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Welcome to our Budget 2009 guide

The Chancellor of the Exchequer Alistair Darling delivered his second Budget Report to Parliament on April 22, 2009, in which he provided his financial statement about the UK's health, including a review of taxation levels and spending plans.

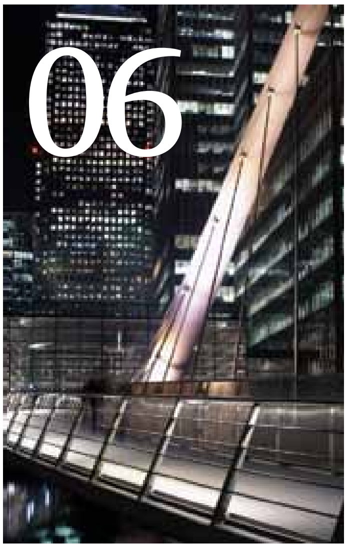
On page 10 you can read our Budget 2009 overview, which includes the Chancellors plans to increase taxes for the highest paid, rein in public spending and substantially increase borrowing to restore the public finances.

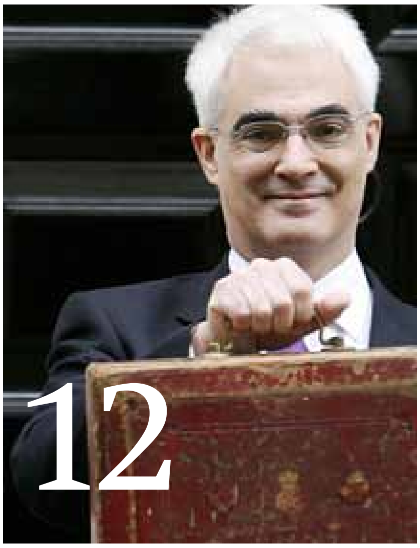
Turn to page 8 to find out if you were a winner or a loser from Budget 2009. Take a look at our guide to see how your finances may have been affected, including the announcements relating to pensions, income tax, housing and savings.

In his speech the Chancellor said: "Increasingly, grandparents play a big role in family life and in looking after their grandchildren. To reflect this we will, for the first time, ensure these caring responsibilities for grandparents of working age will count towards their entitlement for the basic state pension." Read the full article on page 26.

For a more detailed summary of the Chancellors Budget statement, including his intention to continue to help people through the global recession, and prepare Britain for the opportunities of the future, turn to page 12.

A full content listing appears on page 5.





To obtain further information, please contact us.

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Building Britain's Future

A strong economy and a fairer society

The Chancellor announced the government's economic objective to build a strong economy and a fair society, where there is opportunity and security for all. Budget 2009, Building Britain's Future, presented updated assessments and forecasts of the economy and public finances and reports on how in the face of a steep and synchronised global downturn, the government is delivering a package of targeted support to continue to help households and businesses, while implementing a strategy to support a strong and sustainable recovery.

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Building on the strategy set out at the 2008 Pre-Budget Report, the Chancellor announced targeted discretionary support for the economy through these difficult times, while continuing sustained fiscal consolidation from 2010/11 when the economy is expected to be recovering and able to support a reduction in borrowing:

- support for employment, including for Jobcentre Plus and the Flexible New Deal, and the offer a guaranteed job, training or work placement for all 18-24 year olds who reach 12 months unemployed;
- support for business, including by extending the enhanced loss relief for an additional year and expanding HMRC's Business Payment Support Service, increasing capital allowances for new investment to 40 per cent for one year, and establishing a £750 million Strategic Investment Fund to support advanced industrial projects of strategic importance;
- support for individuals, including through an increase in the annual investment limit for Individual Savings Accounts (ISAs) to £10,200, up to £5,100 of which can be saved in cash; an additional payment alongside the Winter Fuel Payment worth £100 for households with someone aged over 80 and £50 for households with someone aged over 60;
- support for homeowners and homebuyers, including a £600 million funding package of measures to build more homes through unlocking sites currently sitting as dormant, and an extension of the stamp duty holiday for all houses costing up to £175,000 until the end of the year; and
- support for the environment, including setting the world's first carbon budgets and measures to encourage energy efficiency and low-carbon growth.

The Budget also announced:

- from April 2010, an additional rate of income tax of 50 per cent will apply to income over £150,000, and the income tax personal allowance will be restricted for those with income over £100,000;
- from April 2011, tax relief on pensions contributions will be restricted for those with incomes of £150,000 and over, and tapered down until it is 20 per cent;
- fuel duty will increase by 2 pence per litre on 1 September 2009, and by 1 penny per litre in real terms each year from 2010 to 2013; and
- £5 billion recoverable value for money savings in 2011 raising the 2007 Comprehensive Spending Review target from £30 billion to £35 billion, and in the next Spending Review period additional efficiencies to help support the economy and front-line services rising to £9 billion by 2013/14. The Budget set assumptions for spending growth from 2011/12 onwards, with current spending growing by on average 0.7 per cent in real terms.

Budget 2009 at a glance

Were you a winner or a loser?

Take a look at our guide and see how your finances could be affected by Budget 2009.

Budget 2009 highlights

The Economy – Growth

- The UK economy contracted by 1.6 per cent in the last quarter of 2008. Gross Domestic Product (GDP) growth for the year as a whole is expected to be -3.5 per cent.

- Growth forecast of 1.25 per cent in 2010. From 2011, the economy will continue to recover with growth of 3.5 per cent from then on. In future years, the economy will recover towards a trend rate of growth of around 2.75 per cent.

- Inflation is expected to reach 1 per cent by the end of this year. The Bank of England inflation target remains unchanged at 2 per cent. Retail Price Index (RPI) inflation is forecast to remain negative, falling to minus-3 per cent by September, before moving back above zero next year.

The Economy - Borrowing

- UK figures for public sector net borrowing will be £175bn this year, 12.4 per cent of GDP. From 2010, borrowing will fall to £173bn, then £140bn, £118bn and £97bn.

- As a share of GDP, borrowing will be 11.9 per cent next year, 9.1 per cent in 2011/12, then 7.2 per cent in 2012/13 and 5.5 per cent in 2013/14.

- UK net debt, including the cost of stabilising the banking system, will as a share of GDP increase from 59 per cent this year to 68 per cent next year, 74 per cent in 2011/12, then 78 per cent and 79 per cent in subsequent years. It will stabilise and then begin to fall in 2015/16 rising to 79 per cent by 2013/14.

- The UK's current deficit is expected to halve within four years.

Income tax

- New 50 per cent tax rate introduced for those earning more than £150,000 to take effect from 6 April 2010.

- Personal allowances to be fully withdrawn for those with incomes over £100,000 from 6 April 2010.

- No income tax increases this year.

Pensions

- From April 2011, pension tax relief for those with incomes over £150,000 will be restricted so that it is gradually tapered to the 20 per cent rate.

- Basic state pension increased by at least 2.5 per cent, regardless of the RPI.

Capital disregard on Pension Credit is to be raised from £6,000 to £10,000 from November 2009.

Education

- £250m will be provided this year and £400m in 2010/11 for an additional 54,000 places in sixth form and further education colleges, with consequential provisions for Scotland, Wales and Northern Ireland.

Housing

- The stamp duty holiday on properties sold for less than £175,000 will be extended until the end of 2009.
- An extra £80m is to be given to the HomeBuy Direct, the government's shared equity mortgage scheme.
- An extra £1bn will be provided to help homeowners and boost housing.
- A scheme will be introduced to guarantee securities backed by mortgages in a bid to increase lending.
- £500m of extra financial support will be provided for housing projects, including £100m for councils to build new energy-efficient housing.
- £50m to accelerate the modernisation of housing for military families.

Environment

- £435m extra support for energy efficiency measures for homes, businesses and public places.
- Additional £1bn to help combat climate change by supporting low-carbon industries and green jobs.
- £525m of new support will be given over the next two years for offshore wind projects.
- £405m to encourage low-carbon energy and advanced green manufacturing in Britain to drive new technology and investment in small-scale projects.
- Most energy-efficient new power stations using combined heat and power (CHP) technology to be exempt from climate change levy.

Jobs

- An additional £1.7bn for Job Centre Plus and the New Deal is to be provided.
- Additional support for people who have been out of work for 12 months.
- From January, everyone under the age of 25 who has been jobless for 12 months will be offered a job or a place in training.
- £260m of new money allocated for training and subsidies for young people to help them gain skills and experience.
- Statutory redundancy pay will increase from £350 to £380 a week.

Welfare

- The child element of the Child Tax Credit to increase by £20 from April next year.
- £100 extra for Child Trust Fund vouchers for new babies with disabilities, extra £200 for those with severe disabilities.
- Grandparent care for young relatives to count towards basic state pension.

Savings

- Annual Individual Savings Account limit to be increased from £7,200 to £10,200, half of which can be invested in cash. New limit introduced this year for over-50s, next year for all other savers.

Pensioners

- Pensioners' Winter Fuel Allowance is to be kept at the higher level of £250 for over-60s and £400 for over-80s for another year.

Tax avoidance

- The aim is to raise £1bn of extra revenue over the next three years by closing tax loopholes and schemes.

Government

- Efficiency savings from 2011 are expected to give a further £9bn of additional savings a year by 2013/14.

Financial services

- Treasury paper to be published with recommendations for wide-ranging reform of financial services, including action to reduce the impact of the failure of financial firms.

Motoring

- A car scrappage scheme introduced from this May to provide motorists with a £2,000 discount on new vehicles bought when they trade in cars over ten years old. The scheme will end in March 2010.

