000, for this year and next. This means 9 in 10 first time buyers will pay no stamp duty at all. To ensure this measure does not burden the public finances, this relief will be funded through an increase in the stamp duty to 5 per cent for residential property over £1m, from April next year.

Mr Deputy Speaker, tax-free ISAs have been an extraordinary popular way to save, including for those saving for a deposit on their first home.

Since their introduction in 1999, 19 million people have taken them out, saving over £270bn. From next month, the annual ISA limit will rise from £7,200 to £10,200, of which half can be saved in cash. To help encourage saving further, I have decided that ISA limits will increase annually in line with inflation. These changes come at a time when the saving ratio has already risen strongly over the past year, to the highest since 1998.

Mr Deputy Speaker, the last year has been tough for many people. But the evidence shows it would have been harder still without the choices we made and the action we took to support the economy. We need the same good judgement and decisive action to secure and strengthen the recovery – and provide the right basis for the country to seize the opportunities ahead.

I turn now to my forecasts. As I have said on many occasions, the world economy is still in a period of great uncertainty. In the absence of government action to support the economy, the weakness in some of our overseas markets, particularly Europe, could result in a substantial downward revision of our growth prospects.

Because of the action we have taken through the recession, and the measures I am announcing today, I believe only a

small reduction is needed. This year, as I said in last year's Budget and Pre-Budget Report, I expect the economy to grow by between 1 and 1.5 per cent.

I have decided to revise slightly downwards my forecast for 2011, to bring them in line with those of the Bank of England, to growth of between 3 and 3.5 per cent.

Projections for the public finances are based, as normal, on the lower end of this forecast range.

As the economy continues to rebalance following the recession, my forecast for the following years is unchanged. Mr Deputy Speaker, we have already seen inflation rise above 3 per cent in the first month of this year, increasing the cost of living.

The inflation figures released yesterday show a rise of 3 per cent. Although high compared to recent years, this is far lower than the peaks in inflation of over 10 per cent in the 1990s and 20 per cent in the 1980s.

And, as the Governor of the Bank of England has said, the present increase in inflation should be temporary, and results from the ending of the VAT cut and other one-off factors. I want, however, to help families and business through this period.

So I have decided to stage next month's increase in fuel duties. Instead of the planned increase, fuel duty will rise by a penny in April, less than inflation.

This will be followed by a further one penny rise in October and the remainder in January.

This staging will ease the pressure on businesses and family incomes at a time when other prices are increasing. By the time the full rise comes in, at the beginning of next year, I am forecasting inflation to be back below 2 per cent.

I am today writing to the Governor of the Bank of England, in the usual way, to confirm that the inflation target remains unchanged at 2 per cent. With interest rates also expected to remain low and stable, this is essential for future growth.

Mr Deputy Speaker, the cost of stabilising the financial system and stimulating economies has meant an inevitable increase in government borrowing here and around the world.

This has been exacerbated by the sharp fall in tax revenues during the recession.

The importance of our financial industry, which provided one in every four pounds in corporation tax, has meant Britain has been particularly badly hit. At the Pre-Budget Report, I forecast that public sector net borrowing would reach £178bn this year.

Mr Deputy Speaker, we now have hard data, rather than forecasts, on tax revenues for eleven months of this financial year.

And as a direct result of the action we took, supporting the economy at a difficult time, tax receipts in December, January and February have been better than expected: more resilient consumers and retailers have meant VAT receipts are now £3bn higher; better company profits have led to higher corporation tax receipts; with more people having stayed in work, income tax revenues are stronger.

These are the results of the deliberate choices we made over the last two years.

At the same time, spending – including on benefits and tax credits – has been broadly in line with my forecast. As a result, I can tell the House that borrowing this year should now be £11bn lower than forecast, at £167bn.

In 2010/11, in part because of one-off factors boosting receipts such as this year's tax on bank bonuses, borrowing will be £163bn. It would not be sensible to assume that this year's surplus in receipts will be maintained in full in the medium-term.

But with the economy recovering in later years, together with the revenue from tax increases already announced, borrowing will fall to £131bn in 2011/12; then £110bn; in 2013/14 it will be £89bn; and it will reach £74bn in 2014/15 – that is £8bn lower than forecast in December.

