“In essence, Darling’s Budget was the placating dummy to an economy on the verge of a tantrum”

Stephen Gifford, Chief Economist, Grant Thornton

Alistair Darling’s first Budget, delivered against the backdrop of a slowing economy, offered few concessions to UK business or individuals and was short on headline-grabbing announcements.

Given the current state of the economy and public finances, Grant Thornton believes Darling could do little else with his first Budget but hope to stem the slowdown and try to shore up public finances with tax rises on such things as polluting behaviour, Vehicle Excise Duty and alcohol. Overall, the tax burden is predicted to increase by £0.8 billion in 2009-10 and by £1.9 billion in 2010-11.

What follows are some of today’s Budget headlines, as identified by Grant Thornton.

The ‘green’ Budget that wasn’t

What was anticipated to be the first ‘green’ Budget actually resulted in very little change to green tax policy with small-scale tweaks rather than wholesale tax rises. Additionally, a planned increase in fuel duty has been deferred until 1 October 2008, which further negates the Budget’s ‘greenness’.

The introduction of five-year carbon budget to sit alongside the existing Budget from 2009 should help to reduce emissions across all major sectors of the economy. And the lower carbon dioxide (CO_2) threshold for company car benefits will be reduced to 130 g/km from 6 April 2010, which appears to be a step in the right direction.

Plans to clamp down on single-use carrier bags and impose a charge if supermarkets fail to take voluntary action are likely to be well-received by environmental lobby groups. If successful, the scheme could net the Treasury an additional £130 million in its first year if a conservative tax of 10p per bag is charged.

A pinch of good news for non-doms after an uncertain few months

The Chancellor confirmed that non-domiciled individuals (non-doms) who have lived in the UK for seven of the past 10 years will have to pay £30,000 a year to keep their tax advantaged status. Not mentioned, but buried in the detailed Budget documents, were measures introduced to improve the effect of new non-domiciled legislation – the result of representations made during the consultation period.

Certain measures will significantly affect some non-doms:

1 The one-off charge of £30,000 will be regarded as a tax rather than a levy, which will enable some non-doms to gain tax relief.

2 Unremitted overseas income and gains of less than £2,000 will continue to only be taxed when remitted to the UK without the individual having to sacrifice their income tax personal allowance or capital gains tax annual exemption. This will be of small comfort to many non-doms whose overseas income and gains is likely to exceed this amount, for example if an expatriate employee is letting out

their overseas home. However, it does represent an increase of £1,000 from the original exempt limit of £1,000.

3 There is a concession in respect of the previously announced clampdown on offshore trusts. Trustees will be able to make an election to exclude any part of a gain arising before 6 April 2008 from being taxed on non-domiciled beneficiaries. However, trustees should weigh up the benefit of this election compared to other planning measures that could be undertaken before the rules come into effect on 6 April 2008.

Chancellor gives himself some breathing room with income shifting

The Government has decided not to introduce measures to counter 'income shifting' immediately, but rather to press ahead in the Finance Bill 2009. This might only delay misery for entrepreneurs unless it is accompanied by a review of the policy.

The move follows the decision to reverse the House of Lords' decision in Jones v Garnett (Arctic Systems Ltd case) and is likely to leave entrepreneurs facing higher tax bills and greater complexity if implemented without significant amendment.

The new rules now come into effect during 2009 after a further period of consultation. Unless they are reviewed extensively, they will add to the burden of complexity and red tape for owner-operated companies, a section of the economy that the Chancellor pledged to support.

Extra money to fight child poverty may fail to reach those in need unless tax credit system overhauled

Alistair Darling has used today's Budget to increase assistance to children. He has upped the Child Tax Credit in the hope of pulling 250,000 UK children out from under the poverty line.

The measures will increase the first-child rate of Child Benefit to £20 a week from April 2009, increase the child element of the Child Tax Credit by £50 a year above indexation and disregard Child Benefit when calculating income for Housing and Council Tax benefit from October 2009.

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Other measures announced today include:

- Simplification of the associated company rules when claiming the small companies' rate of corporation tax for companies whose directors or shareholders are separately members of business partnerships
- Clarification of the rate of withdrawal of Industrial Buildings Allowances and Agricultural Buildings Allowances over the next four years
- An increase in the annual investment limit on the Enterprise Investment Scheme from £400,000 to £500,000, subject to obtaining European State Aid Approval
- An increase in the limits for options held under the Enterprise Management Incentive scheme from £100,000 to £120,000. However, this does not compensate for the increase in the effective rate of capital gains tax that will be suffered by many employees holding this class of share option
- The end of the transitional period for the IHT regime for interest in possession settlements created on or before 21 March 2006 has been extended by six months to 5 October 2008
- The amount of Gift Aid that can be claimed by charities will remain at an effective 22% rate for a transitional three-year period, despite the reduction in the basic rate of income tax to 20%
- There will be a transitional period until 31 March 2009 for business to reclaim over-declared output VAT between 1 April 1973 and 4 December 2006 and under-claimed input VAT that arose between 1 April 1973 and 1 May 1997

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