Other announcements

- Alcohol duties increased by 2 per cent.
- Tobacco duty increased by 2 per cent.
- Fuel duty will increase by 2p per litre in September and then by 1p a litre above indexation each April for the next four years.

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BUDGET 2009 OVERVIEW

Chancellor increases tax rate on high earners

The Chancellor, Alistair Darling, unveiled his plans to increase taxes for the highest paid, rein in public spending and substantially increase borrowing to restore the public finances.

The economy is forecast to contract by 3.5 per cent in 2009, but growth is expected to resume 'towards the end of the year,' according to the Chancellor.

Growth is predicted at 1.25 per cent in 2010, and the Chancellor said he expected the economy to grow at a rate of 3.5 per cent from 2011 onwards. The current public deficit was 'set to halve within four years.' He also said the Budget would cut growth in real spending on public services from 1.2 per cent to 0.7 per cent from 2011.

Public borrowing is set to reach a post-war high of £175bn this financial year, or 12.4 per cent of Gross Domestic Product (GDP), falling to £173bn next year and £140bn the year after. The public sector net debt will almost double to 79 per cent of national income by 2013/14. After that it is expected to stabilise and then start to fall only from 2015/16.

Provision for the cost of banking bail-out and intervention measures the Chancellor said would be more than £50bn, at 3.5 per cent of GDP. But he promised to halve the public spending deficit within four years in order to ensure confidence.

"There are no quick fixes, there are no overnight solutions," he said. "We need a clear path to recovery here, both fiscally and building a path to recovery."

The previously planned introduction of a new 45 per cent income tax rate on income over £150,000 from April 2011 will now be brought forward by a year, and the rate will increase to 50 per cent.

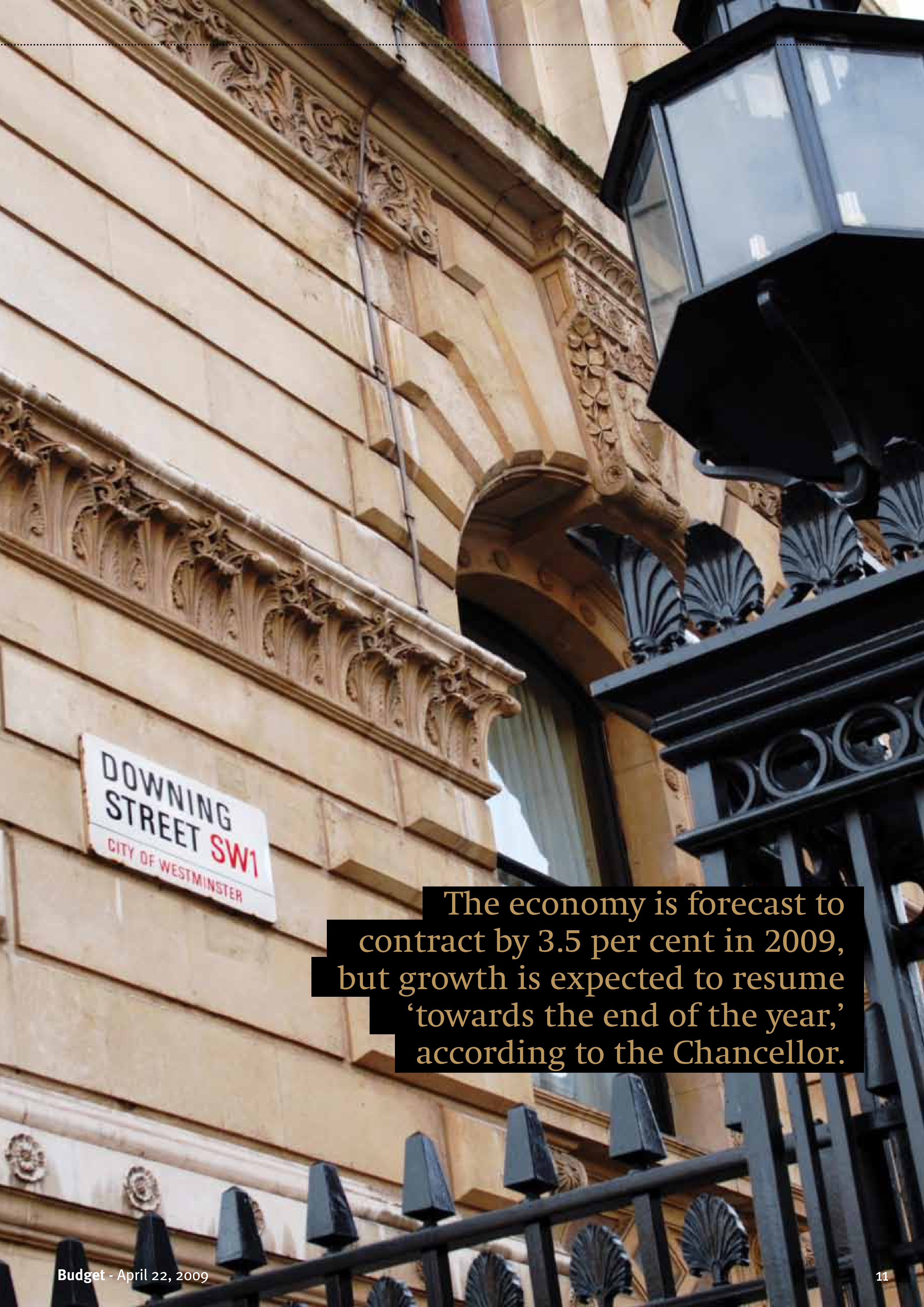
In addition, the personal tax allowance will be withdrawn for those earning more than £100,000 from next April, instead of a year later. From April 2011, the Exchequer also intends to restrict pension tax relief for those with incomes above £150,000.

Other measures included the introduction of a car scrappage scheme, paying buyers of new cars £2,000 if they dispose of cars that are more than ten years old. The scheme will run until March 2010.

The government aims to cut carbon emissions by 35 per cent by 2020, and will offer additional funding for energy-efficient homes and buildings. There was also funding for green manufacturing.

The Chancellor also doubled capital allowances for businesses this year to 40 per cent, in an effort to encourage companies to bring forward investment.

For savers, the annual Individual Savings Account limit has been increased from £7,200 to £10,200, half of which can be invested in cash. The new limit applies from October this year for the over-50s, and from April 2010, becomes available for all other savers.



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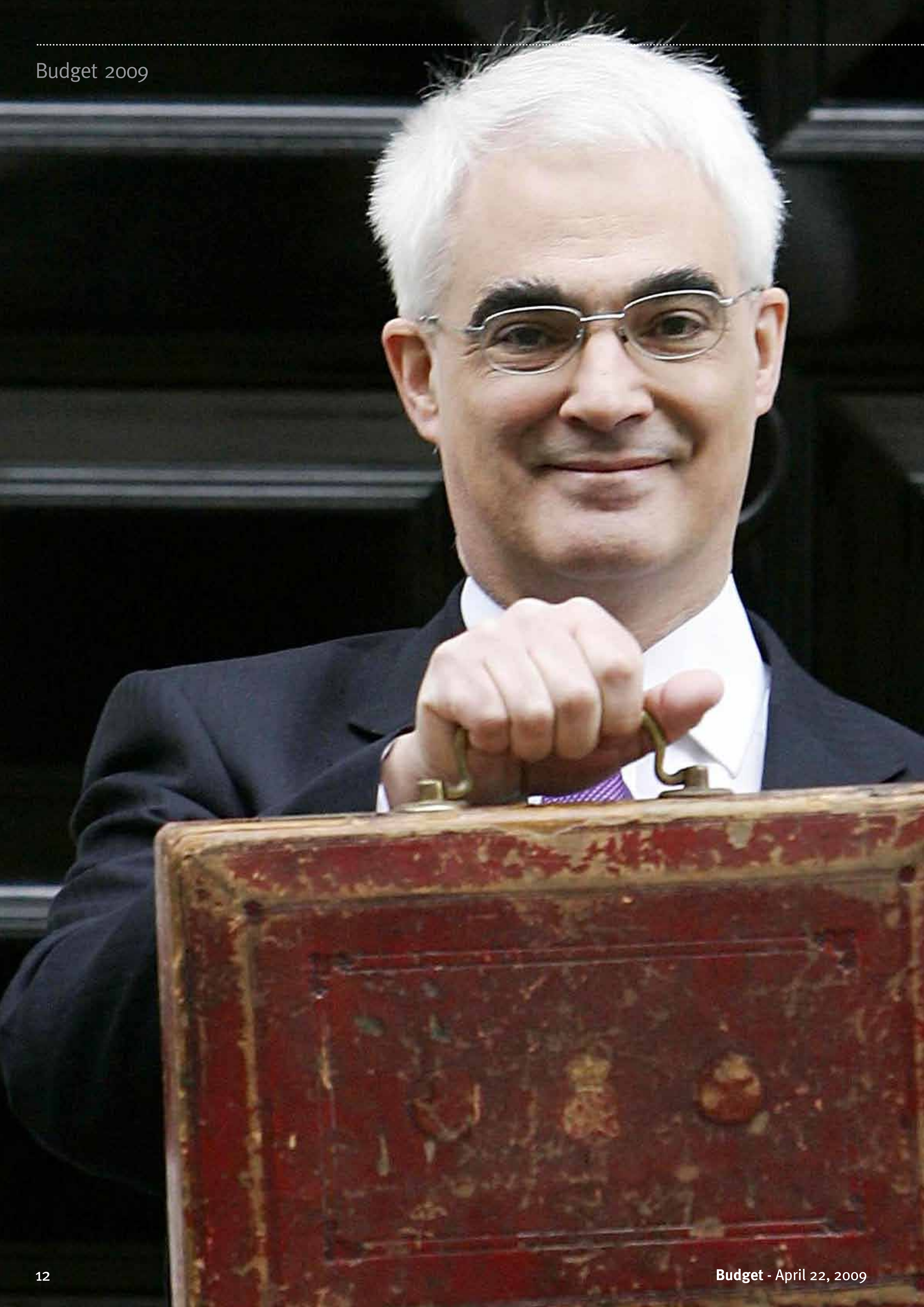

Chancellor of the Exchequer's Budget statement

Mr Deputy Speaker, today's Budget will continue to help people through this global recession, and prepare Britain for the opportunities of the future.

