

The STEAMROLLER VERSUS THE BIKE

Who were the winners (and losers) of this year's Budget? Roger Smith sums up



Smith: worth two pence

This possibly final Budget (for in politics, final is a mischievous word,) from Gordon Brown was a *tour de force*; a steamrolling performance.

It quite knocked the gentle David Cameron off his bike. Was the orgy of detail designed to distract us from the tax raising nature of it? I can't understand why we enthusiastically look forward to the annual Budget Day as a possible tax giveaway event. In medieval times the tax collector was the most hated member of the community (apart from the witch, perhaps?) so why don't we still prepare our rotten vegetables for throwing?

The Budget is and surely always

has been, an opportunity for the Government to deprive us of even more of our spendable income.

The illusory 2p reduction in income tax which had Labour members cheering to the rafters disguised the fact that, due to increases in National Insurance, 5.3m citizens will be worse off. Smokers and drinkers will again be hounded while gas guzzlers are singled out for the dose of their usual opprobrium.

Government figures themselves published in March 2007 show that disposable incomes grew last year at the slowest rate since 1982, when unemployment hit 3m. Is there any wonder why Britons are so heavily in debt?

Mortgage costs have increased by 22% in the last year while gas bills were up 40%. Michael Saunders of Citigroup, the large US banking group, said 'The fruits of growth continue to go chiefly to the Chancellor and corporate profits – and not consumers.' The highly respected Mike Warburton of accountants Grant Thornton said: 'The tax burden has been rising aggressively under Gordon Brown.'

Am I the fairest of them all?

The Budget Speech would be more palatable had we not been so misled. This last Budget was a good example. If Mr Brown had been honest and said his primary objective for coming into politics and his promise to his late father, the rector, was wealth redistribution with a view to alleviat-



ing UK and Global poverty that would be fine at least for the Archbishop of Canterbury but not as a primary reason for being Prime Minister, which I now seriously expect it to be.

Perhaps Gordon Brown is running for the wrong office and should be on his way to Canterbury not Westminster! But he didn't/ hasn't come clean with us. When has a Chancellor of the Exchequer ever come clean with us (except perhaps Hugh Dalton?). And we know what happened to him.

On the Home Front

The typical household is feeling worse off, even though incomes are rising. We have less money to spend on the things we enjoy, because more of our money has gone on income tax, council taxes and so on.

And yet the Treasury spokesmen says: "real household disposable incomes have grown strongly since 1997 and thanks to the reform of the tax and benefit system, the average household is now £1000 better off than 10 years ago." I don't know on which planet that person is living. Probably Planet Brown. The real reason why household incomes have risen since 1997 is that we have all been working harder and for longer hours to secure more income to pay for the things we enjoy. Britons are amongst those who work the longest hours in Europe.

Mission statement

Gordon Brown seems to have masqueraded his wealth redistribution behind the false drama of tax cuts leading to headlines of 2p tax reductions. That is what I find so distasteful about his approach. The job of the Prime Minister of the UK is to initiate an environment of low taxes for successful businesses to create wealth. Then from their taxes to spend money prudently on social welfare issues. What we have found ourselves with is social policies as the

driving force of the economy and a wish and prayer approach that our business and citizens will work hard enough to pay for his social/Christian ambitions! On top of this Government borrowing is to increase over the next four years by £10bn higher than forecast in November 2006! Strange how he didn't know that in November?

Winston Churchill was once quoted in *The Washington Times* as saying, "The only statistics you can trust are those you falsified yourself."

Budget 2007

Here are some key points from the Budget 2007 – almost untouched by human hand

- Basic rate income tax falls from 22% to 20% from 6 April 2008, but lower tax band of 10% on the first £2,150 earned is abolished. The threshold for the top rate of tax of 40% will rise to £43,000 from 6 April 2009.
- Corporation tax reduced from 30% to 28% from 6 April 2008, but for small businesses the tax rate will rise in stages from 19% to 22% by 2009.
- Fuel duty to rise by 2p per litre in 2008 and 1.8p in 2009, while road tax for highest polluting vehicles rises from £210 to £300 and again next year to £400.
- Home insulation grants for pensioners of up to £4,000; zero carbon homes up to £500,000 in value exempted from stamp duty and VAT on energy saving products cut from 17.5% to 5%.
- The ISA limit rises from £7,000 to £7,200 per year from 6 April 2008, while the upper limit of the cash component increases to £3,600 from £3,000.
- Duty on beer rises by 1p a pint, cider by 1p per litre; wine by 5p a bottle and sparkling wine 7p. No change for spirits. Cigarettes to rise by 11p per packet; VAT on nicotine patches cut from 17.5% to 5%.

Financial planning opportunities

The new post A Day pension regime is still basically intact, despite the 2006 U turn stopping residential property, wine and yachts as eligible investments in your new SIPP. A tax of up to 82% on ASPs on death is confirmed. But we are allowed to maximise our pension fund up to the capped limit of £1.5m for 2006-07 and £1.6m for 2007-08. The 2007-08 contribution maximum figure rises to £225,000 from £215,000.

Few of us will ever be able to contribute up to these levels due to other commitments. Good investment management, however, can make all the difference. Remember, growth on your pension fund capital is as good if not better than hard cash contribution top ups. Yet thousands of investors continue to pump more and more contributions into old style higher charge pension contracts, some of which are invested in with profits funds not even giving a decent return.

No Armageddon

The recent market downturn was more like a blip, not the beginnings of Armageddon, so have confidence to restructure your pension portfolios without delay.

Aristotle Onassis on Globalinvestor.com is quoted as saying: 'If women didn't exist, all the money in the world would have no meaning!' Mr Brown would not agree. Tax collecting for him is undoubtedly an overriding passion.

The views expressed are those of the author and not of Foster Denovo Ltd. Information source on Budget and interviews: Money Week March 07 ❖

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Brown: trick or treat?

Cameron: Budget wobble