

BUDGET 2010 AND THE FUTURE

Introduction

Alistair Darling produced a party political broadcast of a speech when delivering the Budget last month. As expected, he failed to tackle the huge issues facing the UK but instead chose to promise spending favours or offer tax reliefs to relatively small groups in a cynical attempt to buy votes at the election. The intellectual and moral bankruptcy of the Government was laid bare for all to see with Darling attempting to 'keep all the plates spinning' one last time in a desperate bid to cling to power.

As usual, the 'hard working families' who politicians of all parties constantly bleat on about were left counting the cost of Labour's fiscal incontinence. With personal allowances frozen and National Insurance contributions set to rise if Labour remain in power, the new 50% tax rate, erosion of tax reliefs on pension contributions and the fuel duty increases, Darling maintained his predecessor's proud tradition of mugging the tax paying public in the firm belief that **HE** knows far better than **YOU** how to spend **YOUR** money. Brown and Darling continue to believe that it is possible to spend your way out of trouble and borrow your way out of debt. You might have hoped these incompetent clowns would recognise that enough is enough, but sadly they seem Hell-bent on sending the UK into financial oblivion.

Key issues for clients

After 13 years of rising taxes and ever growing regulation and red tape, it was a relief that very few **new** measures were announced which will impact immediately on our clients. However, the previously announced NI increases and freezes on personal allowances will increase the tax burden even further.

It is inevitable many unpleasant issues will be tackled in the next Budget, whoever wins the Election. For the time being issues such as income splitting (this could affect many family partnerships), a possible increase in the rate and scope of VAT and attacking the Construction Industry to force a change in employment status of hundreds of thousands of workers were ignored, but you can be certain these issues will come back to the top of the agenda once politicians have got through the unfortunate necessity of facing the electorate.

There do remain some useful tax breaks which many clients should consider. Three of these are as follows:

Annual Investment Allowance

Under the provisions of the AIA, a 100% allowance can be claimed on the first £100,000 spent on plant and machinery in a year. This means the whole cost counts as a deduction against profits in the year of purchase and all the tax relief is available straight away. Most cars do not qualify for this relief (however, see below) but vans and commercial vehicles, computers, plant and equipment etc do qualify.

Tax Relief on Pension Contributions

The higher rate tax relief on pension contributions (where it effectively costs £60 to invest £100 in a pension fund) will remain in place at the moment for higher rate taxpayers earning less than £130k per annum (subject to some complex additional rules).

For these taxpayers, careful consideration should be given to benefitting from this valuable relief while it still exists. No doubt the higher rate relief will be withdrawn for all before too long.

100% Allowances on low emission vehicles

100% allowances may be claimed by the self employed on expenditure on low emission vehicles purchased **new** up to 31st March 2013. Vehicles with CO2 emissions of 110g/km and lower qualify. An increasing number of everyday vehicles now fall into this category (some Audi A3s, Ford Fiestas, Ford Focuses, Honda Insights, Minis, Peugeot 107s, Skoda Fabias, Vauxhall Corsas, VW Polos, VW Golfs) and a list can be accessed at www.comcar.co.uk.

The tax relief is restricted to exclude the relevant percentage of private use, but a number of clients have recently chosen to benefit from this excellent tax break.

OUR VIEW

The General Election campaign is now under way and no doubt most clients are already heartily sick of the claptrap being spouted 24/7 by our loathsome politicians. It is clear already that none of the main parties are prepared to talk sensibly and honestly about the one **main** issue facing the UK, namely the mind-blowing deficit and the catastrophic state of the public finances.

Treasury forecasts (usually unduly optimistic) show that UK indebtedness will rise from £776 billion in 2009/10 to the astonishing figure of £1.4 trillion in five years time. And this figure is based on the assumption that from 2010/11 the UK will enjoy robust economic growth of 3-3.5%. This growth rate seems wholly implausible to everyone except those deluded souls who occupy the bizarre world of planet Brown (Darling, Balls, Cooper and a few other morons).

This level of debt has arisen as a result of two fundamental errors made by Brown. He incorrectly assumed that the increased tax revenues from the credit and housing bubbles were sustainable and he increased Government spending massively on that basis. Largesse was distributed to all Labour's key electoral groups and an extra 900,000 public sector workers were hired. Presumably Brown felt this was justifiable as he repeatedly assured us (over 100 times in various speeches since 1997) that he had abolished Tory boom and bust.

Secondly, he ran a large deficit at the height of the boom which meant we hit the downturn with close to the largest deficit in the developed world.