Firstly, there will be help now to get people back into work quickly, and support businesses and homeowners facing problems.

Secondly, there will be measures to support investment in the growth and green industries of the future while, as the recovery takes hold, ensure our public finances are sustainable.

We will protect investment in schools, hospitals and other key public services and we will work to rebuild our financial services.

Taken together, this Budget will build on the strengths of the British economy and its people, speed the recovery, providing jobs and spreading prosperity.

In all of these decisions, we have been guided by our core values of fairness and opportunity – and our determination to invest and grow our way out of recession.

Mr Deputy Speaker, today's Budget will take Britain through the most serious global economic turmoil for over 60 years.

The impact is being felt in every continent, country and community.

When the world economy was plunged into deep crisis in the 1930s, the response, both nationally and internationally, was too little and too late.

This failure to act turned a serious downturn into a prolonged depression.

We will not repeat those mistakes again. This time, we and other countries, have worked to avoid them.

Across the globe, we have seen decisive action by national governments, and internationally too.

This action, taken promptly and decisively, gives us good grounds for confidence.

Mr Deputy Speaker, today's Budget builds on the substantial help for people and businesses in the Pre-Budget Report in November.

It builds on the steps we have taken to recapitalise and restore confidence in our financial institutions.

And it builds on the outcome of the G20 Summit in London this month, when the world's leading economies came together to agree unprecedented co-ordinated action to speed global recovery.

The action already taken here, and internationally, and the measures I will announce today, mean that I expect the economy to start growing again towards the end of the year.

I am also confident that, as the global economy recovers to double in size over the next 20 years, Britain can, and will be, a world leader.

This Budget will help make sure we seize this opportunity.

Mr Deputy Speaker, as I told the House in November, we and other countries have been battling against a succession of shocks which have hit the world economy.

At the end of 2007, problems in international mortgage markets began to put a damaging squeeze on credit.

In early 2008, we also saw dramatic volatility in many commodities prices, adding to uncertainty and putting pressure on growth.

Last autumn, the dramatic failure of one of the top investment banks in America – Lehman Brothers – shattered already fragile confidence and brought the international financial system to its knees.

Since then, an extraordinary international financial crisis has fed into the wider economy, causing a steep and widespread world recession.

A crisis that started in the developed economies has spread to emerging and developing countries.

Industrial production has fallen and unemployment is rising by 5 million in the US alone.

In the last few months, world trade fell and while our exports are down 14 per cent, exports in Germany are down 21 per cent, in China 26 per cent, and in Japan 45 per cent.

For the first time since the Second World War, the world economy is expected to contract this year.

Mr Deputy Speaker, the last few months have seen considerable economic uncertainty.

And that has fully justified the action we, and other countries, have taken to support business and people.

Since the autumn, we have put the banks on a stronger footing, cleaning up their balance sheets, and helping boost bank lending.

As a result, banks will be able to lend billions of pounds more this year and next, to homebuyers and businesses.

Getting credit flowing again is the essential precondition to economic recovery.

In the Pre-Budget Report, I announced a range of measures to help the country through the recession, putting £20bn back into the economy.

This help is coming through now from an income tax cut, and a VAT reduction which will continue until December.

There is increased support for pensioners, as well as investment in vital public services and accelerated capital projects protecting thousands of jobs.

And because of the reforms we have made to the welfare system since 1997, this comes on top of extra help when families need it most.

I understand the anxiety behind calls to support those whose wages have fallen.

This is exactly the support our flexible system can and is already offering.

As shorter working weeks or irregular patterns reduce wages, those on tax credits can see an automatic increase to compensate for the loss of income.

In March, for example, 355,000 families were receiving on average £35 a week more support through tax credits.

Demonstrating how our welfare system automatically helps people when they need it most.

Mr Deputy Speaker, fiscal support has been complemented with sharp reductions in interest rates by central banks around the world.

The Bank of England interest rate is now down to half a per cent, the lowest it has ever been.

This has reduced the cost of mortgages and loans.

The average saving, since October, for the 4.5 million families with tracker mortgages is over £230 a month.

And we have now given the Bank of England new means to support the flow of credit and put money into the economy.

Inflation has come down which means people's income will go further.

Taken together, the total policy support for the UK economy is expected to protect up to half a million jobs.

Other governments across the world have been doing the same.

The total amount of fiscal support, across the G20, will amount to over 5 trillion dollars.

Mr Deputy Speaker, there's also been unprecedented co-ordinated action at an international level.

The G20 group of economies came together first in November and then in London earlier this month to fight this global recession.

We agreed to take whatever further measures are necessary to deliver the IMF forecast of global growth of over 2 per cent by the end of next year.

In total, the G20 agreed over one trillion dollars of additional support for the world economy.

Mr Deputy Speaker, there are no quick fixes. No overnight solutions.

But because of the progress we have made, here and internationally, we can begin to restore confidence, save jobs, and bring the world economy more quickly out of recession.

Now we must make sure we deliver on these agreements starting at the meeting of world finance ministers in Washington this week.

And I want the next meeting of EU finance ministers to be focused on rebuilding growth in Europe, based on the foundations laid by the G20.

We also need a clear path to recovery both fiscally and by investing to build Britain's future.

Mr Deputy Speaker, the UK went into this global recession with employment at an all-time high, inflation, public debt and interest rates at low levels.

But no country can insulate itself from this worldwide downturn.

The position here, as in every country, deteriorated in the autumn.

In the last few months, world trade fell at the sharpest rate since 1945.

As an open economy, the world's sixth biggest exporter of goods and the second largest exporter of services, we are affected by the collapse in demand in other countries.

The unexpected severity of the recession has led the IMF to downgrade its own forecasts for the world economy three times since October.

We, as well as other countries as diverse as Japan and France, India and the US, have reduced our growth estimates.

Mr Deputy Speaker, the UK economy contracted by 1.6 per cent in the last quarter of 2008.

For the first quarter of this year, I expect the economy will again contract by a similar amount.

And my forecast for GDP growth for the year as a whole will be 3.5 per cent in line with other independent forecasts.

But because of our underlying strength, the measures we are taking, domestically and internationally, I expect to see growth resume towards the end of the year.

The IMF forecasts published today confirm the problems that all countries will face this year.

But they also show that the British economy will suffer less than Germany, less than Japan, less than Italy and less than the euro area as a whole this year.

The British economy is diverse, flexible and resilient which is why we can be confident in recovery.

Next year, because of the pick up in world demand, the continuing benefit of lower prices, and the substantial recovery measures put in place,

I am forecasting growth of 1.25 per cent in 2010.

In future, the sources of our growth will be more varied and we need to ensure we play to our country's strengths.

It will increasingly come from an expansion in investment by businesses in the industries of the future, such as low-carbon, advanced manufacturing and communications.

These industries, together, are as important to the British economy as the financial services sector.

That is why it has been so important that we have increased investment in Britain's science base by 88 per cent in real terms over the last ten years.

Growth will also be driven by the opportunities to export as the global economy doubles in size in the next two decades.

From 2011, I am forecasting that the economy will continue to recover, with growth of 3.5 per cent from then on.

To account for the impact of the global shock, I have further adjusted trend output – or the productive potential of the economy.

But in future years, the economy will recover towards a trend rate of growth of around 2.75 per cent.

Inflation is expected to continue coming down sharply, reaching 1 per cent by the end of this year.

I am today writing to the Governor of the Bank of England, in the usual way, to confirm that the inflation target remains unchanged at 2 per cent.

Retail Price Index inflation is forecast to remain negative, falling to 3 per cent by September, before moving back above zero next year.

Mr Deputy Speaker, the deepening global recession has had an impact on the public finances, here and in every country across the world.

In this Budget, I will set out steps to ensure they are on a sustainable path.

And due to the measures that I will announce today, the current deficit is expected to halve within four years.

But before I turn to that, I want to set out the additional help we will give to people and businesses to get through the recession and build towards recovery.

Mr Deputy Speaker, we know, from previous recessions, that people's greatest fears are the loss of their job and their family home.

All over the world, as the economy slows, unemployment is rising.

In the UK, the claimant count increased in February by 137,000.

Today's figure shows that in March it went up by 74,000 taking the total claimant unemployment rate to 4.5 per cent.

It is not in any government's power to prevent all job losses.

And even when the recovery is under way, it will take time for unemployment to start falling.

But governments must give people targeted help to find a new job as quickly as possible and, where necessary, to gain the new skills which will allow them to do this.

This is not just morally the right thing to do but economically essential.

All the evidence shows that the longer people are out of work, the more difficult it becomes for them to re-enter the labour market.

So today I will announce steps to ensure short-term job loss does not turn into a lifetime on benefits.

