

BULLIMORES' NOTES AND COMMENTARY ON THE CHANCELLOR'S STATEMENT 22 JUNE 2010

The unavoidable budget (ConDemning Brown's legacy)

There is much of the emergency budget to be applauded, not least that the accompanying press notices are extremely short and the changes do not appear to have increased administrative burdens. The new Chancellor had already thrown all of the dirty linen into the public arena and made difficult decisions, much the same as a new Managing Director, and they were not as bad as at first feared.

The objective was to reduce the national debt which threatens the stability of the UK in the financial markets. To achieve this over a five year cycle the Coalition objective is that 77% of the burden is to come from spending reductions and 23% from increased taxation. A number of increases in taxation had already been announced for 2011/12, so the tax rises did not appear as harsh as anticipated. The cuts on spending in the public sector and on benefits seem reasonable but the most controversial decisions will come from the pensions review in the autumn. Also, the public sector unions are not happy with an estimated possible 1 in 14 redundancies from the cuts already announced and a pay freeze.

VAT rises to 20% on 4 January 2011 which gives businesses a long period of time to prepare and a relaxed New Years Eve! It should boost sales on big ticket items in the short term. The rise was expected but is the most politically sensitive item in the budget.

The Chancellor aims to stimulate the private sector and reduce the cost of the public sector, but too steep a rise in capital gains tax would have stifled business activity; hence the much discussed capital gains tax changes actually supported entrepreneurs with a surprising commitment to keep CGT rates for entrepreneurs at 10% and to raise lifetime entitlements to £5m. However, the buy-to-let investor will pay capital gains tax at up to 28% although this is still a lot better than 50% income tax. Furnished holiday letting businesses were granted an extended reprieve.

Lower corporation tax rates were needed to make the country more competitive and a four year plan to reduce the main rate to 24% is welcomed. This makes the UK corporation tax rate one of the lowest in Europe. Not all small businesses benefit as much as the headline reduction to 20% suggests, since capital allowances will be reduced and the annual investment allowance has been cut to £25,000. This would mean an effective corporation tax rise for capital intensive businesses and does not help sole traders and partnerships at all. The good news for the banks and their share prices is that the special balance sheet levy imposed is not as costly as many anticipated and is part of a European strategy.

Surprisingly, as National Insurance rises were the focus of the Conservative attacks in the election campaign, nothing significant has been done to stop these increases for employers in the traditional Conservative heartlands of London, the East and the South East. The only concessions were to slightly increase the threshold and a scheme for new employers in specified areas of the country, with conditions attached.

Pensioners and the lower paid both appear to benefit from this budget, since the rise in the personal allowance with the aim to bring it to £10,000, the increase in the NIC threshold and the triple lock on the state pension should increase net income. The amounts paid on certain benefits have been significantly restricted and new procedures are to be implemented as part of the fairness review.

Reducing the debt burden the country faces is a significant task and not everyone will be pleased with this emergency budget, but quick and decisive action was needed. If there are areas of particular concern to you, please contact us.

“In levying taxes and in shearing sheep it is well to stop when you get down to the skin.”

Austin O Malley

“I wish the government would put a tax on pianos for the incompetent.”

Dame Edith Sitwell



