

# Pre Budget Report 2008

## Facing Global Challenges: Supporting people through difficult times

These are exceptional times and they require exceptional measures. What families and businesses need is real help now.

The Labour government is taking **action** to help families and businesses through the tough times caused by the global credit crunch

- by helping people, and putting money into the economy now so we come out of this sooner and stronger and;
- once the economy is growing again, tackling the public finance problems caused by the credit crunch, in a way that is fair to all.

The worldwide credit crunch is hitting the economy and public finances. We are acting now. **If we don't act now it will cost more** - more to the economy, more to the public finances and more to society.

Today's PBR announces real help for people during the tough times - a £20 billion fiscal stimulus over the next 18 months:

- action now to help businesses and families with a one year cut in VAT of 2.5% - putting £12.4bn into the economy
- increasing household income next year by;
  - giving every basic rate taxpayer £145 extra (up from £120 this year)
  - giving every pensioner £60 in January
  - increasing child benefit to £20/week in January instead of April
  - increasing child tax credit by £75 a year in April above indexation
- providing more loans and deferred tax payments for small business, £1.3bn extra help for job centres to get people back to work, and a 3 month moratorium on repossessions for homeowners who get into arrears.
- bringing forward £2.5bn of capital projects on housing repairs and insulation, school extensions, GP refurbishments and transport improvements to provide jobs right now when the economy is under pressure.

Once the economy is growing strongly again, we will make sure that the public finances are sustainable and bring borrowing back down. We will do that in a fair way with changes to NICs and income tax which mean:

- By April 2011, 23 million basic rate taxpayers earning under £40,000, will, compared to the Budget, benefit from an average tax cut of £155 a year

- NICs changes will only come in when incomes are rising and businesses are growing

There is a **widespread international consensus that a fiscal stimulus to help the economy** is the right thing to do. It is backed by parties of both left and right on every continent; by the major countries of the world, the international institutions like the IMF, the business groups like CBI and Institute of Directors, parties on the left and right, the Bank of England and many more. **David Cameron's "do nothing" leadership leaves him isolated and out of his depth.**

### Key PBR announcements in more detail:

#### 1) A boost for the economy (fiscal stimulus):

- a temporary reduction in **VAT** by 2.5% to 15% (coming in on 1<sup>st</sup> Dec 08 until 31<sup>st</sup> Dec 09), giving households an extra £275
- bringing forward **£3bn of capital spending** to 08/09 and 09/10 when the impact of the shock is likely to be strongest. Includes a **green stimulus** - £535m on energy efficiency, rail and flood defences.

#### 2) Real help for those on middle and modest incomes:

- Providing **£145 tax cut** to 22m basic rate tax payers through changes to the personal allowance (maintaining the £600 increase and increasing by a further £130) in 2009/10 and 10/11. 23 million basic rate taxpayers earning under £40,000 will continue to benefit from a permanent tax cut from 2011 onwards compared with Budget 2008, worth an average of £155.
- Bringing forward the April increase to **child benefit**, so that families receive £20 a week from Jan 09 (for the first child).
- From April 2009 - increasing the **child element of the Child Tax Credit** by £75 above indexation to £2,235 (bringing forward the April 2010 indexation to April 09). This provides significant additional support to families with low incomes.

#### 3) Real help for pensioners:

- Making a **payment in the New Year** of £60 for **every pensioner** (i.e. £120 for a couple), equivalent to bringing forward the uprating of the State Pension from April to January. 12.5m pensioners will benefit. 2.5m other vulnerable people will receive this (those on disability allowance, attendance allowance and long-term incapacity benefit).
- From April 09 - the **state pension** will rise by £4.55 from £90.70 a week to £95.25.
- From April 09 - the **pension credit** will rise above indexation by £5.95 from £124.05 a week to £130 (for single pensioners).

#### 4) Real help for British business

- **Defer** the planned increase in the **small companies rates of corporation tax**.
- Setting up a **new HMRC Business Payment Support** service to allow any business in temporary financial difficulty to pay their tax bills (VAT, corporation tax, income tax and NICs) on a timetable they can afford.
- For 09-10 - **empty commercial properties** with a rateable value below £15,000 will be exempt from business rate, now covering 70% of all empty properties.
- Launching '**Small Business Guarantee Facility**' - new temporary guarantee scheme enabling up to £1bn of new Govt-supported lending by banks. Allowing businesses to borrow any sum, from £1,000 to £1m, at cheaper rates and for a longer period.
- **More generous tax relief** for businesses experiencing losses - allowing temporary additional carry-back of up to £50,000 in new losses to be set against taxable profits from last three years. 75,000 businesses benefit with 90% having their losses fully wiped out.
- A **capital fund of £50 million** providing equity or quasi-equity to **SMEs** who are overleveraged. This will be funded from existing Enterprise Capital Funds and a £10 million Regional Development Agencies contribution.
- The Export Credit Guarantee Department, in conjunction with the banks, will introduce a temporary guarantee scheme to support a **£1 billion facility** providing **smaller exporters** with better access to short-term working capital.

**And help on Savings** - from 2010, setting up 'Saving Gateway' meaning 8 million people on low incomes will get 50p of Govt money for every pound they save.

**Winter fuel payments** (as announced at Budget08) - households with someone over 60 will receive £250 this winter, households with someone over 80 will receive £400.