Mr Deputy Speaker, the core of the government's approach is the Job Centre Plus network.

Its tailored help has almost halved the average time people spend out of work compared to previous recessions.

Even in the tough economic conditions since November, it has helped over a million people move into new employment.

Mr Deputy Speaker, I am determined that this support can continue to be given to people who lose their jobs.

In November, I increased the resources for Job Centre Plus and the New Deal by £1.3bn.

I can announce today an additional £1.7bn of funding so that everyone can receive high-quality support.

Most people, even now, continue to find work within a matter of weeks.

But we need to step up help to those who have greater difficulty in re-entering the labour market.

So there will be additional support for people who have been out of work for 12 months through the Flexible New Deal.

I am also determined that we do even more to protect young people from the damaging impact of long-term unemployment.

The alternative is a return to the days when a whole generation of young people found themselves abandoned to a future on the scrapheap.

We will not repeat that mistake.

So I want to offer a guarantee. From January, everyone under the age of 25, who has been out of work for 12 months, will be offered a job or a place in training.

Those in work will receive a wage.

Those in training will receive additional money on top of their benefits.

To provide these extra opportunities, we are working with employers to create or support as many as 250,000 jobs.

This will include delivering local services, traineeships in social care, and other high demand sectors – as well as jobs for people of all ages in particularly badly hit communities.

Mr Deputy Speaker, I also want to do more to help people gain the crucial skills that will be needed in the future.

So, as part of my guarantee to young people, I will spend over £260m of new money, for training and subsidies to help them get the skills or experience needed in sectors with strong future demand.

We will also be providing extra investment, to ensure we deliver on our guarantee that every 16 and 17 year old who wants to stay in education or training can do so.

To deliver this for the next two years, I am providing a further £250m this year and £400m in 2010/11.

This will enable an additional 54,000 places, in sixth forms and further education colleges, for students in the next academic year.

For this and other measures, there will be consequential provisions, where appropriate, for Scotland, Wales and Northern Ireland.

Mr Deputy Speaker, I will shortly set out long-term measures in housing and for business to build the recovery.

But I first want to set out how we can offer more support now in these areas.

One of the biggest fears when people lose their jobs, is that they, and their family, will also lose their homes.

I want to do more to reduce the number of repossessions.

Last year, I increased and extended the Support for Mortgage Interest scheme, which covers mortgage interest payments for people who have lost their jobs.

Today I can announce that I will maintain the higher level of support for a further 6 months to help homeowners as they look for a new job.

That is in addition to the scheme to help people stay in their homes if their income falls.

The housing market is also being held back by a lack of mortgage credit.

The government has taken action to encourage an increase in mortgage lending and this year, the major UK banks will increase the availability of mortgages by around £20bn.

To build on this, today I can announce the introduction, following state aid approval, of the scheme to guarantee securities backed by mortgages which will help to ease the flow of mortgage finance.

Mr Deputy Speaker, the recession and the credit crunch have made it much harder for people to take their first step up the housing ladder.

This is not just difficult for those involved but also undermines the entire housing market.

So, to help, I have decided to extend the Stamp Duty holiday on properties sold for less than £175,000 until the end of the year.

Sixty per cent of residential properties will continue to be exempt encouraging modest and middle income homebuyers.

I can also announce an £80m extension to HomeBuy Direct the government shared equity mortgage scheme, which has already received interest from over 32,000 people since September.

Altogether, additional support for those who lose their jobs and new help for people to get on the housing ladder.

Mr Deputy Speaker, in November I announced a series of measures to help businesses now.

Over 100,000 businesses, which employ well over half a million people, have taken up the option to defer their tax bills. I will continue this help.

Some 800,000 smaller companies will benefit from the delay in the increase in corporation tax.

And last month, I announced that we would allow companies to spread out payments of this year's up-rating of business rates.

But today I want to do more to help firms with cashflow problems.

Many viable companies face temporary difficulties because of the shortage of credit.

So today I am extending the help which allows loss-making companies to reclaim taxes on profits made in the last three years.

This help, which will lead on average to repayments worth £4,000 each year, will now be available for two years until November 2010.

Well over 100,000 businesses will have their full current losses wiped out.

And today I can also announce additional targeted support for companies' cashflow, with a top-up trade credit insurance scheme.

This will match private sector trade credit insurance provision if insurers reduce their cover to any business operating in the UK.

I also want to help the UK's automotive industry, which has been one of the British success stories of the last decade.

But the loss of consumer confidence and credit crunch has led to a sharp fall in vehicle sales around the world.

In order to help the car industry and retail trade, I can announce that a scrappage scheme will be implemented next month.

It will provide motorists with a £2,000 discount on new

vehicles bought when they trade in cars over ten years old.

It will be a time-limited scheme until March 2010. My Right Honourable Friend the Secretary of State for Business will announce details shortly.

Mr Deputy Speaker, we have made our choice to help those who have lost their jobs find work quickly and, if needed, to learn skills.

We are acting decisively to prevent a new generation of young people becoming a lost generation.

We are offering real support to homeowners and to business through this unprecedented economic crisis.

We could have decided to do nothing. But we chose to act.

By doing so we have not just protected people but we will also reduce the length and severity of the recession, lessening the impact on our public finances in the medium term.

Mr Deputy Speaker, I now turn to the public finances and the action I will take to put them on a sustainable footing in the medium and long-term.

As I told the House in November, tax revenues were falling.

The financial sector, which provided 27 per cent of corporate tax revenues, was already badly hit.

But since then, with the recession spreading across almost every sector, the wider tax-take has also come down sharply.

Corporation tax and income tax revenues have fallen. The problems in the housing market have led to a dramatic reduction in stamp duty.

In the UK, tax as a share of GDP is 1.2 percentage points lower now than it was a year ago.

Here and across the world, tax revenues are down and will take some years to come back up.

At the same time, our reformed welfare state is rightly providing support to families, but it does come at an added cost to the exchequer.

Many countries have also intervened to strengthen their banking systems.

My public finances forecasts today include a provisional estimate for the potential cost of this totalling 3.5 per cent of GDP.

Mr Deputy Speaker, around the world, fiscal deficits and government debt has been rising sharply to levels not seen since the Second World War.

This is a response to an unprecedented financial crisis and a deep and widespread global recession.

Allowing borrowing to rise, protecting services, helping people and businesses is the right thing to do.

The alternative, to take money out of the economy now, as some have suggested, would damage key public services, create more unemployment, lengthen the downturn and lead, in the end, to higher, not lower debt.

This government and others have learnt from the historic economic mistakes of the interwar period, that countries cannot deflate their way out of recession.

Mr Deputy Speaker, taken together, my Budget measures today represent a fiscal easing of about half a per cent of GDP this year followed by a tightening of 0.8 per cent of GDP per year until 2013/14.

I believe this is a sensible pathway to sustainable public finances.

It will mean, as I have said, that the budget deficit will be halved in the next four years.

At this stage, when there is so much uncertainty, to do so quicker would prevent us helping people now, choke off the recovery, and stop us investing for the future.

Many countries, as a result of their action to support the economy, have seen higher deficits.

In the US, for example, the Congressional Budget Office expects their deficit to be 13 per cent of GDP in 2009, 10 per cent in 2010, and even in 2019, the deficit will be above 5 per cent.

Our own figures for public sector net borrowing will be £175bn this year, or some 12.4 per cent of GDP.

From 2010, as the economy starts to recover, and the measures announced in November and today take effect, borrowing will fall to £173bn, then £140bn, £118bn and £97bn.

As a share of GDP, our borrowing will be 11.9 per cent of GDP next year, and then, as we move towards balance, 9.1 per cent in 2011/12, then 7.2 per cent and 5.5 per cent in 2013/14.

Mr Deputy Speaker, this downturn will inevitably mean sharp increases in national debt relative to GDP.

UK net debt, which includes the cost of stabilising the banking system, will, as a share of GDP, increase from 59 per cent this year, to 68 per cent next, 74 per cent in 2011/12, 78 per cent and 79 per cent in 2013-14.

It will stabilise and then begin to fall in 2015/16.

In countries across the world, because of this economic crisis, it will take longer for deficits to come back into balance.

Because of the steps we are taking, I expect the underlying current budget deficit to come back into balance two years later.

Mr Deputy Speaker, we need to help people now, to maintain key public services, invest for the future, while keeping the public finances on a sustainable footing.

Indeed, this is the best way to drive up economic growth, which, in turn, is the best way to bring down borrowing and rebalance the public finances.

We must do this within a time-scale that does not damage the recovery.

This will require tough decisions, but I am determined that they will be fair decisions.

Mr Deputy Speaker, it cannot be fair that those who should pay tax, are allowed to avoid it.

Over the last decade, we have taken a number of measures, which have reduced tax evasion and avoidance on average reducing avoidance by over £1bn a year.

I intend to build on this today. We have identified loopholes and schemes, which, when closed, will result in £1bn of extra revenue over the next 3 years.

Mr Deputy Speaker, in this Budget there will be new measures, to help pensioners and savers on middle and modest incomes.

It is important that everyone is encouraged to save for their retirement and we will continue to support them to do so.

But I intend to address the anomaly which sees a tiny proportion at the top taking a large slice of the help we give people to save.

It is difficult to justify how a quarter of all the money the country spends on pensions tax relief goes, as now, to the top 1.5 per cent of pension savers.

So from April 2011, I will restrict pension tax relief for those with incomes over £150,000 so it is gradually tapered to the same 20 per cent rate the majority of people receive.

We will consult on implementation. I am introducing measures from today to prevent forestalling.

