

# SPRING UPDATE

## Budget 2009 Headlines

Public borrowing to increase from £34.6bn in 07/08 to £175bn in 09/10

GDP expected to fall by 3.5% in 2009

Temporary 40% first year allowances for capital investment

Improved tax relief on trading losses (carry-back extended)

Improved incentives for EIS and VCT investments

VAT rate confirmed to revert to 17.5% from 1 January 2010

Reduced tax relief on pension contributions for high earners.

From 2010, higher income tax bills for those with earnings over £100,000



## THE UK ECONOMY : WHAT HAS HAPPENED?

As a business manager you will know all about the effects of the current economic climate. The rate of change in economic conditions appears to have caught everyone by surprise, but what caused this position and what can be learned from it.

The UK economy is moving into a recession as defined by reduced gross domestic product (economic activity). The chart shows that the recessions in the mid 70's, early 80's and early 90's followed increases in inflation and interest rates. The current recession is accompanied by low interest rates and relatively low inflation.

The economy has suffered from reduced demand, because of the widely reported credit crunch. The recent past has witnessed asset prices at seemingly record levels. The failure of the banks to regulate retail lending has meant that asset prices have increased to unsustainable levels.

What is remarkable is that the reduction in asset values

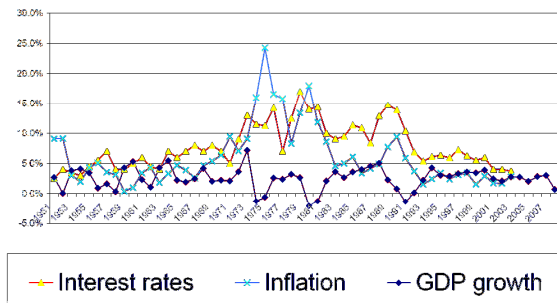
has been in the context of the low headline interest rates.

Of course, for many small businesses, the cost of obtaining credit has risen dramatically as the economy weakened and lending risks increased.

With demand now reduced in the economy, the challenge being faced is—how can demand be stimulated? There is no easy answer, the rekindling of consumer demand through interest rate cuts is slow to work because of the level

of confidence in the economy. The current government weapon (that of fiscal easing) will result in ever increased government spending. As tax receipts are falling so government borrowing is increasing as was declared in the budget. It is this that carries the risk for the economy in that the old enemy of inflation may re-emerge.

Whatever happens to the UK economy, successful businesses will need to be able to adapt to the new economic climate.



## HOW TO SURVIVE AND THRIVE IN DIFFICULT TIMES

With the UK economy suffering from reduced consumer demand, this is the time to concentrate on working on your business. To do this you may need to :

- Identify your target market and concentrate on fulfilling their needs

- Identify your most profitable products or services. This will involve an analysis of how you and your staff spend your time and resources
- Manage your cash-flows and plan your financing requirements

- Keep in control of customer credit and avoid bad debts by doing your home work
- Review your business and personal goals and consider your tax structure

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## BUDGET 2009 COMMENTARY

The 2009 budget was unlike any other in recent history. As usual, most of the measures announced were either old news or hinted at previously. The difference in this year's budget was the sheer scale of the problem with the government finances.

The chancellor announced that net borrowing is expected to grow to £175bn in 2009/10. That is over five times the level of borrowing in 2007/08.

To make this worse, the chancellor expects to issue even more than this figure in government stocks. The effect of this on the price of money (interest rates and exchange rates) cannot be accurately predicted. Even if interest rates are kept under control, UK individuals and businesses will inevitably have to repay this debt that is expected to increase to over 76% of GDP by 2013/14.

With this level of finance being required by the UK



The 2009 budget revealed the scale of the problem with the government finances

government the wider economy (individuals and businesses) will need to act to secure the finance that they need at affordable rates.

The budget did have some headline announcements. The removal of personal allowances for those earning over £100,000 and the increase in the highest income tax rate to 50% will mean that the marginal rates of tax (for higher earners from 2010) will vary considerably between 40% to 60%

The contrast with the capital gains tax rate of 18% is now even more pronounced. Many commentators have noted that the effect on taxation receipts from these income tax rates will not be dramatic.

There was some good news for businesses. Notably, in addition to the 100% annual investment allowance (on the first £50,000 of capital expenditure), there will also be a first year allowance of 40% on capital investment over £50,000.

Small company corporation tax rates were also held at 21% until 2010.

As always there was a lot of detail in the budget, but the overall impression was that significant increases in tax rates or cuts in spending will happen, just not this year.

This Spring Update is designed as information for readers. It cannot be relied upon to cover specific circumstances and readers should therefore seek professional advice before acting or refraining from acting on any of the contents of this publication.