This will mean debt is £100bn lower, by 2013/14, than was expected at last year's Budget. As a share of the economy, borrowing is forecast at 11.8 per cent of GDP this year. It will then fall to 11.1 per cent next year; then 8.5 per cent; in 2012/13 it will be 6.8 per cent; then 5.2 per cent; and fall to 4.0 per cent in 2014/15.

Mr Deputy Speaker, this means a reduction in the deficit from 11.8 per cent of GDP to 5.2 per cent – more than halved over a four year period. The structural deficit, which takes into account the economic cycle, is estimated to be 8.4 per cent of GDP this year and fall to 2.5 per cent by the end of the period.

Mr Deputy Speaker, that is a reduction of over two-thirds, removing the bulk of the structural deficit by the end of the next Parliament

And as I have said before, should the economy perform better than expected, we will be able to do more to reduce the deficit.

To start cutting now risks derailing the recovery – which is already bringing down borrowing more rapidly than expected.

Mr Deputy Speaker, we will need to work as hard to establish a platform for sustained growth, jobs and prosperity in the long-term. Since the start of the global crisis, I have always been clear that support for the economy now must go hand-in-hand with a clear plan to reduce borrowing.

Our plans reduce borrowing by £78bn in cash terms over the next four years.

We are set to achieve this goal by a combination of three elements – tax, public spending cuts and, of course, growth in the economy.

First, on taxes. I have already made difficult decisions. And I have been guided by this government's values of fairness and the need not to undermine the recovery.

The one penny increase in the main rate of National Insurance Contributions will not affect anyone earning under £20,000 a year.

Nor will it come into effect until April next year, by which time I believe the recovery will be stronger and more secure. The 50 per cent rate of income tax will come in next month, but only affects those with earnings over £150,000 a year, the top 1 per cent of earners. For people with incomes over £100,000 a year, the top 2 per cent, we will gradually remove the value of their personal allowances.

Tax relief on pensions will be restricted from next year, but again only for those with incomes above £130,000 a year.

Looking across all the tax rises since the beginning of this global crisis, 60 per cent of them will be paid for by the top 5 per cent of earners. We have not raised these taxes out of dogma or ideology. We are determined to ensure our overall tax regime remains competitive.

But I believe those who have benefited the most from the strong growth in incomes in past years should now pay their fair share of tax. I have no further announcements on VAT, on income tax, or National Insurance rates.

Mr Deputy Speaker, the next element of our fiscal plan is to control public spending.

But to cut spending now, before the recovery is self-sustaining, would be short-sighted and counter-productive. This is not just my view, but that of governments around the world, the IMF, the World Bank and the OECD. I know others take an opposite view.

If we had listened, the result would have been to deepen the recession and delay the recovery, to see more businesses closing and many more jobs lost. As a result, borrowing would have been higher, not lower. We did not follow that course. Nor did any other G20 country. And

cutting support now would take demand out of the economy, pull the rug from under the recovery, and delay our return to sustained growth. So we will stick to our spending plans for next year, which will see a 2.2 per cent real-terms increase.

This will allow more time for the private sector to invest and create jobs, ensuring that the recovery will continue and strengthen. It will also mean we can maintain the improvements put in place in our front-line services over the last 13 years.

Improvements which have seen 118 new hospitals, 16 hundred new schools, and tens of thousands of extra doctors, nurses, police and teachers.

In December I set out how we will protect spending on those front-line public services on which we all depend.

**This enables us to guarantee:**

NHS health checks every 5 years for over 40s;

Referral to a cancer specialist within 2 weeks;

Extra maths and English tuition for all 7 to 11 year olds who fall behind;

A place in education or training for every 16 and 17 year-old;

And maintaining funding for police officer numbers.

I can confirm that we will honour these guarantees. I can also confirm that we will allocate over £4bn from next year's Reserve to fund operations in Afghanistan.

I know the whole House will want to join me again in paying tribute to the courage, commitment and professionalism of our armed forces, who represent all that is best in our country.

Mr Deputy Speaker, we can only offer these guarantees for our front-line services – and deliver our plan to reduce the deficit – through continued reform and efficiencies and holding down increases in spending overall.

If unemployment is lower than predicted, as has already been the case, the cost of paying benefits will be lower. Debt interest costs have also been lower than expected. Even so, it is clear that the next spending settlement from 2011 onwards will be very tough – the toughest for decades. Even before the spending review has been held, we have already identified cuts and efficiencies of over £20bn, through limiting pay, reducing programmes and making savings.