Again only affecting those with incomes over £150,000.

Mr Deputy Speaker, I am not proposing to increase taxes on income for this year.

However, as the economy recovers and wages start to grow again, it is right that we take additional steps.

I believe that it is fair that those who have gained the most should contribute more.

Only those with incomes over £100,000 a year, or 2 per cent of the population, will be affected.

In November, I announced a new rate of income tax of 45 per cent on incomes above £150,000 the top one per cent of taxpayers.

In order to help pay for additional support for people now, I have decided that the new rate will be 50 per cent, and will come in from next April a year earlier.

In November, I also announced that I was reducing personal allowances for the very highest earners with incomes over £100,000.

These allowances are worth twice as much as those of basic-rate taxpayers.

I have now decided to fully withdraw the benefit of that allowance for those with incomes over £100,000 from next April.

Mr Deputy Speaker, these measures are necessary to build our recovery and secure our country's economic future.

Along with other measures, including for landfill, company cars and gaming, I can also announce the following.

I will continue to monitor oil prices, but I expect that fuel duty will increase by 2 pence per litre in September, and then by 1 penny a litre above indexation each April for the next four years.

Alcohol duties will go up by 2 per cent from midnight tonight.

There will be an increase in tobacco duty of 2 per cent from 6pm tonight.

Taken together, these measures will raise over £6bn by 2012 to secure Britain's economic future and to provide help for people now when they need it most.

Mr Deputy Speaker, the importance of our public services, on which we all depend, becomes even clearer during difficult times.

We have made our choice to continue investing in our public services which underpin the health and strength of our nation now and in the future.

In the last ten years, this investment has seen an extra 40,000 doctors, 41,000 teachers and over 70,000 nurses.

But just as every family is looking closely at their own budget to ensure they get best value for money, so should the government.

Since 2004, the government has identified and made £26.5 billion in efficiency savings, while continuing to invest to improve schools, hospitals and other public services.

In November, I announced plans to find an additional £5bn of efficiency savings in 2010/11, on top of a total of £30bn in this spending review period.

Mr Deputy Speaker, some have argued that we should cut public services immediately, rather than invest and grow our way out of the recession.

That would be the wrong thing to do.

I can confirm that we are able to secure these savings that year, while increasing investment, as planned, for local health services by over 5 per cent and for schools by over 4 per cent.

Yesterday, we published the reports of the five independent reviews I set up last year.

They have identified extra efficiencies from 2011 which rise to a further £9bn of additional savings a year by 2013/14.

They include efficiencies in public sector back-office functions and IT, improved procurement, and better collaboration and innovation at the local level.

This will allows us to protect front line public services, while keeping current spending growth, in real terms, at an average of 0.7 per cent a year from 2011/12 onwards.

Mr Deputy Speaker, capital spending is equally important to the future of our country.

Over the last five years, this investment has transformed services with 61 major hospital schemes, 140 new schools and improved transport links, including the modernisation of the West Coast main line.

It is essential to help create jobs, boost the recovery and deliver economic success in the long term.

I intend that capital investment will continue at historically high levels to 2012, as we prepare for the Olympic Games in Britain.

After this, public sector net investment will be at 1 per cent of GDP by 2013/14, still twice as high as in 1997.

Indeed, the efficiency savings we are making will help us direct more money to continue to support investment that everyone in our country depends on.

The government has set itself a central goal of realising up to £16 billion of property and other asset sales in the three years from 2011/12, with proceeds raised being used for new capital investment.

Mr Deputy Speaker, as a result of the measures I have announced today I can afford to make investments in the future of Britain.

These funds will be invested now, to help ensure we seize the opportunities that will come from a world economy expected to double in size.

I have announced today £3bn extra support to help people find work quickly, with a new guarantee for the young.

There will also be £1bn to help us combat climate change, by supporting low carbon industries and green collar jobs.

There is close to £1bn to help homeowners, meet future housing supply and allow the construction industry to recover quickly.

And there is £2.5bn for business, to encourage investment in the industries and high-paid high-skilled jobs of the future.

Sectors such as advanced manufacturing, the creative industries and low-carbon technologies.

All essential if we are to prepare for the future.

Mr Deputy Speaker, a successful economy needs a strong financial sector.

We don’t want to throw away the many advantages that have come from our position as a world centre for finance.

I intend that we retain that position. Hundreds of thousands of jobs across the country depend on it.

We need to build trust in the banking system, and harness the strengths of the financial services sector for the benefit of society

Crucial to this is financial regulation.

I will shortly publish a Treasury paper with my recommendations for wide-ranging reform.

They will propose action to reform corporate governance and remuneration at banks to avoid undue risk taking.

To improve regulation of capital and liquidity so banks do not over-extend themselves.

To increase transparency, to achieve a single set of accounting rules - so that we can see the risks banks are taking.

And to regulate all important institutions including hedge funds.

It will also propose action to reduce the impact of the failure of financial firms; protect and support consumers; improve efficiency and competition in financial markets; as well as strengthening regulators’ powers.

And all these steps will, in turn, complement the G20 agreement to restore trust in the global financial system.

Mr Deputy Speaker, strengthening the banking system is crucial to the recovery and to the economy.

But the strength of our economy, and health of our society, also depends on meeting long-term demand for housing.

I have two measures to help achieve this. First, we want to work with the industry to tackle the restraints, which house-builders have told me, could prevent them from acting now to increase housing supply.

This will give construction firms more certainty and help them meet housing demand more effectively.

Second, lack of finance now is affecting house builders and preventing the long-term investment that we need.

So today I can announce £500m of extra financial support.

It will kick-start building on housing projects, stalled because of the credit crunch, delivering thousands of new homes.

As part of this support, we are providing £100m for local authorities to build new energy-efficient housing.

I have one further announcement to make about housing for a particular group.

The whole country is united in admiration for the courage and professionalism of our Armed Forces.

I want to ensure this admiration is reflected in the quality of their accommodation.

I am bringing forward £50m to accelerate the modernisation programme for this housing to ensure this happens.

Let me turn, next, to the targeted help for business, which will build on the strengths of our economy.

A sustained and strong recovery depends on companies, of all sizes, making the most of new global opportunities.

Mr Deputy Speaker, a competitive exchange rate will help exporters.

It is also vital for our recovery that Britain and other countries remain open to free trade.

So it is essential that the Export Credits Guarantee Department gives business the support they need.

I intend to report back later this year on how this support can be improved.

Next, I have a number of proposals to encourage investment.

There is, at the moment, less incentive to explore and extract oil from the North Sea.

So I am bringing forward incentives to encourage smaller fields to be brought into production, which could lead to an extra two billion barrels of oil and gas that would otherwise remain under the North Sea.

They will also remove fiscal barriers so the North Sea can become a hub for energy of the future – gas storage, carbon capture and off-shore wind. I want to say more about this later.

I want other industries to invest too.

Businesses already benefit significantly from an annual £50,000 investment allowance which was announced two years ago.

I want to go further to promote investment now.

So for this year, I will double the main capital allowance rate to 40 per cent.

This will encourage firms to bring forward investment, in particular those companies in the growth sectors that will deliver the rewarding jobs of the future.

It will mean enhanced tax relief to support investment of £50 billion this year.

Including £10bn of investment in the vitally important communications sector.

Mr Deputy Speaker, it is vital to ensure the entire country and economy benefits from the digital age.

So I am allocating extra funding for digital investment, to help to extend the broadband network to almost every community.

This will allow us to deliver the vision set out in the Digital Britain report making sure everyone can benefit from this communications revolution and create thousands more skilled jobs.

Next, Mr Deputy Speaker, government can and should do more to buttress the strength and capability we need for our economic future.

On Monday, the government published a new industrial framework, whose aim is to remove the barriers holding back innovative and fast-growing companies and to help markets work better.

To support this industrial activity and strategy, I can announce the creation of a new £750m Strategic Investment Fund to help the country seize the opportunities ahead.

This new fund will provide financial support, focusing on emerging technologies and regionally important sectors in, for example, advanced manufacturing, digital and biotechnology.

It will encourage exports, support inward investment, promote research and development and harness commercially our world-class science base.

And it will complement the two new City Region Pilots, in Manchester and Leeds, which will also have a major role in promoting economic investment.

Mr Deputy Speaker, green technology will be one of the great growth sectors in the world economy.

In preparing for the future, Britain's economic recovery must be sustainable and protect the environment.

These efforts also have the potential to create thousands of hi-tech businesses and hundreds of thousands of high-skilled jobs.

Climate change is one of the biggest challenges our world faces and Britain is setting the lead.

We are ahead of every other major developed country in progress against our Kyoto targets.

And today, I am presenting the world's first ever carbon budget, which commits Britain to cut carbon emission by 34 per cent by 2020.

These budgets give industry the certainty needed to develop and use low carbon technology cutting emissions, creating new businesses and jobs.

They are a landmark step, which point the way to the vital decisions which must be made at the Copenhagen Climate Change Summit later this year.

Mr Deputy Speaker, saving energy is the easiest and cheapest way to cut carbon emissions and also saves people and business money.

Over the last 12 months, we have helped around one million homes improve central heating or insulation.

Today I can announce £435m of extra support to deliver energy efficiency measures for homes, businesses and public buildings.

Mr Deputy Speaker, as well as saving energy, we need cleaner energy.

We must build on Britain's status as the world leader in off-shore wind power generation.

The credit squeeze is holding back major offshore wind projects.

I want to lift the barriers through £525m of new financial support over the next two years for off-shore wind, funded through the renewables obligation.

