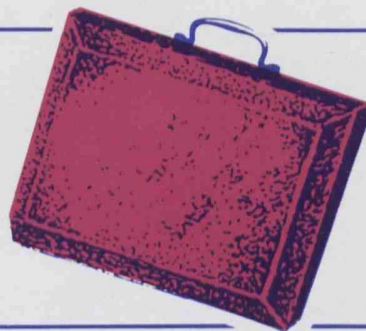


THE BUDGET

in brief



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The Budget reaffirms prudent policies designed to achieve the Government's main objective of reducing inflation and improving the climate for output and jobs. It is primarily a Budget for savers. It is also a Budget for business, with particular help for small and medium-sized companies.

Savings and income

The Budget contains a number of measures to help small savers, whether the savings are held in the form of bank or building society accounts or invested in shares.

The Chancellor has provided for a new way of planned saving for all adults with **Tax Exempt Special Savings Accounts (TESSAs)**. Up to £3,000 can be put into a TESSA in the first year. After that the maximum is £1,800 a year up to the total of £9,000 over five years. It will be possible to withdraw interest as it accrues, but only up to the 'net of tax' level. At the end of the five years the depositor gets a bonus representing the money which would otherwise have gone in tax, provided none of the capital has been withdrawn. Depositors can withdraw capital at any time, but without tax relief. The relief is to take effect from January 1991, after full details have been agreed with the banks and building societies.

The **composite rate tax** on interest paid on bank and building society accounts will be abolished. This means that non tax-payers will no longer pay tax on interest on these accounts.

To encourage savings in the form of equities, the Chancellor has raised the annual limit on amounts which may be invested in **Personal Equity Plans (PEPs)** from £4,800 to £6,000. Within that, the limit on amounts invested in unit and investment trusts will be increased to £3,000. To help more investment trusts to qualify for inclusion, the requirement that 75 per cent of their portfolio should be in UK equities has been reduced to 50 per cent. The maximum that can be invested in any one year in trusts not satisfying this rule has been raised from £750 to £900. Since the introduction of PEPs in 1987 690,000 plans have been taken out, and £1,430 million invested.

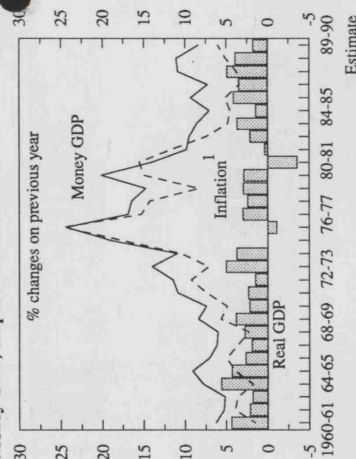
Stamp duties on share transactions are to be abolished late in 1991-92 to coincide as far as possible with the introduction of paperless dealing. This will lower the cost of purchasing shares, encouraging wider share ownership, and enhance Britain's pre-eminence as a financial centre in an increasingly competitive international market. Already one in four adults owns shares.

The Chancellor has made a change to the rules governing **Employee Share Ownership Plans (ESOPs)**. Company owners, particularly in the unquoted sector, will be able to sell their shares to the workforce without incurring an immediate tax charge.

The main features

- Budget in surplus for the fourth successive year.
- Tax Exempt Special Savings Accounts (TESSAs) to allow adults to save free of all tax from 1 January 1991.
- Amount of savings people can have without losing all entitlement to income-related benefits increased substantially.
- Independent taxation of husband and wife effective on 6 April 1990.
- Non-taxpayers no longer to pay tax on interest from banks and building societies from 6 April 1991.
- Annual investment limit on Personal Equity Plans (PEPs) increased to £6,000 and further encouragement for Employee Share Ownership Plans (ESOPs).
- Stamp duties on shares to be abolished late in 1991-92, to coincide as far as possible with the introduction of paperless dealing.
- Basic and higher rates of income tax and basic rate limit unaltered, and main tax allowances increased in line with inflation. Blind person's tax allowance doubled to £1,080.
- 'Gift Aid' relief introduced for single donations of £600 to £5 million by individuals from October 1990, and matching relief for single donations by companies; limit on relief for charitable donations under payroll giving scheme increased to £600; and VAT reliefs for charities extended.
- Workplace nurseries provided by employers exempt from tax as a benefit in kind.
- Excise duties generally increased in line with inflation, but:
 - duty on petrol up 10 per cent, a 15½p tax differential in favour of unleaded as against leaded. No increase in vehicle excise duty for cars;
 - 10 per cent increases in duty on cigarettes, cigars and spirits, but no change in duty on pipe tobacco.
- 2½ point reduction in pool betting duty—worth £100 million over five years—to provide funds to improve safety and comfort at football grounds.
- Company car scale charges increased by 20 per cent.

