

# Budget Ahoy

By Bob Wheatcroft, Tax Partner at Armstrong Watson

Only a fool makes predictions they say but, with Budget Day coming up on 22 April, it is difficult for me not to speculate on changes. This is one of the big set piece dates in the parliamentary calendar when tax is to the forefront of everyone's minds.

This year the state of the public finances has been the subject of more comment than usual with the fiscal stimulus into the economy to try to reverse the recession. Opinion is divided on this, of course, but some aspects are pretty clear. Firstly, interest rates are very low – verging towards zero. Secondly, inflation is heading downwards – and may even go into reverse (at least on official figures). Thirdly, the Budget deficit is very big and is heading upwards.

It is this third element which is the focus of my thoughts today. There seems to be general agreement that there is little scope for further significant tax cuts at present but will we see tax increases announced?

We already know that VAT is expected to go back up to 17.5% at the end of the year. I expect no alteration here from that policy. The inflationary damage is likely to be thought to be modest in the current climate.

Indeed, the postponed tax increase may well be the pattern for this Budget. We are, after all, already into the current tax year and changes to Income Tax for this year would lead to accusations of retrospective legislation.

We already know that there is to be a new 45% top tax band for very high earners from 2011. Possibly this might be brought forward a year to 2010.

We might also see more fundamental changes to the structure of Income Tax. The ordinary personal allowance for the current year is £6475. For a basic rate taxpayer this is worth a tax saving of £1295 (i.e. 20%); for a higher rate or 40% taxpayer it is worth double that. For

many years there has been speculation that the extra higher rate tax relief on pension payments might be removed but if the Government was looking for more significant savings, then it might go the whole hog and remove higher rate tax relief for all allowances and tax deductible items.

Ever since 1992 most agricultural and business property has been excluded from Inheritance Tax. The agricultural relief is restricted to land in the UK. There is pressure from the EU to grant the same privileges to agricultural land in other EU countries and that may be all that is done. Nevertheless, I imagine that the scope of these tax reliefs is under the Government's microscope in a way that it has not been for many years and the Chancellor may choose instead to restrict the allowances in some way that brings this sort of property into Inheritance Tax.

Of course, the Chancellor may do something completely different but, whatever he does, I make one confident prediction. I will be busy afterwards advising clients how to reduce their tax bills.

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