The potential is enormous. I am confident that this will lead to major projects getting the go-ahead quickly, providing enough electricity to meet the needs of up to 3m households.

We need to support all forms of renewable energy.

I can also announce that renewable and other energy projects in the UK stand to benefit from up to £4bn of new capital from the European Investment Bank.

Mr Deputy Speaker, coal, oil and gas will continue to be a major source of energy for the foreseeable future.

Clean technologies, such as Carbon Capture and Storage, are vital to ensure we can produce power from these sources without damaging the environment

I am determined that this country's research and technological expertise is used to make us world-leaders in this area too.

So I can announce that a new funding mechanism will be used to finance at least two, and up to four, demonstration projects.

Mr Deputy Speaker, the new generation of power plants could be even more efficient by using the heat produced in the generation of power.

To encourage the use of Combined Heat and Power technology, I will exempt those projects from the Climate Change Levy from 2013 bringing forward over £2.5 billion in investment.

I can also announce that, through £405m of new funding, we will also encourage low carbon energy and advanced green manufacturing in Britain to drive the application of new technology and invest in small scale projects.

In particular, this will help us strengthen the supply chain right across these sectors, and build on the expertise we already have in this country.

Mr Deputy Speaker, on the back of the discovery of oil and gas in the North Sea, we became a world leader in every aspect of oil technology and the industry.

I am determined that we will replicate this success across the renewable energy and low carbon sectors.

The steps we are taking today will help make sure we meet this ambition.

This will help protect our planet and secure the country's economic future.

The measures I have announced underline our vision for Britain.

They offer support for people when they need it, but also hope for the future.

They put in place the vital building blocks for recovery and economic long-term success.

And everything we have done whether supporting families now, maintaining investment in our public services and putting the nation's finances on a sustainable path is based on our values of fairness and opportunity.

Even in this time of global economic difficulty, we are determined to continue building a fairer society.

Mr Deputy Speaker, in November I provided help for families and pensioners. Today I want to do more.

22 million people on middle incomes have seen their income tax go down this month.

There is help for millions of families too – with child tax credit up by £75 from this month and the increase in child benefit paid early.

Today I can announce additional targeted measures.

The government is determined to eradicate child poverty. So, first, I can announce that, from April next year, the child element of the Child Tax Credit will increase by £20.

Second, children with disabilities need extra help to make the most of their potential.

So we will add an extra £100 a year to their Child Trust Fund.

For those with severe disabilities, it will be an extra £200 each year.

Third, I can announce an increase in statutory redundancy pay from £350 to £380 a week.

Mr Deputy Speaker, increasingly grandparents play a big role in family life and in looking after their grandchildren.

To reflect this, we will, for the first time, ensure these caring responsibilities for grandparents of working age will count towards their entitlement for the basic state pension.

I also want to announce further help for pensioners and savers.

Earlier this month, pensioners on modest incomes got the biggest ever increase in pension credit while the basic state pension increased by £4.55 a week.

I want to re-affirm today our commitment to increase the basic state pension by at least 2.5 per cent.

So if RPI inflation this September is below zero, as we expect, pensioners can be confident that their pensions will rise in real terms.

Last year, because of the steep increase in energy prices, I brought in a one-off increase in the Winter Fuel Allowance.

Energy prices are now expected to come down.

But to help pensioners even more, I intend to maintain this allowance at the higher level for another year worth £250 for over 60s and £400 for over 80s.

Mr Deputy Speaker, the fall in interest rates has been a welcome benefit to the economy and millions of homeowners whose mortgage costs have come down.

But this has also reduced the amount of interest paid out on savings and has particularly hit pensioners who rely on this extra money.

There are over 5.5 million pensioner households who have modest savings, of less than £10,000. I want to help them.

For over a decade, the capital disregard on Pension Credit has been at £6,000 or below.

It means savings above this level reduce the amount of help households get through Pension Credit.

I believe it is now time to increase these limits, which will help compensate modest-income pensioners, with limited savings.

So from November 2009, the limit will be raised to £10,000.

This will benefit over half a million pensioners on modest incomes, who will gain by an average of £4 per week.

Mr Deputy Speaker, I have one other announcement to make on savings.

Tax-free ISAs have been a great success. 18m people have taken them out, saving in them almost £290bn.

Since they were introduced 10 years ago, the annual limit has only been increased once, and now stands at £7,200.

I want to go further. To help savers on the tenth anniversary of ISAs, I intend to increase the total annual limits to £10,200, of which £5,100 can be saved in cash.

This new limit will be introduced this year for those aged 50 or over, and will come in next year for everyone else.

Fair and targeted help for grandparents and pensioners and to tackle child poverty.

Encouraging people to save now and in the future.

Mr Deputy Speaker, every country has been hit by this global recession.

But we have confidence in Britain's future and in our country's strength.

You can grow your way out of recession. You cannot cut your way out.

We have made our choice.

To help people now.

To build Britain's future.

And I commend this Budget to the House.

Taxing times

New tax rate for wealthy individuals

Alistair Darling, the Chancellor introduced a new income tax regime for highly-paid individuals. The government had previously planned to introduce a new income tax rate of 45 per cent on income over £150,000 from April 2011.

However, it has brought this increase forward by a year and raised the rate to 50 per cent. It also removed the personal allowance, the first £6,475 (2009/10) of earnings that are currently tax-free, for high earners and reduced tax breaks for wealthy pension savers.

From April 2011, anyone earning more than £150,000 will see their ability to claim income tax relief on pension contributions restricted. Those earning £180,000 will only be able to claim back 20 per cent on pension contributions, even though they will have paid income tax of up to 50 per cent.

The Chancellor announced a number of measures to help savers including a £3,000 increase to the annual individual savings account (ISA) allowance. The ISA allowance has been extended from £7,200 to £10,200. Investors over the age of 50 can make use of the increased allowance from October 6 this year.

All other savers will be able to utilise this additional new allowance from the start of the next tax year on April 6, 2010. Up to half, £5,100 of the enhanced ISA allowance can be used for cash savings, with the remainder open to other investments such as equities and bonds.

Investors in an enterprise investment scheme (EIS) will be allowed to "carry back" their entire investment to the previous tax year. Previously, investors could only carry back the 20 per cent tax relief allowed on EIS investments up to £50,000. Relief can now be claimed up to £500,000.

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To help companies with cashflow problems, the Chancellor extended the provision that allows loss-making companies to reclaim taxes on profits made in the last three years.

A Budget for business?

The highlights at a glance

To help companies with cashflow problems, the Chancellor extended the provision that allows loss-making companies to reclaim taxes on profits made in the last three years until November 2010 as well as doubling the main capital allowance rate to 40 per cent.

The following business announcements were also made by the Chancellor;

- support for companies' cashflow, with a top-up trade credit insurance scheme to match private sector trade credit insurance provision.
- Businesses' main capital allowance rate doubled to encourage firms to bring forward investment. New investment to 40 per cent for one year, with effect from April 2009, to allow a higher proportion of private investment to be offset in that year against taxable profits
- New £750m investment fund to provide financial support to emerging technologies and regionally important sectors in advances businesses.
- Enhanced tax relief to support investment of £50bn this year, including £10bn to support the communications sector and extend the broadband network.
- Incentives to encourage smaller North Sea oil fields to be brought into production.
- Implementation of a package of reforms to the taxation of foreign profits, including the introduction of an exemption for foreign dividends, supported by a limited restriction to the interest deduction rules.

Pensions tax relief

Reduction for those earning more than £150,000

Pension's tax relief will be reduced for those earning more than £150,000, with some investors seeing the rebate on contributions capped at the basic rate of 20 per cent from 2011. Previously relief was available at the full 40 per cent rate on contributions made by higher-rate taxpayers. According to the government these changes will help create a "fair and modern" pension system.

Commencing from April 2010 the Chancellor announced the introduction of a new 50 per cent rate of tax for those with salaries over £150,000. This was originally set at 45 per cent and was due to be introduced in 2011. In addition from next year anyone earning over £100,000 will also lose their personal tax-free allowance completely.

Mr Darling said that the increase in the savings limit would be worth on average £4 a week to the older people helped by the change. Pensioners with savings of between £6,000 and £10,000 will be helped by an increase in the savings limit for pension credits.

The Chancellor reiterated that he would raise the state pension by 2.5 per cent next year, despite the spectre of deflation. "So if RPI inflation this September is below zero, as we expect, pensioners can be confident that their pensions will rise in real terms," he said.

A one-off increase in the Winter Fuel Allowance would be maintained for another year worth £250 for over 60s and £400 for over 80s.

The Chancellor also announced that he would raise the tax-free Individual Savings Account (ISA) limit. This will initially only apply to those over 50 years-old commencing from October this year. ISA providers are being given this period prior to October to adjust their systems. Individuals will be able to save £10,200 in their ISA, and up to £5,100 will be permitted to be saved in cash.

The government will extend the increases to the ISA limits to everyone from 6 April 2010. The annual ISA investment limit will increase for every adult to £10,200, and up to £5,100 can be saved in cash.

The government is extending its support for vulnerable home owners in financial difficulty through widening the eligibility criteria for the Mortgage Rescue Scheme so that households in negative equity are not excluded.

As part of this the government is announcing a £20 million fund to enable local authorities to extend small loans to families at risk of homelessness through repossession or eviction.

The stamp duty holiday has been extended until the end of this year, which follows the announcement last September by the Treasury that no Stamp Duty would be paid on properties purchased for less than £175,000 for 12 months. It is intended that once this comes to an end, the Stamp Duty threshold will revert back to £125,000.