Chart 1



RPI excluding mortgage interest payments from 1976-77. Earlier figures based on all-items RPI, when it did not include mortgage interest payments.

Recent economic performance

During the 1980s Britain's economic performance has improved substantially. The last eight years have been an unprecedented period of strong, steady growth averaging over 3 per cent a year. Investment has grown more than twice as fast as consumption. Indeed investment in the UK has grown faster than in any other major European country. There has also been a dramatic improvement in manufacturing productivity growth, which has exceeded that of all other major industrialised countries during the 1980s.

But the record growth in investment was accompanied in recent years by rapid growth in consumer spending and borrowing. As a result total domestic demand and output grew at rates that could not be sustained. This above-trend growth resulted in a combination of rising inflation and a widening current account deficit.

As soon as the threat of higher inflation became clear, policy was tightened, and short-term interest rates have been in double figures for nearly two years. The tight policy stance has reduced the growth of demand and output, which moderated during 1989. Inflation remains high, but will in time fall in response to slower growth.

Economic policy

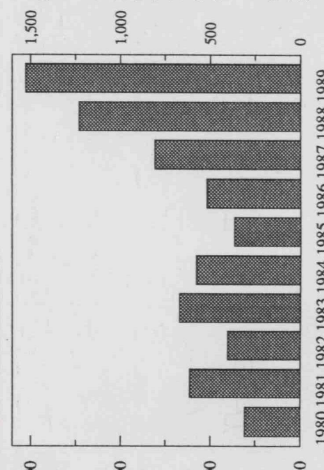
The Budget continues the policy which has been adopted since 1979, namely:

- A Medium Term Financial Strategy (MTFS) aimed at the defeat of inflation.
- Reforms in taxation and other fields to stimulate enterprise and to improve the supply side of the economy.

The key points of the MTFs are:

- The maintenance of tight monetary and fiscal policies in order to exert downward pressure on the cash value of national income, or money gross domestic product (GDP). The path for money GDP and an illustrative breakdown between real output and inflation are shown in table 1.
- Interest rates will be set as high as necessary to bring inflation down. A target growth range of 1–5 per cent has been set for the most reliable monetary indicator, M0.
- The Government will also take account of the evidence of other monetary aggregates, particularly the exchange rate and prices of assets.
- Following debt repayments of £7 billion in 1989–90 and 1990–91, there will be a gradual return to the longer-term objective of a balanced budget.

New businesses each week**



* Start-ups net of closures based on VAT registration data

Economic forecast

1990 is expected to be a year of slow growth as inflation is squeezed out of the economy.

Domestic demand is expected to fall by 3 per cent in real terms in 1990 while GDP is forecast to rise by 1 per cent. A lower growth rate is necessary given the excessive expansion in recent years. However, growth over the four years to 1990 will still have averaged 3 per cent if the forecast is met. Export prospects are particularly bright as British businesses are expected to continue making the most of the excellent opportunities in overseas markets.

RPI inflation will rise in the months ahead in response to a number of unfavourable factors, before falling later in the year. It is forecast to be 7½ per cent in the fourth quarter. Thereafter it is expected to fall rapidly during 1991.

Table 4 Economic forecast

1989 Estimate	1990 Forecast
per cent change on previous year	
Consumers' expenditure	3½
General government consumption	1½
Fixed investment	4½
Change in stockbuilding (as per cent of GDP)	-1½
Exports	-1½
Imports	7½
Gross domestic product—total	1
—manufacturing	2½
Balance-of-payments current account	4½
(£ billion)	0
inflation—retail prices index (fourth quarter on fourth quarter)	-21
—GDP deflator at market prices (financial year)*	7½
Money GDP at market prices (financial year)*	6½
(£ billion)	7½
"SDR (financial year) £ billion	519
per cent of GDP	7
	1½

Adjusted for distortions arising from the abolition of domestic rates.

