

The pre-Election, pre-Budget Report

By Tom Stevenson, 09 December 2009

Chancellor's neutral budget leaves the hard decisions until next year.

This was, as predicted a pre-election pre-Budget report. Fiscally neutral, there was little in here to back the Chancellor's claim that he was supporting growth and little to reassure the markets that he is a man with a plan to reduce the budget deficit and public sector borrowing.

The fiscal forecasts were largely unchanged from the Budget in the spring, despite the fact that this year's growth shortfall was much bigger. That rather casts doubt on the reliability of the numbers beyond next year's deliberately downbeat estimate, which still look fairly heroic.



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Markets were largely unmoved by the macro-economic detail, with most investors fully aware that, with the next election only six months away, the big decisions on spending would most likely be parked for now. Broadly speaking they were.

On the tax side of the equation, the major measure is a further half point rise in the National Insurance rate. Although NICs do not directly affect ISAs, upward pressure on personal taxation reinforces the benefit of taking advantage of tax-free savings where they are still available. ISAs received no explicit further support in this pre-Budget report but they remain the vehicle of choice for savers.

Capital gains tax got no mention at all, contrary to pre-report rumour. Nonetheless collective investments such as OEICs and unit trusts remain more tax-efficient for many investors than other vehicles like investment bonds. And it looks as if most measures have been delayed until next April when capital gains tax could feature again.

The sting in the tail for savers was the reduction in the threshold for reduced pension tax relief from £150,000 to £130,000 and the inclusion of any employer provided pension benefit in the calculation. This is bad news on two levels. Obviously, it will affect a number of people earning between these amounts. More importantly, however, it further muddies the waters around pensions. Complexity is the enemy of the savings habit and the Government continues to add complexity rather than reduce it.

On Personal Accounts, there have been some delays to the proposed reforms, which is disappointing. The key to Personal Accounts, however, is not the plans themselves but the general idea of auto-enrolment. The sooner that employees are enrolled in a scheme (unless they state that they would rather opt out and make their own arrangements) the better.

The headline grabber – a tax on bank bonuses – was well trailed and pitched not at the individuals but at the profits of the banks themselves, which is odd in that the Chancellor admitted banks need to increase their capital rather than having it taxed away. Generally speaking windfall taxes like this are not desirable because they raise questions about where Government might swoop in future. Businesses and investors crave certainty and

capricious Governments do not inspire the necessary confidence.

All in all, a rather damp squib of a PBR from a fiscal and economic point of view, but one which has set the dividing lines of next year's election.

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