HARD TIMES

Alistair Darling's second Budget last month was quite remarkable. His Pre-Budget Report last year was profoundly depressing. This Budget speech was even worse.

Darling was forced to admit that virtually all the predictions he made last November, dire though they were, were far too optimistic. He then went on to make projections about the UK's recovery from recession, which only an utter buffoon would believe. Like most politicians, he mixes incompetence with dishonesty in equal measure.

One of the measures which attracted the most headlines was the increase in the top rate of Income Tax (from 2010/11) to 50% for those people on incomes above £150,000. Because of the complexities of the change, there will actually be a 60% tax band for those earning just over £100,000. Labour had made a manifesto pledge not to raise the top rate of Tax during the life of the current Parliament. As with the pledge to offer the UK electorate a referendum on the Lisbon Treaty, the promise turned out not to be worth the paper it was written on.

Darling appeared to justify returning Labour policy to the politics of class strife on the basis that people are angry with bankers. He made the inane comment that he believed it is fair that "those who have gained the most should contribute more". It appears that Mr Darling doesn't understand how percentages work (or much else for that matter). It is a natural consequence of tax being a percentage of your income that those people who earn more, pay more.

In reality, the increase in the top rate of tax will generate little additional revenue, but will result in many wealth creators, entrepreneurs and high earners either leaving the country or arranging their affairs so that the changes don't affect them. An optimum rate of taxation exists whereby tax revenues are maximised. We have undoubtedly now exceeded this in the UK and the very high levels of taxation which affect people of all incomes will ultimately result in lower, not higher, tax revenues.

Some of the main points which will affect our clients are as follows:

VAT

The VAT registration threshold has been raised to £68,000. If your turnover (based on the previous 12 months) is likely to exceed this figure and you are not already VAT registered, please can you contact us at your earliest convenience.

We understand that the standard rate of VAT will return to 17.5% with effect from 1st January 2010. As predicted by us, the VAT cut has been an expensive mistake which has not achieved its stated aim of boosting the economy, but at the same time has contributed to the further deterioration of the public finances.

TAX RELIEF ON PENSION CONTRIBUTIONS

We have feared for many years that the higher rate tax relief available to people who contribute to pension schemes would be taken away. Unfortunately, this has now come to pass.

The restriction on the relief will take effect from 2010/11 and will initially affect individuals with taxable income in excess of £150,000. Many of our clients will feel this is of little or no interest to them, but it seems inevitable that over time the tax relief available to people on more modest incomes will also be adversely affected. This is yet another blow to creating a savings culture.

Labour have done their very best to decimate pension schemes in the UK and this started with Gordon Brown's multi-billion pound tax raid on pension funds back in 1997. Taxpayers in the private sector now face considerable difficulties in building up a pension fund which will ensure an adequate level of income in retirement. Public sector employees (of which there are now an extra 900,000 since Labour came to power) face no such problems. Quite how the vast unfunded public sector and state pension liabilities will be met in years to come is a question few, if any, politicians seem prepared to address.

FURNISHED HOLIDAY LETTINGS

For many years the losses arising on UK furnished holiday lettings have been eligible for tax relief against other income. This has enabled many clients to gain valuable tax reliefs and at the same time purchase an asset. Many people have seen these second homes as their pension funds.

With effect from 2010/11, the beneficial treatment of these losses will be withdrawn. The government claims this is because the current rules do not comply with European directives. In reality of course, this is another attack on the aspirational middle classes.

CAPITAL ALLOWANCES

No further major changes to the capital allowances regime were announced.

However, changes effective from 6th April 2008, which we have previously highlighted, remain in force.

It is possible for businesses to incur capital costs (plant and machinery etc) of up to £50,000 per year and to obtain 100% allowances on this expenditure. This is a particularly valuable relief to many self employed people and if you are planning major capital expenditure, please contact us to discuss the tax implications. As a general observation, it is worth ensuring that expenditure occurs before the end of your accounting year, so as to accelerate the tax relief available to you.

