

ACS Pre-Budget Report Briefing

Chancellor Alistair Darling has outlined the Government plans in the Pre-Budget Report. In an overall budget intended to provide a fiscal stimulus to the economy that is entering a recession. The Chancellor is predicting that growth will fall to 0.75% in the final quarter of 2008 and then the first two quarters of 2009 will see negative growth. He predicts a recovery heading into the end of 2009. He also announced significant increase in Government borrowing to fund tax cuts.

The following proposals affecting retailers directly:

- *VAT contributions reduced from 17.5% - 15%. This will take effect on Monday 1st December and last until 1st January 2010 when they will rise again to 17.5%. The Government urges retailers to incorporate these changes into their prices as soon as possible.*

We have spoken with representatives from the Department of Business, Enterprise and Regulatory Reform who are encouraging retailers to take on these reductions into their prices. They recognise that it will be difficult for retailers to transfer these cost reductions into their prices within a week.

In addition if retailers were to stick religiously to the reduction then this would lead to many items being impractically priced. For example a £1.99 item would be reduced to £1.948p, there would also be difficulties in changing the prices on items that have the prices marked on them such as magazines and newspapers.

HM Treasury has stated that it will be flexible in the way in which retailers introduce the changes – as long as the overall cut is passed on to consumers.

For more detailed advice on how to calculate your VAT payments and how to include them in your business please see: <http://www.hmrc.gov.uk/pbr2008/measure1.htm> reports 'Technical Advice for Business' and 'Questions and Answers for Businesses' are both quite comprehensive.

At the end of the day it is not up to the Government to set the prices for the commodities that you sell. However there is the expectation that you will filter these VAT changes into your prices to stimulate the economy and help lift the country out of financial downturn. The exception is in the sale of alcohol, tobacco and fuel.

- *Duty on alcohol, tobacco and fuel will increase to offset the reductions in VAT.*

To offset the reduction in VAT there will be an increase in duty on alcohol, tobacco and fuel. Please see below for information on how this will impact on prices. Also note that this duty increase is likely to remain after the VAT rates rise to 17.5% again at the beginning of 2010. ACS will be issuing a press release later today outlining our dismay that the Government has introduced this stealth tax.

Tobacco duty rates - <http://www.hmrc.gov.uk/pbr2008/pbrn27.pdf>

From 6pm on 24 November 2008, tobacco duty rates will be:

Product	Duty
Cigarettes	24 per cent of the retail price plus £112.07 per thousand cigarettes
Cigars	£169.74 per kilogram
Hand-rolling tobacco	£122.01 per kilogram
Other smoking tobacco and chewing tobacco	£74.63 per kilogram

The impact of the tobacco duty changes is shown in the table below. This does not show the offsetting impact of the reduction in VAT, which will vary between products of different price.

Product	Typical unit	Excise duty including VAT at 15% on duty
Cigarettes (premium)	Packet of 20	17p
Cigars	Packet of 5	5p
Hand-rolling tobacco	25g	13p
Other smoking tobacco and chewing tobacco	25g	8p

Alcohol duty rates - <http://www.hmrc.gov.uk/pbr2008/pbrn28.pdf>

From 1 December 2008, duties on alcohol will be:

Product and basis of duty	Duty
Rate per litre of pure alcohol	
Spirits	£22.20
Spirits-based RTDs ready to drink	£22.20
Wine and made-wine: exceeding 22% abv.	£23.05
Rate per hectolitre per cent of alcohol in the beer	
Beer	£16.15
Rate per hectolitre of product	
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv.	£31.21
Still cider and perry: exceeding 7.5% - less than 8.5% abv.	£46.83
Sparkling cider and perry: exceeding 1.2% - not exceeding 5.5% abv.	£31.21
Sparkling cider and perry: exceeding 5.5% - less than 8.5% abv.	£203.14
Wine and made-wine: exceeding 1.2% - not exceeding 4% abv.	£64.65
Wine and made-wine: exceeding 4% - not exceeding 5.5% abv.	£88.90
Still wine and made-wine: exceeding 5.5% - not exceeding 15% abv.	£209.82

Wine and made-wine: exceeding 15% - not exceeding 22% abv.	£279.74
Sparkling wine and made-wine: exceeding 5.5% - less than 8.5% abv.	£203.14
Sparkling wine and made-wine: 8.5% and above - not exceeding 15% abv.	£268.75

The impact of the alcohol duty changes is shown in the table below. This does not show the offsetting impact of the reduction in VAT, which will vary between products and depending on the point of sale.