Mr Deputy Speaker, in December I set out savings of £4.4bn in public sector pay and pensions by 2012/13. There will be reductions in the pay bill for senior civil servants.

Overall, we intend that public pay settlements will be held at a maximum of 1 per cent for the two years from 2011.

We will also implement reforms to ensure public pensions are affordable.

Second, we need to identify savings across every part of the public sector by delivering services more efficiently. This will be tough and challenging. But it is also achievable. We have already saved £26.5bn from departmental budgets between 2005 and 2008.

We need to go further. At the Pre-Budget Report we committed government departments to find over £11bn of new savings through reforms, without damaging front-line services. Departments will today publish details of how they will make these savings from 2011, as we work towards the spending review.

We will also find savings by relocating civil servants from expensive London offices to elsewhere in the country. In the long-term, I am announcing that the number of civil servants in London will be reduced by a third. As a first step, 15,000 posts will be relocated within the next five years.

I can tell the House today that a thousand posts from the Ministry of Justice will be moved out of Central London, saving £41m. Third, on top of these savings, we have already identified £5bn of cuts in specific programmes, announced in December.

And I can confirm that these will go ahead as planned. Fourth, it has always been our goal to reform the benefits system so that it makes work pay.

The current approach to calculating Housing Benefit pays very high rates to a small number of tenants in the most expensive areas. This discourages employment and is unfair. I can tell the House that I am taking steps to address this, so from October next year the most expensive properties across the country will be excluded from the Housing Benefit calculation in each area.

This, in addition to measures to prevent fraud and error, will save nearly £250m a year by the end of the forecast period. Mr Deputy Speaker, that's over £11bn from greater efficiencies, £5bn from scaling back or cutting lower priorities, and over £4bn from reducing the cost of public sector pay and pensions. In total, over £20bn worth of savings to reduce borrowing and protect front-line services – even before the spending review.

And there is one other area which can help reduce government debt.

I announced at last year's Budget a programme to secure £16bn through asset sales, and we are making considerable progress.

Mr Deputy Speaker, access to finance is vital for small business. It was understandable that banks reduced lending to repair their balance sheets but it caused problems for companies and the wider economy. In return for support during the financial crisis, we have made banks accept their obligation to lend more.

In the past 12 months, RBS and Lloyds, which make up half the market, have lent £38bn to small and medium sized businesses.

As recovery gets underway, we need to ensure viable SMEs continue to get the credit they need. So, over the next year, I have agreed that RBS and Lloyds will provide a total of £94bn of new business loans – nearly half to SMEs.

Mr Deputy Speaker, there are still companies who are being unfairly denied credit and feel that they are powerless to challenge the decision. I want to change this position and give them the right to have their credit complaints examined.

To help them – and the economy – I will set up a new service to fast-track credit complaints from SMEs.

This new credit adjudicator service will examine lending decisions to see if they are fair. It will have legal powers to enforce its judgements, if they believe credit has been wrongly denied. But ultimately, Mr Deputy Speaker, the best way to open up credit for business is to boost competition.

We have already made sure the restructuring of Lloyds and RBS, which will see 900 branches change hands, will bring new entrants into the market. At least five new banks have already either established themselves as business lenders or are in the final stages of setting up.

We want even more competition, so the Financial Services Authority will improve and speed up the licensing process for new banks. Mr Deputy Speaker, we want successful businesses to be able to attract equity and venture capital, as well as bank loans. The government already offers a wide range of support for businesses, to help unlock additional private investment.

But we have listened to business when they have told us that the wide variety of options can be daunting. So we are bringing together all these initiatives under a new national investment corporation, to be called UK Finance For Growth,

which will streamline and improve our offer to SMEs. The new body will oversee the government's £4bn range of finance support for business.

This will also include a new Growth Capital Fund, which will have a specific role in providing fast-growing companies with the private capital they need. Commercial banks have so far agreed to contribute over half of the £200m committed to this fund. It will eventually provide £500m of finance. And, in addition, in this Budget I am taking forward a range of proposals to help larger firms access non-bank sources of lending.