PENALTY REGIME

The penalties for late filing of nearly all Tax Returns, including Income Tax and PAYE Returns, but excluding VAT, will be reformed starting in April 2010. In-year penalties for late PAYE Returns and payments will apply and in addition, new rules will cancel the longstanding remission of the £100 late filing penalty payable under self assessment if no tax liability is outstanding.

NAMING AND SHAMING

Legislation is to be brought in which will enable HMRC to publish the names and details of individuals and companies who are penalised for deliberate tax defaults leading to a loss of tax of more than £25,000. How ironic that this is being brought in at the same time as the behaviour of our elected representatives is now finally being brought into the open.

OUR VIEW

The unpalatable truth facing the UK is that the country is bankrupt. The deluded duo of Brown and Darling pretend this is not the case. In years to come, when historians look back on the New Labour experiment, people will ask just how so little was achieved with so much money. Labour's obsession with social engineering and its complete failure to control and regulate the credit fuelled boom has left the tax paying public with debts which will take a generation to clear.

The International Monetary Fund immediately raised doubts over the validity of Darling's Budget forecasts. Darling believes that the UK economy will return to growth in 2010 but the IMF believes that a further contraction of approximately 0.4% will occur next year.

The figures announced in the Budget show that the National Debt is projected to reach £1.4 trillion over the next 5 years and it seems likely that it is only a matter of time before Britain's triple A credit rating is affected. The Government itself is forecasting that the debt level will peak in 2013 with the debt reaching 79% of GDP. Many informed observers believe it will exceed this, possibly even reaching a mind blowing 100% of GDP. This is Banana Republic territory.

Because so many statistics are floating around at the moment, we thought it would be useful just to highlight some of the key ones as follows:

- Darling announced the Government is planning to borrow £348 billion over the next 2 years. That is more than **all** UK Governments beforehand have borrowed **in total**. In reality of course, these estimates will be too low and the inevitable consequence is that future generations will be paying back this debt through higher taxes and lower standards of living for years to come.

- Over the next 5 years, it is projected that the Government will borrow £703,000,000,000. God help us!

- Incredibly, the Budget showed that the Government has decided to increase its spending by £53 billion over the next year. We keep being told by Brown and Darling that the only way out of the vast hole we are in is to spend even more money ie. keep on digging. What idiocy. Surely if debt is the problem, repayment is the solution.

- It is believed that every baby born in the UK now will effectively owe £17,000 of inherited Government debt. It is hard to believe that these individuals will thank Gordon Brown for his terrible legacy, where his entire economy was built on excessive Government debt, excessive housing debt and excessive consumer debt.

