

Budget Summary

2009's Budget was never likely to provide much in the way of good cheer. As the Treasury struggles to cope with the cost of the recent bank bailouts, the rising cost of social security and falling tax revenue, public borrowing is set to soar to record levels.

In an attempt to help the UK balance its books, Chancellor of the Exchequer Alistair Darling intends to cut growth in spending on public services by almost half from 2011 and, in a surprising move, he announced that those earning more than £150,000 per year will be taxed at a new high rate of 50% from April 2010.

The Budget also included a reduction in tax relief on pension contributions paid by high earners. Tax relief for those earning more than £150,000 per year will be tapered off, disappearing completely for those earning £180,000 or more. Meanwhile, those earning more than £100,000 per year will see the withdrawal of their personal allowances from April 2010.

Fuel duty will rise by 2p per litre in September, while duty on alcohol and tobacco rose by 2%. Darling announced £2 billion-worth of help for the unemployed, and measures intended to boost the housing market and the motor industry.

The Budget included some help for businesses, although the Confederation of British Industry criticised the Budget, commenting that it did not set out a "credible and rigorous path for restoring the public finances to health".

Pensioners will see the basic state pension increase by at least 2.5%, regardless of inflation, and current winter fuel allowances will be maintained for another year despite the recent fall in energy prices.

The limit on savings that pensioners can possess before their Pension Credits are reduced will rise to £10,000 in order to help those negatively affected by low interest rates. Meanwhile, the annual limit for ISA contributions will rise in October this year to £10,200 per year for those aged over 50, and for everybody from next year.

Darling expects Britain's economy to shrink by 3.5% during 2009, and return to growth the following year. However, the International Monetary Fund expects the UK to contract by a rather more drastic 4.1% in 2009, and does not expect Britain to return to growth during 2010. Darling appears to be gambling on a relatively swift economic recovery for the UK; only time will tell whether this gamble will pay off.

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