Table 2 Money supply

	1989-90	1990-91	1991-92	1992-93	1993-94
Forecast					
40 growth rate per cent	5.4*	1 to 5	0 to 4	0 to 4	-1 to 3

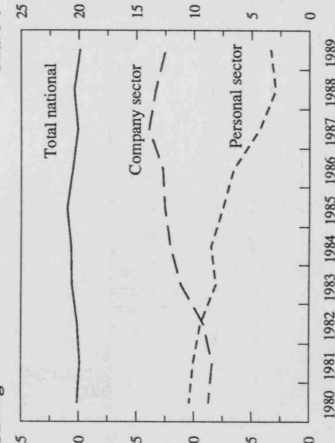
1990-91 is a forecast. The figures for later years are illustrative.

Table 3 Public sector debt repayment*

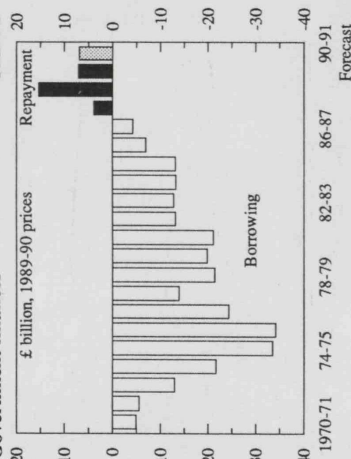
	1989-90	1990-91	1991-92	1992-93	1993-94
ESDR £ billion	7	7	3	0	0
ESDR per cent of GDP	1½	1½	½	0	0

1990-91 is a forecast. The figures for later years are illustrative.

Chart 4



Government finances



The Government is committed to joining the **Exchange Rate Mechanism (ERM)** of the European Monetary System (EMS) when the level of UK inflation is significantly lower, there is capital liberalisation in the Community and real progress towards completion of the single market, freedom of financial services and strengthened competition policy. The MTFIS is designed to reduce inflation and to sustain the anti-inflationary stance which ERM membership requires.

Table 1 Money GDP growth, output and

inflation*	1989-90	1990-91	1991-92	1992-93	1993-94
Money GDP	8½ (6½)†	5½ (7½)†	6½	6½	5½
Real GDP					
—North Sea	2½	1	2	2½	2½
—Total	1½		2	2	
Inflation (GDP deflator)	6½ (6½)†	4½ (6½)†	4½	3½	3

* The figures for 1990-91 are forecasts. The figures for subsequent years represent the Government's medium term objectives for money GDP and assumptions for output and inflation.

Income tax

Independent taxation was announced in the 1988 Budget and comes into effect on 6 April 1990. From this date all taxpayers, married and single, male and female, are taxed separately on their own income.

Every taxpayer will be entitled to a personal allowance which can be set against any type of income. Previously a married woman had no allowance to set against her income from savings and any state retirement pension paid to her on the basis of her husband's national insurance contributions. Now she can use her personal allowance against these forms of income.

The main **tax allowances and thresholds**, shown in table 6, have been increased in line with inflation. The blind person's allowance has been doubled from £540 to £1,080. There has been no change in **income tax rates** or the basic rate limit this year.

Business

The main corporation tax (CT) rate and the small companies rate are unchanged. But there are a number of measures to help companies, particularly small and medium sized ones:

- Comprehensive system of VAT relief for bad debts.
- Small companies' VAT threshold raised to £25,400, the maximum permitted under European Community law.
- The small companies' corporation tax limits are raised to £200,000 and £1 million. So companies will not be liable for CT at 35 per cent till their profits reach £1 million. For companies in a group, these limits apply to the profits of the group as a whole. These changes in the limits will reduce the burden of CT for around 20,000 companies.
- Tax relief granted for contributions to training and enterprise councils.
- Relief for expenditure on waste disposal sites.
- Annual limit for investment raised under Business Expansion Scheme increased to £750,000.

Table 5 Revenue effects of Budget measures

	£ million*	
	Yield +/Cost -	
	1990-91	1991-92
	Changes from indexed base	
Income tax		
basic rate limit unchanged	+220	+400
car benefit scales increased by 20 per cent	+160	+200
benefit of workplace nurseries exempted	-10	-10
Excise duties		
tobacco duties increased	+75	+85
petrol, derv and other oil duties increased	+175	+195
alcohol duties increased	+20	+25
vehicle excise duty on cars, buses etc unchanged, other vehicle excise duty changes	-210	-215
pool betting duty rate reduced	-20	-20
Tax Exempt Special Savings Accounts	-20	-200
Composite rate tax abolished	—	+550
Stamp duties on shares abolished	+5	-120
Corporation tax		
small companies' limits increased by a third	*	-25
relief for doubtful sovereign debt phased	*	+200
Value added tax		
bad debt relief	}	-35
reform of registration rules		
Other tax changes	+70	+115
Total	+430	+955