We do not feel the general public has grasped the gravity of the situation facing the UK and the quite diabolical legacy Labour has left the country. Within 5 years it is projected that the **interest charges alone** on the UK debt will be **£63 billion a year** if interest rates remain low, or possibly as much as **£100 billion a year** if rates rise to something nearer historical levels. To put this in context, the lower figure is over one and a half times our current annual defence budget.

Britain is borrowing proportionately more than all other major economies and so far has managed to do this by the smoke and mirrors trickery of quantitative easing, or printing money in layman's terms. So we've been creating money (£200 billion pounds to be precise) and using it to buy debt from ourselves. Sounds a bit phoney really doesn't it? The inevitable consequence is that interest rates and the cost of borrowing will rise in due course, more tax receipts will be directed towards servicing and repaying debt and standards of living will fall. Taxpayers for years to come will be forking out an ever increasing slice of their income to retrospectively pay for the failure of this incompetent shower of buffoons.

Perhaps the taxpayer could forgive the Government for wrecking the public finances so comprehensively if they could see that the orgy of borrowing and spending had led to commensurate improvements in the infrastructure of the country, the education system, the NHS, law and order, the welfare system, productivity in the public sector and proper border controls. Or if people could feel their civil liberties had not been eroded, they had been duly consulted about Britain's relationship with the EU, they had been consulted about the costs of the Climate Change Act (conservatively projected to cost each family £760 per year for life), they had been asked whether they felt the absurd Health and Safety culture should be strengthened and enhanced, whether we needed more political correctness in the form of Harriet Harman's insane Equality Bill, whether they were happy that Labour MPs elected John 'Flipper' Bercow to clean up Parliament, whether they agreed that anyone who dared to drive a car should be demonised and whether they believed the welfare system encouraged dependency and dis-incentivised work and self reliance.

Labour has nearly doubled public spending since 1997, but the gains taxpayers might have hoped for have simply not materialised.

THE ROAD TO RECOVERY

So what hope is there that any of our politicians can grasp the nettle and turn round the fortunes of our ailing country? The opening exchanges in the Election campaign do not provide much hope that we have a politician of sufficient stature to tackle the crisis facing the country. The next Government will quickly need to apply a monumental dose of sanity to the public finances. This is anathema to the politicians of all the main parties, who believe that the way to win votes is to promise ever greater levels of public expenditure. In effect, they wish to bribe the electorate with their own money.

The Institute for Fiscal Studies calculated that the recession has destroyed nearly 5 % of our total wealth. This means that, even taking an optimistic view, it will take well over the term of the next parliament just to restore the lost wealth.

The next Government needs to realise that a genuine recovery can only be obtained by opting for fiscal responsibility and massively reducing the size and role of the state. When the Canadian Government eliminated its deficit in the 90s, it cut 7 dollars in 8 through spending cuts and just 1 dollar in 8 through tax rises. Closer to home, the Irish Government has also recognised that deficits can only be sensibly tackled by cutting spending. Brian Lenihan, the Irish finance minister opened his last budget with the following words:

‘In our everyday lives we do not borrow to pay for our household bills. We cut back and seek to live within our means. The same strictures apply at national level. Borrowing hundreds of millions a week to pay for day to day spending is just not on.’

Recognising Ireland was headed for financial meltdown, Lenihan cut public sector wages by an average of 15%. How refreshing it would be if our next Chancellor could echo these sentiments. Clearly our boneheaded PM could never recognise this common sense

The next Government will need to drive up productivity in the bloated public sector. Over the last decade productivity gains of 23% have been achieved in the private sector. In the public sector, productivity has fallen. Shameful. The number of public sector workers is going to have to fall dramatically from the current total of 6.1 million. Amazingly, the NHS recruited an additional 20,000 people in the last 3 months of 2009, bringing its total workforce to 1.62 million people. It is believed that only the giant American retailer Wal-Mart employs more. Seeing as salaries represent 70% of the overall cost of providing health and education services, it is obvious that meaningful cuts can only be obtained by looking at pay levels, pension entitlements and staff numbers.

FINALLY

If anyone still doubted just how hapless Gordon Brown is, they ought to listen to his utterly absurd comments about the Conservative plans NOT to implement the increase in National Insurance contributions. This proposed increase has been roundly condemned by business leaders, but the dipstick Brown believes, as always, that he is right and everyone else is wrong. He made the preposterous claim that NOT raising NI would ‘take 6 billion pounds out of the economy’.

This shows how Brown believes that ‘the economy’ equals state spending. He’s completely wrong, his whole philosophy is flawed, his understanding of markets is non-existent and he has bankrupted the country. It will take many years to recover from his economic vandalism. We can only hope our future leaders prove up to the job.