For a temporary period, consumers will receive a discount of £2,000 on a new vehicle if they scrap a vehicle more than 10 years old that they have owned for more than 12 months.

2009/10 TAX TABLES

What do the numbers mean to you?

Income Tax personal and age-related allowances

Allowances	2008/09	Change	2009/10
Personal allowance (age under 65)	£6,035	+£440	£6,475
Personal allowance (age 65-74)	£9,030	+£460	£9,490
Personal allowance (age 75 and over)	£9,180	+£460	£9,640
Married couple's allowance* (aged less than 75 and born before 6 April 1935)	£6,535		**
Married couple's allowance* (age 75 and over)	£6,625	+£340	£6,965
Married couple's allowance* - minimum amount	£2,540	+£130	£2,670
Income limit for age-related allowances	£21,800	+£1,100	£22,900
Blind person's allowance	£1,800	+£90	£1,890

* Married couple's allowance is given at the rate of 10pc.
** In the 2009/10 tax year all in this category will become 75 at some point and will therefore be entitled to the age 75 and over allowance.

Additional higher rate of Income Tax from 2010

The Chancellor Alistair Darling announced during Budget 2009 that from April 2010 a new rate of Income Tax of 50 per cent will apply to income over £150,000. Also, the Income Tax Personal Allowance will be reduced for those with incomes over £100,000, tapering down to zero.

These changes are to replace the proposed 45 per cent Income Tax rate and the two-stage taper of the personal allowance announced in last November's Pre-Budget Report.

Income Tax - taxable bands

2008/09	£ per year	2009/10	£ per year
Starting savings rate: 10pc*	£0-£2,320	Starting savings rate: 10pc*	£0-£2,440
Basic rate: 20pc	£0-£34,800	Basic rate: 20pc	£0-£37,400
Higher rate: 40pc	Over £34,800	Higher rate: 40pc	Over £37,400

*There is a 10p starting rate for savings income only. If an individual's non savings taxable income exceeds the starting rate limit, the 10p starting rate for savings will not be available for savings income.

2009/10 NATIONAL INSURANCE CONTRIBUTIONS

National Insurance contributions

£ per week (unless stated)	2008/09	Change	2009/10
Lower earnings limit (primary Class 1)	£90	+£5	£95
Upper earnings limit (primary Class 1)	£770	+£74	£844
Upper accruals point	n/a	n/a	£770
Primary threshold	£105	+£5	£110
Secondary threshold	£105	+£5	£110
Employees' primary Class 1 rate between primary threshold and upper earnings limit	11 per cent	-	11 per cent
Employees' primary Class 1 rate above upper earnings limit	1 per cent	-	1 per cent
Employees' contracted-out rebate - salary-related schemes	1.6 per cent	-	1.6 per cent
Employees' contracted-out rebate - money-purchase schemes	1.6 per cent	-	1.6 per cent
Married women's reduced rate between primary threshold and upper earnings limit	4.85 per cent	-	4.85 per cent
Married women's rate above upper earnings limit	1 per cent	-	1 per cent
Employers' secondary Class 1 rate above secondary threshold	12.8 per cent	-	12.8 per cent
Employers' contracted-out rebate, salary-related schemes	3.7 per cent	-	3.7 per cent
Employers' contracted-out rebate, money-purchase schemes	1.4 per cent	-	1.4 per cent
Class 2 rate	£2.30	+£0.10	£2.40
Class 2 small earnings exception (per year)	£4,825	+£250	£5,075
Special Class 2 rate for share fishermen	£2.95	+£0.10	£3.05
Special Class 2 rate for volunteer development workers	£4.50	+£0.25	£4.75
Class 3 rate (per week)	£8.10	+£3.95	£12.05
Class 4 lower profits limit (per year)	£5,435	+£280	£5,715
Class 4 upper profits limit (per year)	£40,040	+£3,835	£43,875
Class 4 rate between lower profits limit and upper profits limit	8 per cent	-	8 per cent
Class 4 rate above upper profits limit	1 per cent	-	1 per cent

Caring responsibilities

National insurance credits towards the basic state pension

Grandparents who look after their grandchildren so that the parents can go out to work will be able to claim credits towards the basic state pension.

The move means people who choose to give up work to provide childcare for their grandchildren will no longer miss out on national insurance contributions, which allows them to qualify for a full basic state pension.

In his speech Alistair Darling said: "Increasingly, grandparents play a big role in family life and in looking after their grandchildren. To reflect this we will, for the first time, ensure these caring responsibilities for grandparents of working age will count towards their entitlement for the basic state pension."

Under the move, grandparents and other adult family members who care for members of their family aged 12 or younger for more than 20 hours a week will qualify for national insurance credits towards the basic state pension from 2011.

In another move aimed at helping families on lower incomes, child tax credit will increase by an extra £20 above indexation from 2010. The Chancellor said the government had been supporting families through tax credits and providing extra help for people suffering a loss of income.

He said more people were working shorter weeks and seeing irregular work patterns and reduced wages, and that those on lower incomes would see an automatic increase to compensate for loss of income, and added that 355,000 families were receiving on average £35 a week more support through tax credits.

The Chancellor also announced help for children with disabilities in the form of additional contributions to child trust funds. Children with disabilities will receive an extra £100 a year and while those with severe disabilities will receive £200 each a year.

Personal allowances

Increase for basic rate taxpayers

Plans were announced by the Chancellor to make permanent this year's increase in the income tax personal allowance of £120 a year for basic rate taxpayers.

From April, the personal allowance for those under 65 increased by £145. This is in addition to the £600 increase this May, and raises the total to £6,475.

Taxpayers aged between 65 and 74 will see their personal allowance increase in line with inflation to £9,490, while those aged 75 and over will get an annual allowance of £9,640.

The government said this meant that from April 2009 anyone aged 65 could earn up to £182 a week before being taxed.

Government will be forced to borrow £175bn this year

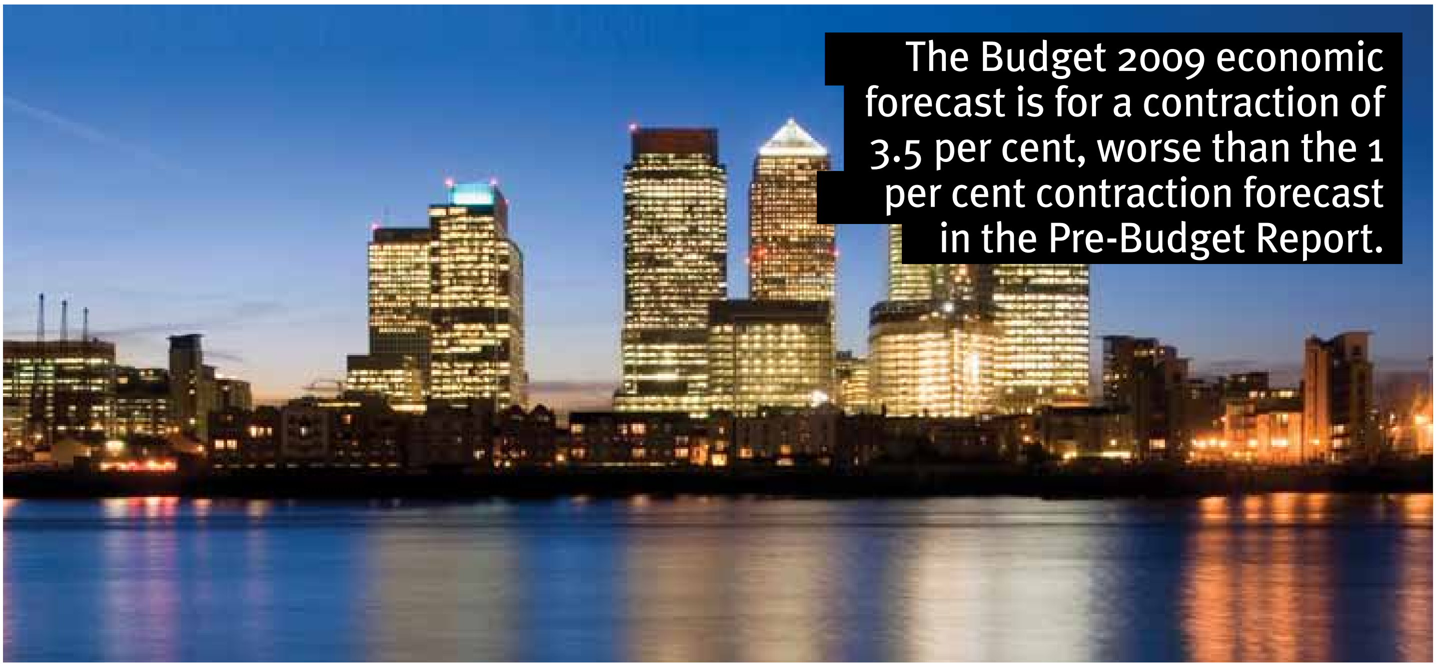
National debt levels set to increase by almost 80 per cent within the next five years

The Chancellor pledged to raise the income tax rate for those earning over £150,000 to 50 per cent. Additionally, those earning over £150,000 will see their tax relief on their pension's savings cut.

He also confirmed that the government will be forced to borrow £175bn this year and £173bn the next, and would have to increase the size of the national debt from recent levels of below 40 per cent to almost 80 per cent within the next five years.

Acknowledging that his already-downgraded economic forecasts from November were significantly over-optimistic, the Chancellor predicted that the UK economy would shrink by 3.5 per cent this year.