— = Nil
* = Negligible

Table 6 Income tax

	1989-90	1990-91*	Increase over 1989-90
Allowances (£)			
Single person's/personal	2,785	3,005	220
Married couple's		1,720	
Married man's/personal & married couple's	4,375	4,725	350
Additional personal & widow's bereavement	1,590	1,720	130
Single age/personal (65-74)	3,400	3,670	270
Single age/personal (75+)	3,540	3,820	280
Married couple's (65-74)		2,145	
Married couple's (75+)		2,185	
Married age/personal & married couple's (65-74)	5,385	5,815	430
Married age/personal & married couple's (75+)	5,565	6,005	440
Age-related income limit	11,400	12,300	900
Blind person's	540	1,080	540

* With independent taxation.

Football

In the light of the Taylor Report it is evident that football clubs must spend large sums to improve the safety and comfort of their grounds. Much of the expenditure required to meet the Taylor recommendations should be eligible for capital allowances or for full offset against tax. But this will not help the poorer clubs as few of them make any taxable profits.

Pool betting duty, currently at 42½ per cent, is to be reduced to 40 per cent, initially for five years, as long as the benefit of the cut is all channelled to the Football Trust to distribute for essential expenditure on safety and comfort at football league grounds.

Excise duties

Most excise duties are to rise in line with inflation. This will put 7p on a bottle of wine, and 2p on a pint of beer. However, the duties on spirits and cigarettes are to be increased by 10 per cent, putting 54p on a bottle of whisky and 10p on a packet of 20 cigarettes. The duty on pipe tobacco has not been changed.

The vehicle excise duty on cars is to be unchanged, but there will be increases in some lorry rates. Petrol duties will rise by 10 per cent. This will put 11p on a gallon of leaded petrol and 9p on unleaded, raising the tax differential in favour of unleaded to 15½p.

Charities

A new 'Gift Aid' relief is to be introduced from October 1990 for single donations of £600 to £5 million by individuals, with a similar relief for single donations by companies. The limit on relief for charitable donations under the payroll giving scheme is to be increased to £600. VAT reliefs for charities are to be further extended.

Workplace nurseries

The benefit in kind resulting from free provision at workplace nurseries and playgroups will be exempt from tax.

Car scale changes

Company car scale charges are to be increased by 20 per cent from 6 April 1990. Car fuel scales are unchanged.

BUDGET SNAPSHOT

20 March 1990

1. PERSONAL TAXES

Income Tax - Independent taxation announced in the 1988 Budget giving women independence in tax matters introduced from 6 April 1990

Main Allowances and allowances for the over 65s increased in line with inflation (RPI was 7.7 per cent to December 1989). Tax reductions in pay packets on first day after 17 May.

No change in 25 per cent basic rate, 40 per cent higher rate or the basic rate limit (threshold for liability to the higher rate).

<u>Allowances (£)</u>	<u>1989-90</u>	<u>1990-91</u>
Personal	2,785 ⁽¹⁾	3,005
Married Couples		1,720
Personal + Married Couples (PA + MCA)	4,375 ⁽²⁾	4,725
Additional Personal	1,590	1,720
Personal (aged 65-74)	3,400 ⁽³⁾	3,670
Married Couples (65-74)		2,145
PA + MCA (65-74)	5,385 ⁽⁴⁾	5,815
Personal (aged 75+)	3,540 ⁽³⁾	3,820
Married Couples (75+)		2,185
PA + MCA (75+)	5,565 ⁽⁴⁾	6,005

<u>Allowances (£)</u>	<u>1989-90</u>	<u>1990-91</u>
Income limit for over 65s	11,400	12,300
Threshold for 40 per cent rate	20,700	unchanged
(1) Single persons Allowance	(2) Married Mans Allowance	
(3) Age Allowance single	(4) Age Allowance married	

Blind person's Allowance doubled from £540 to £1,080, unused portion can be transferred to spouse.

Scale charges for private use of company cars raised by 20 per cent in 1990-91 compared with 1989-90. The 1989-90 scale charge of £1,850 on a 1.6 litre car travelling between 2,500 and 18,000 business miles will rise to £2,220. No change in car fuel scale charges.