Mr Deputy Speaker, small businesses throughout the country count central government as one of their key clients. Building on the recommendations of the Glover review, I will increase by 15 per cent the proportion of central government contracts that go to SMEs. This could mean new business worth an extra £3bn from central government alone and up to £15bn across the wider public sector.

In addition, we are taking steps to speed up payments to businesses from government departments, so that up to 80 per cent of invoices will be paid within five days.

Mr Deputy Speaker, I will also provide extra support to small businesses through the tax system. The improved time to pay scheme has helped businesses spread £5bn worth of tax payments over a timetable they can afford. Between them, these businesses employ over 1.4m people. The extra time has also helped businesses pay more of the tax owed. This double benefit has convinced me that the scheme should be extended for the whole of the next Parliament.

On top of giving small businesses more time to pay taxes, I want to reduce their taxes, to help them invest and expand. First, business rates are a fixed cost from the moment a company moves into their premises. The Federation of Small Businesses say this is the third biggest cost after salaries and rents.

To help fledgling businesses set up, as well as existing ones, I have decided to cut business rates for one year from October. This change means a tax reduction for over half a million small businesses in England, 345,000 of which will pay no business rates at all. That includes over 60,000 offices, 90,000 industrial premises and almost 100,000 shops.

Second, I am determined to make sure the tax system does not hold back decisions to invest during the

economic recovery. Scrapping investment allowances, as some have proposed, in order to pay for a reduction in the overall rate of corporation tax makes no sense. It would mean, for example, that manufacturers and many smaller companies would see their tax bill increase.

So instead I will help small businesses to expand by doubling the annual investment allowance to £100,000. As a result, 99 per cent of businesses will be able to deduct in the first year, from their taxable profits, all investments in plant and machinery.

Third, I am also going to make it more attractive for wealth-creators and innovators to set-up their own businesses. To do this, I am doubling entrepreneurs' relief for Capital Gains Tax. At the moment, the first million pounds of lifetime gains are taxed at a lower rate of 10 per cent, rather than the main rate of 18 per cent. This threshold will now increase to £2m, enabling entrepreneurs to benefit more from their effort and investment. And I can also confirm today that I am not increasing the main rate of Capital Gains Tax.

Mr Deputy Speaker, better access to finance, improved procurement, lower taxes and more time to pay them. Benefiting hundreds of thousands of small businesses – providing the backbone of future economic growth and jobs.

Mr Deputy Speaker, investment in both traditional and new infrastructure is also vital if our economy is to grow and our businesses are to succeed. We have to move goods and people around the country and around the globe. It is no good supporting high-speed rail links in principle, but declining to back plans which might lead to local controversy.

The government is taking forward plans for a high-speed rail link from London to the Midlands, and then to the North and Scotland. In government, we have taken the tough decisions to improve our transport links and to cut delays in our planning system.

Plans for Crossrail, Heathrow, along with high-speed trains, will improve transport in this country and support some 100,000 jobs over the coming years. Roads are, of course, an essential part of our transport network. The bad weather of the last few months has taken a damaging toll on their condition. So I am providing £100m to pay for vital repairs to local roads throughout the country, and £285m to pay for improvements in the motorway network, including by expanding capacity

by allowing hard shoulder running.

For this and other such measures, there will be consequential provisions, where appropriate, for Scotland, Wales and Northern Ireland. Mr Deputy Speaker, improving our infrastructure also requires us to renew and modernise our energy supplies. Again our competitors are not standing still – China is building a new power station every week, to meet its growing energy needs. We need to take long-term decisions to secure our supplies, while moving to a low-carbon economy.

This means replacing our ageing nuclear power stations. It also means investing in renewable energy along with sustainable transport. In last year's Pre-Budget Report I set up Infrastructure UK, to advise on how our country can achieve these vital goals.

Today they publish a new strategy, setting out a route-map and the investment that will be needed.

To deliver this ambition – vital for future jobs and the health of our planet – I am setting up a new Green Investment Bank. It will control £2bn worth of equity. Half will come from the asset sales, including the Channel Tunnel rail link, with the rest matched by private investment. This equity will unlock billions more of finance from the private sector. The fund will focus first on investing in green transport and sustainable energy, in particular offshore wind power, where Britain is already the world-leader.