Product	Typical unit	Excise duty including VAT @ 15% of the duty
Beer @ 4.2% abv	pint	3p
Wine	75cl bottle	13p
Sparkling wine	75cl bottle	17p
Spirits @ 38.77% ave abv	70cl bottle	53p
Spirits-based RTDs ready to drink	275ml bottle	3p
Cider & perry	litre	3p

Fuel duty rates - <http://www.hmrc.gov.uk/pbr2008/pbrn19.pdf>

Fuel duty rate changes will take effect from 1 December 2008 and 1 April 2009.

Fuel Type	Duty rate (pence per litre, unless stated)		
	Current Rate	On and after 1 Dec 2008	On and after 1 April 2009
Ultra-low sulphur petrol/diesel	50.35	52.35	54.19
Sulphur-free petrol/diesel	50.35	52.35	54.19
Biodiesel	30.35	32.35	34.19
Bioethanol	30.35	32.35	34.19
Liquefied petroleum gas used as road fuel	16.49p per kg	20.77p per kg	24.82p per kg
Natural gas used as road fuel	13.70p per kg	16.60p per kg	19.26p per kg
Rebated gas oil (red diesel)	9.69	10.07	10.42
Fuel Oil	9.29	9.66	10.00

Small and Medium sized Enterprises (SMEs)

The measures that will be taken to help Small and Medium sized Enterprises (SMEs) to continue to remain in business and to invest include:

- *Defer increase in small business corporation tax which was due to go up by 1 percent next year.*

ACS welcomes this development; no action needs to be taken by small businesses to incorporate this change. For more information see <http://www.hmrc.gov.uk/pbr2008/pbrn2.pdf>

- *There will be a temporary increase in tax relief thresholds for empty properties with rateable values under £15,000*

ACS supports this move. However we were disappointed that the Chancellor did not respond to the calls of ACS to reduce the Business Rates. This was an issue that ACS raised through a Pre-Budget report submission, letter to the Chancellor and Press Release outlining our concerns. Next April's Business Rates increase is to be based on this September's five per cent RPI. No RPI has been higher since July 1991. A year later, retailers will face a massive 16 per cent cumulative increase in Business Rates as a result of the 2010 Revaluation. This compares with increases of 3.1 per cent for office occupiers and 1.5 per cent for industrial occupiers. ACS will continue discussions with MPs and civil servants on this issue highlighting the hugely negative impact that it will have on many

- *The Chancellor promises £1bn for a temporary Small Business Finance Scheme for those SMEs wanting to borrow between £1000 and £1million.*

ACS will continue to monitor developments in establishing the Small Business Finance Scheme and inform members when more information is published on how they can apply for this.

- *Extension to tax repayment schemes that allow HMRC to agree repayment schemes that are affordable and last longer than current temporary measures*
- *The Government announced that they will be extending support for businesses in financial difficulty. If a business has sustained losses of up to £50,000 then these can be offset against profits over the past three years. This will apply for 1 year only.*

Again ACS will continue to monitor developments on this area and push on Government for speedy action to enable SMEs to take advantage of this development as soon as possible.

- *The Government is closely monitoring banks' commitments to ensure lending facilities for firms are maintained this follows recent announcements that banks will restore lending to SMEs back to 2007 rates.*
- *The European Investment Bank has supplied up to £4billion for banks to put towards supplying loans to SMEs, seven UK banks have now signed up to supplying these loans, and these loans will become available soon.*

ACS will keep members updated on the availability of these loans.

- *Struggling businesses will be able to spread all tax payments out for as long as they need.*

The Business Payment Support Service was launched yesterday following the Pre-Budget report. This service is designed to meet the needs of businesses affected by the current economic conditions. It aims to give businesses a fast and streamlined service for arranging to pay their HM Revenue & Customs (HMRC) tax bill to a timetable they can afford. In addition to this, HMRC will offer further practical help by not imposing additional penalties or surcharges on the tax within a time to pay arrangement. For more information on applying for this please see: <http://www.hmrc.gov.uk/pbr2008/business-payment.htm> . The main advice is that if you are struggling contact the Service sooner than later. They say that in most cases they will be able to give you a decision as to whether you qualify within 10 minutes.