Workplace nursery provision by an employer for an employee's children will be exempt from income tax as a benefit in kind.

2. TAXATION OF SAVINGS

Tax Exempt Special Savings Accounts (TESSAs) to be introduced; these will be five year investment plans in a bank or building society account in which up to £3,000 in the first year and £1,800 a year thereafter can be contributed within an overall limit of £9,000. Interest will accumulate tax free. Investment can be withdrawn after 5 years: early withdrawal of capital will mean loss of exemption. Relief effective from January 1991, but net-of-tax interest can be withdrawn during the five year period.

Composite Rate Tax abolished from April 1991. There will be arrangements under which non-taxpayers can receive interest free of tax. For taxpayers, basic rate tax will be deducted. Anyone not liable to tax who has had income tax deducted will be able to reclaim it.

Stamp Duty will be abolished on share transactions from a date in late 1991-92 to coincide as far as possible with the introduction of the Stock Exchange's new system for paperless transfer of shares.

Annual investment limit for Personal Equity Plans (PEPS) raised from £4,800 to £6,000.

Capital Gains Tax roll-over relief to be available for shares sold into ESOPs (Employee Share Ownership Plans).

Authorised provision of Save as Your Earn (SAYE) contracts extended from building societies and Department of National Savings to banks.

Capital cut-off (the amount of savings above which people are ineligible for income related social security benefits) raised from £6,000 to £8,000 for income support and family credit, and from £8,000 to £16,000 for housing benefit and community charge benefit.

3. Excise Duties

Duties on cigarettes, hand rolling tobacco, cigars, petrol, derv and spirits raised by 10 per cent; on beer, wine and cider raised by 7.7 per cent in line with inflation: no increases on pipe tobacco.

	<u>Duty Increase</u> (percent)	<u>Price effect</u> (including VAT)
Beer	7.7	1.7p a pint
Wine	7.7	6.8p a 75cl bottle
Spirits	10.0	54.4p a 75cl bottle
Cider	7.7	0.9p a pint
(Alcohol duty increases apply from 6pm Budget Day)		
Cigarettes		
20 kingsize	10.0	9.6p per packet
Cigars	10.0	4.8p per packet of small cigars
(Tobacco duty increases apply from midnight 22/23 March)		
Leaded petrol	10.0	10.7p a gallon
unleaded petrol	10.0	9.3p a gallon
Derv	10.0	9.0p a gallon
(hydrocarbon oil duty increases from 6pm on Budget Day)		

Vehicle Excise Duty (VED) - No change in £100 VED on cars and light vans.

RPI effect of duty changes: 0.53 per cent

Pool Betting Duty to be cut from 42½ per cent to 40 per cent for initial period of five years on condition that the pools promoters pass the full amount saved (some £100 million over five years) to the Football Trust for use in improving safety and conditions at football grounds.

4. TAXATION AND BUSINESS

Value Added Tax (VAT):-

Comprehensive system of VAT relief for bad debts

VAT registration requirements simplified.

Registration threshold (annual turnover below which traders are not obliged to register) up from £23,600 to £25,400.

No change in 15 per cent rate.

Corporation Tax - main rate remains at 35 per cent, small companies rate at 25 per cent.

Profits limit below which the 25 per cent rate applies raised from £150,000 to £200,000; the limit below which companies receive relief from the full 35 per cent rate raised from £750,000 to £1 million.

Annual limit for investment under Business Expansion Scheme raised from £500,000 to £750,000;

New arrangements for tax relief for banks' doubtful foreign sovereign debt to remove uncertainty and to spread the cost to the Exchequer of any further worsening of the prospects of recovering those debts.

Tax relief for expenditure on waste disposal sites.

Tax relief for contributions by businesses to Training and Enterprise Councils (TECs)

5. CHARITIES

Qualifying donations under the payroll giving scheme raised from £480 to £600 a year.

New income tax relief for single donations by individuals equal to or more than the payroll giving limit of £600 (Gift Aid).

VAT zero rating extended to waterborne ambulances, inshore rescue boats, and ancillary work on charities' advertising; further concessions on medical equipment (from 1 May).

6. CAPITAL GAINS TAX

Exempt amount held at £5,000 for individuals and at £2,500 for most trusts.

7. INHERITANCE TAX

Threshold increased in line with inflation from £118,000 to £128,000.