And, to strengthen this position further, we are offering £60m to develop ports looking to host manufacturers of offshore wind turbines. This will help the UK secure new inward investment deals, and support thousands of extra jobs in these sectors.

Mr Deputy Speaker, the UK has the potential to be the world leader in the digital economy.

Realising this ambition would create thousands of new businesses and hundreds of thousands of new jobs. It will also open the way for public services to be delivered more effectively and at lower cost.

Access to high-speed broadband is essential to deliver these goals. We have taken the decision to ensure the benefits are spread to rural as well as urban areas and are not limited to the better off. The 50 pence monthly landline duty will unlock private investment and enable 90 per cent of the country to access the next generation of super-fast broadband by 2017.

Mr Deputy Speaker, I now turn to how we will give targeted help to British industry to realise its global potential. The role of modern government is to work with the key sectors to help them compete

and prosper. We will not go back to the interventionism of the past. But nor can we return to the hands-off approach of the free-marketeters.

It is through partnership, not indifference, that Britain can and will succeed.

It is a source of pride that 50 per cent of all Ford diesel engines in the world are now produced in Britain's cutting edge engineering plants. This is testament to the commitment of their staff and the high-quality of their research and development.

But government has also played a part, with financial support, in this British success story.

Mr Deputy Speaker, the government, again, cannot develop and manufacture electric cars. But we can provide the support to help these exciting projects take place in Britain. The announcement by Nissan last week that it is to produce in Sunderland its first mass-produced electric car, was a vote of confidence in British engineering and its workforce. But this ground-breaking venture would not have happened without our support to unlock this private investment.

It is this co-operative approach which will ensure our country competes successfully on a global scale. This same partnership is being built in the life sciences sector, which already employs over 120,000 people. Our approach can be seen in the patent box, for example, which offers tax breaks on income from patents held in the UK.

This will lead to more products being manufactured in this country.

Our creative industries are also a huge source of jobs, wealth and pride.

I will offer help to the computer games sector, similar to the steps which are helping restore the fortunes of the British film industry. This is a highly successful and growing industry, with half its sales coming from exports, and we need to keep British talent in this country.

From advanced manufacturing to pharmaceuticals, from digital communications to creative arts – it is the ideas that drive their success. Building on the Hauser Review, we will ensure that the UK's Technology and Innovation Centres achieve their potential to commercialise new British discoveries.

While people are suffering hardship, it is all the more unfair that some are escaping their tax obligations. I am determined to continue our successful drive to prevent avoidance and evasion. Measures in this Budget will bring in additional tax worth half a billion pounds each year, while protecting £4bn worth of revenues by 2012/13.

These steps include tax agreements like that already signed with Liechtenstein, which is expected to bring in around £1bn of extra revenue. I can also now tell the House that we are ready to sign tax information exchange agreements with three additional countries – Dominica, Grenada and Belize.

Mr Deputy Speaker, we have also tackled pensioner poverty. In 1997, hundreds of thousands of pensioners lived on a basic state pension worth just £62 a week.

From next month, because of above-inflation increases in the basic state pension, and the introduction of the pension credit, every pensioner will be entitled to a weekly income of £132.60. We have announced increased personal allowances for older pensioners, which will mean that from April next year, no-one over 75 will pay any tax on the first £10,000 of income.

The cold weather conditions of the last few months have underlined the importance of the winter fuel payment for many pensioners. Mr Deputy Speaker, for the last two years these payments were temporarily increased to £250, and £400 for the over-80s. Without action today, the winter fuel payment would have decreased in value this coming winter. I have decided that this would be unfair. So I will guarantee this higher winter fuel payment for another year. It means that 9 million pensioner households will receive at least £250 this winter to help with their fuel bills. And in line with our values of fairness, I have provided today help for pensioners, families and homeowners, over the coming year, paid for by closing down tax loopholes, as I have already announced.

Mr Deputy Speaker, I believe the government made the right choices to rebuild our public services. When faced with the upheaval of the global recession, we made the right choices to support the economy, business and families. Because the steps we took, opposed by the party opposite, the recovery has begun, unemployment is falling and borrowing is better than expected.

The choice before the country now is whether to support those whose policies will suffocate our recovery and put our future at risk. Or support a government which has been right about the recession, right about the recovery, and is right about supporting the people and business of this country to build a prosperous future.

And I commend this Budget to the House.

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