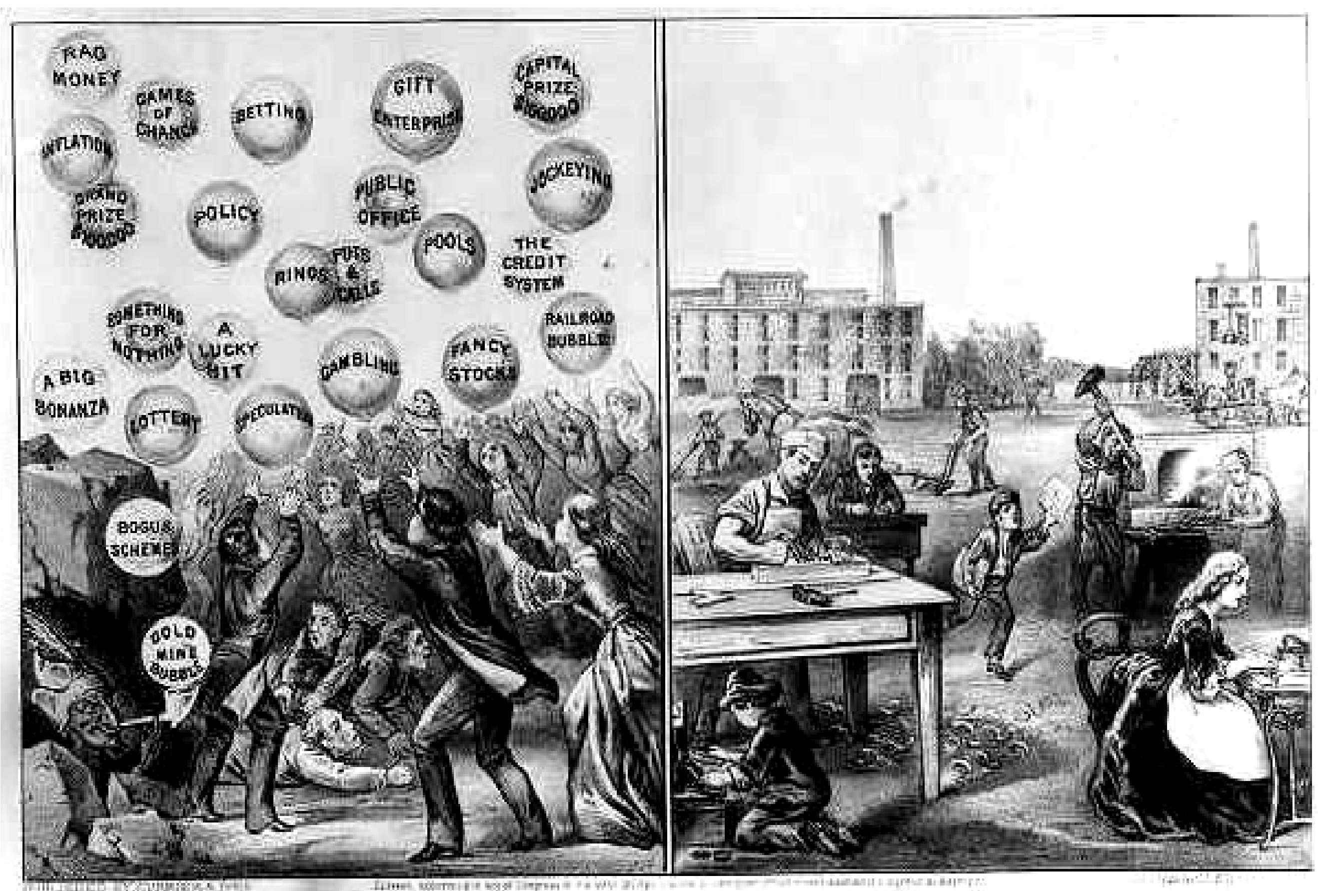
SUMMARY

We appear to be witnessing the death throes of this diabolical Government. The stomach churning revelations about MP's expenses are actually little more than a sideshow when considered in relation to the legacy of debt that future generations will inherit. The Budget was undoubtedly an attempt to defer the need to take radical action to improve the public finances until after the election. The quantitative easing experiment (printing money in layman's terms) troubles us greatly, potentially creating an inflationary time bomb.

Whichever party wins the next election will inherit a poisoned chalice and will be left with no room to manoeuvre. In reality, only a huge cut in Government spending, coupled with a long period of austerity will enable the public finances to be brought back into balance and proper economic growth to take place. Whether any of the political parties have the stomach to dish out this unpleasant medicine remains to be seen. As it is, most taxpayers are now being presented with a gigantic bill by Alistair Darling for a party they didn't attend.

Over the last 10 years we have been noted for our somewhat negative views concerning the economy and the excesses that have been allowed to occur. Without wishing to sound unduly self-righteous, the events of the last 18 months have proved us correct. Since 1997, house prices have risen on average by 150% and at the same time average earnings rose by just 18%. Clearly this was unsustainable. The ridiculous excesses in the financial sector have also troubled us greatly and it still seems incredible that the taxpayer should have to pick up the bill for the reckless stupidity of the banks.

An economy reliant upon debt and speculation is not sustainable indefinitely. Recently I came across a print from 1875, reproduced below, which perfectly summarises the difference between hard work and resultant wealth and speculation/credit and financial ruin. I trust you will find this interesting. Although this was produced over 130 years ago, the principles of wealth creation remain completely unchanged. We can only hope that someone in public office takes note.



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