The pre-election phoney-war Budget

By Tom Stevenson, 24 March 2010

Alistair Darling's speech parked the difficult tax-and-spend decisions. The interesting Budget will be the next one.

There were no real surprises in what will more than likely turn out to be Alistair Darling's final Budget speech. The headline-grabbing announcements had all been well flagged.

The Chancellor, as expected, walked a tightrope, trying to keep both markets and voters happy. Although the emphasis was more on promoting growth and recovery than fiscal prudence, investors seemed to accept that this was a pre-election speech. There was little detail on proposed spending cuts but, for now, the Government still has the benefit of the doubt.

"The stock market was almost unchanged after the Chancellor sat down." Tom Stevenson

The price of gilts fell marginally as the Government revised down the amount of bonds it expects to issue in future but investors took another look at the still very high levels of borrowings for many years to come. The stock market was almost unchanged after the Chancellor sat down.

Where there were giveaways, Mr Darling took pains to emphasise that they would be funded by reductions elsewhere. Invariably this took the form of the rich few subsidising the less well-off many as with the increase in stamp duty on £1m+ houses to enable the scrapping of stamp duty on house purchases up to £250,000.

The same electoral calculation lay behind the freezing of the inheritance tax threshold for four years.

For savers and investors there was little to cheer but also no bad news which, after recent Budgets, was a result in itself. Unexpectedly the ISA allowance, which increases from £7,200 to £10,200 for everyone from next month, will become index-linked. On the basis of the Chancellor's prediction of a 2% inflation rate that will add £204 to the allowance in the first instance.

The Chancellor was right to celebrate the success of ISAs and the increased allowance is to be welcomed, but for many people it will be an irrelevance. Only those who already put aside the maximum amount each year will benefit.

We believe that there are better things the government could do to encourage new savings from the majority of British people who do not currently save enough or at all. In our recent Savings Manifesto, we proposed an upfront matching payment from the Government to encourage take-up of the ISA tax break as well as measures to encourage the transfer of ISA savings into pension pots. We also stand by our long-standing call for the re-instatement of the tax credit on dividend payments within an ISA.

On pensions, the Chancellor stood by the recent tapering proposals for tax relief on contributions for higher earners. Again, we think the Government is barking up the wrong tree here. Its proposals send out the wrong message about long-term retirement savings and we think it could achieve the same policy aim of reducing the cost of a tax relief which is mainly enjoyed by higher earners with the introduction of an annual cap on pension contributions of, say, £50,000.

Investors got a reprieve on capital gains tax. There will be no increase in the flat rate of 18% this side of the election but it seems unlikely that the yawning gap between the 50% top rate of income tax and CGT will be tolerated for long.

Other tax measures which were shelved for now include the likely hike in VAT to 20% which many observers expect a new government to see as a relatively easy way to raise a meaningful amount of new tax.

This was perhaps inevitably a highly political speech, which parked many of the difficult tax and spending decisions which a government of either hue will face later in the year. The really interesting Budget will be the next one.