This Budget represents a modest giveaway worth around 0.5 per cent of gross domestic product, with measures to help pensioners and savers among the highlights. However, this giveaway will be more than cancelled out in the coming years as taxes increase on almost all members of the public.



Economic Forecast

GDP forecast to contract sharply in the first half of 2009

The Budget 2009 economic forecast is for a contraction of 3.5 per cent, worse than the 1 per cent contraction forecast in the Pre-Budget Report. Gross Domestic Product (GDP) is forecast to contract sharply in the first half of 2009, to stabilise in the second half of the year, and to pick up progressively through 2010 and 2011 as credit conditions normalise and the effects of significant macroeconomic policy stimulus and the depreciation of sterling take hold.

The tightening of credit conditions facing households and companies, and the depreciation of sterling since mid-2007, provide the conditions for a rebalancing of demand in the UK economy. This macroeconomic adjustment is likely to entail increased saving by households, increased investment by companies as they respond to new opportunities, and a rebalancing of domestic and external demand.

Government Spending

Total managed expenditure: £671 billion
Other – £72bn
Debt interest £28bn
Public order and safety – £35bn
Housing and environment – £29bn
Industry, agriculture, employment and training – £20bn
Defence – £38bn
Education – £88bn
Transport – £23bn
Health – £119bn
Personal social services – £31bn
Social protection – £189bn

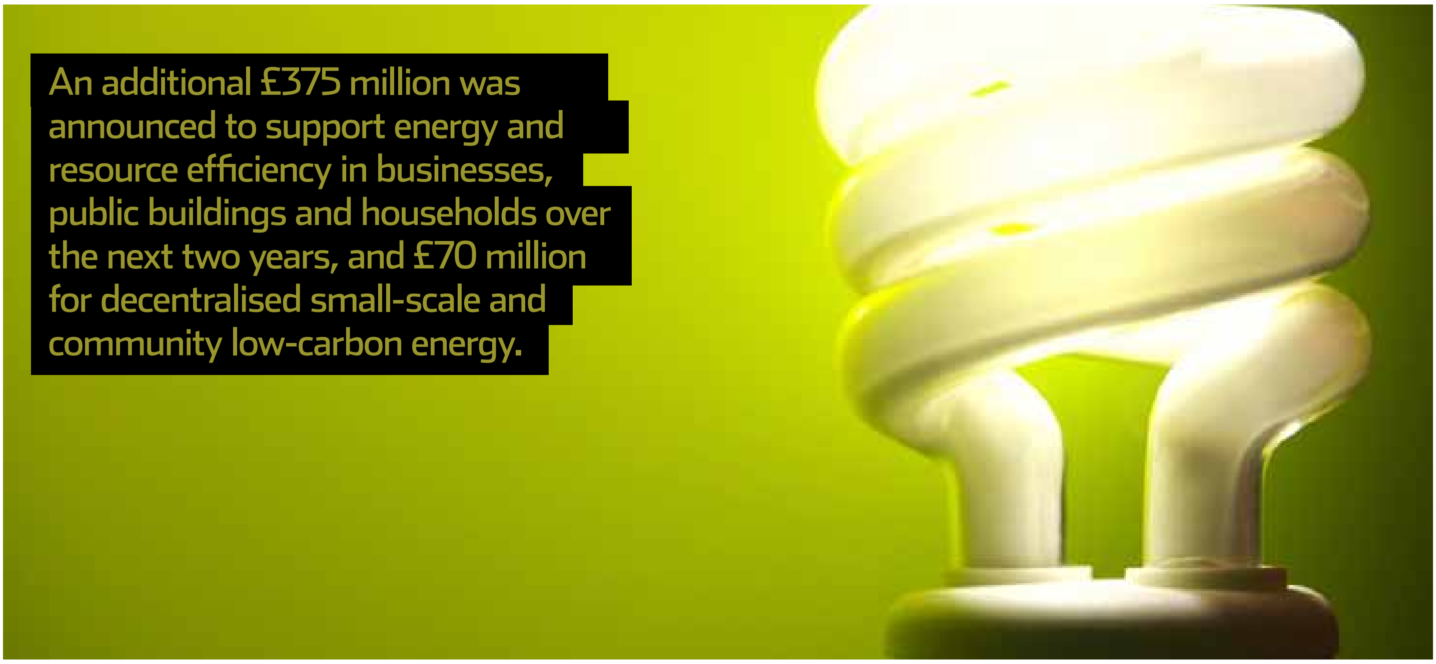
Source: HM Treasury 2009/10 near-cash projections. Spending re-classified to functions compared to previous presentations and is now using methods specified in international standards. Other expenditure includes spending on general public services: recreation, culture, media and sport; international cooperation and development; public service pensions; plus spending yet to be allocated and some accounting adjustments. Social protection includes tax credit payments in excess of an individual's tax liability, which are now counted on AME, in line with OECD guidelines. Figures may not sum to total due to rounding.

Government receipts

How the numbers stack-up

Total receipts: £496 billion
Other – £67 bn
Council tax – £25bn
Business rates – £24bn
VAT – £64bn
Corporation tax – £35bn
Excise duties – £44bn
National Insurance – £98bn
Income tax – £141bn

Source: HM Treasury, 2009/10 projections. Other receipts include capital taxes, stamp duties, vehicle excise duties and some other tax and non-tax receipts – for example, interest and dividends. Figures may not sum to total due to rounding.



UK at the forefront of a worldwide low-carbon recovery

A strategic and long-term approach to the problem of climate change

Budget 2009 provided over £1.4 billion of extra targeted support in the low-carbon sector. Together with announcements made since last autumn, the measures announced will enable an additional £10.4 billion of low-carbon sector and energy investment over three years.

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Carbon budgets were set as required by the new Climate Change Act. These set a legally binding 34 per cent reduction in emissions by 2020, a new level of ambition for UK climate policy.

An additional £375 million was announced to support energy and resource efficiency in businesses, public buildings and households over the next two years, and £70 million for decentralised small-scale and community low-carbon energy. Together, these measures will support employment, and aim to save 380,000 tCO_2 and around £60 million in energy bills each year.

The government's existing framework will enable a ten-fold increase in renewable investment by 2020. To protect investment and jobs in low-carbon energy, and to strengthen the long-term framework for a low-carbon energy future, Budget 2009 announced:

- £405 million to support low-carbon industries and advanced green manufacturing, to help make the UK a worldwide leader;
- UK renewable and energy projects stand to benefit from up to £4 billion of new capital from the European Investment Bank, removing blockages in project financing;
- an uplift in support for offshore wind investments that reach financial close between now and 2011 through the Renewables Obligation. This is expected to support £9 billion of investment and power up to 2.8 million homes;
- extending support for combined heat and power through climate change levy exemptions, helping bring forward £2.5 billion of investment and 3 GW of capacity by 2015, and supporting employment;
- a new funding mechanism to support up to four carbon capture and storage demonstration projects, and £90 million to fund detailed preparatory studies;
- support extending for combined heat and power through climate change levy exemptions, helping bring forward £2.5 billion of investment and 3 GW of capacity by 2015, and supporting employment.

Budget Measures

The impact on households

The Chancellor announced that the measures introduced in this and previous Budgets and Pre-Budget Reports support the government's objectives of promoting work and tackling child and pensioner poverty. The 2008 Pre-Budget Report announced the bringing forward of Child Benefit uprating to January 2009 and future year increases to Child Tax Credit to help families with children.

Working-age taxpayers also gain from personal tax measures announced in the Pre-Budget Report. This Budget announces measures to support pensioner households including an additional payment of £50 (£100 if someone is aged 80 or over) paid alongside the Winter Fuel Payment in 2009/10 and an increase to the amount of savings that pensioners are allowed to hold without it affecting their benefit payments.

This Budget also announced measures on individuals that contribute towards the consolidation of the public finances in the medium term. These measures largely impact on those who can afford to pay, people with the top 2 per cent of taxable incomes.

As a result of measures announced in this and previous Budgets and Pre-Budget reports in 2009/10, compared with 2008/09:

- households will be better off by £10, on average;
- households in the poorest fifth are better off by £25, on average; and
- families with children are better off by £90, with those in the poorest fifth of the population better off by £175 on average.

As a result of personal tax and benefit measures introduced since 1997 by April 2011:

- households will be £1,550 per year better off, on average; and
- households with children will be £2,350 per year better off, on average, and those in the poorest fifth of the population £4,750 per year better off, on average.

Chancellors pledge to pensioner households

A commitment to raise the state pension

The Chancellor said in the Budget that the increase in the savings limit would be worth on average £4 a week to the older people helped by the change.

"There are over 5.5 million pensioner households in this country who have modest savings of less than £10,000 and I want to help them," he said.

The credit tops up income for single pensioners to £130 a week and for £198.45 for joint pensioners. To qualify, all the income including interest from the pensioner's savings accounts is added up. The more income a pensioner is assumed to receive from savings, the less credit to which they are entitled.

This calculation ignores only the first £6,000 of savings, which will now be raised to £10,000. Anything above this is treated as though it earns 10 per cent income a year.

The Chancellor acknowledged that falling interest rates had reduced the amount of interest paid on savings, particularly affecting pensioners who rely on the extra money.

He reiterated a commitment to raise the state pension by 2.5per cent next year. "So if RPI inflation this September is below zero, as we expect, pensioners can be confident that their pensions will rise in real terms," he said.

A one-off increase in the Winter Fuel Allowance would be maintained for another year – worth £250 for over 60s and £400 for over 80s.

Budget 2009 guide