

How did the budget effect individuals?

Aim: To find out how the Budget has effected individuals.

Method: I went to Croydon Central Library and found newspapers from the day of the Budget. I also used a leaflet containing what the budget was about, including public expenditure and taxes which I found in my local library. From this I worked out how the budget has effected individuals.

My Hypothesis

My hypothesis is, “the recent Budget has helped the rich more than the poor”. For now I will talk about why there is a Budget, where the money for the Budget comes from and where the money goes.

What is the Budget?

A Budget is a statement by the Government on changes it intends to make to the taxes and Government spending. These main areas are as follows:

Social Security

NHS

Transport

Education

Defence

Debt interest

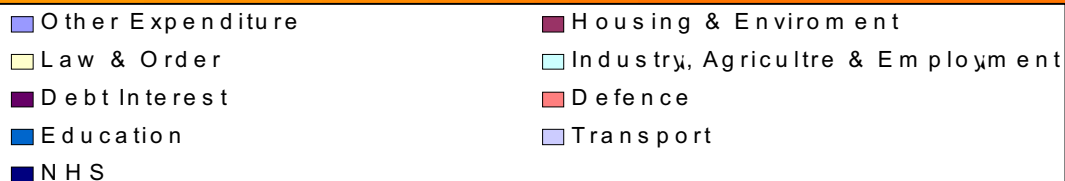
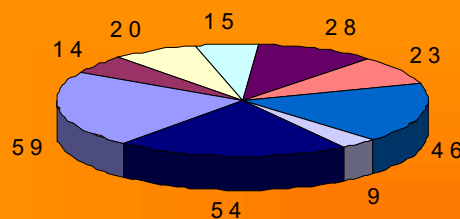
Industry, agriculture and employment

Law and order

Housing and environment

Other expenditure

**Public Expenditure for 2000/01.
(in £billions)**



These areas of the Economy need money in order to function on and the Government must decide how much money they spend on them, for example if a war started in which England was directly involved, defence would get a great deal more money to finance the expenditure.

The money used to pay for these areas of expenditure comes from taxes.

The main taxes are as follows:

Income tax

Value added tax (VAT)

The council tax

Business rates corporation rates

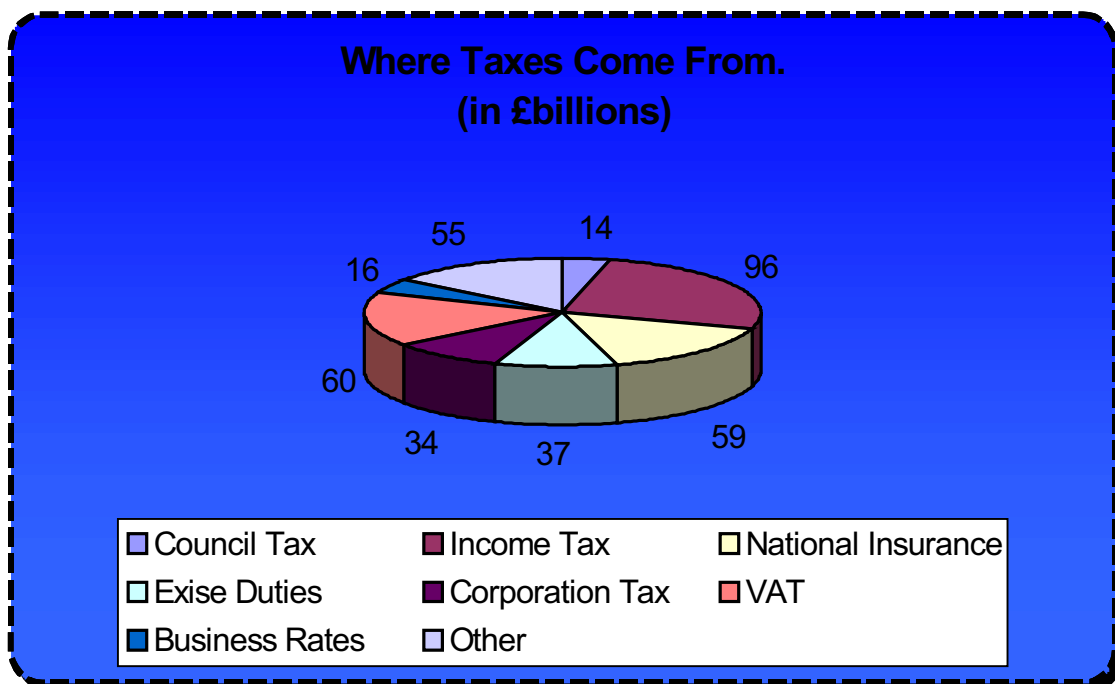
Excise duty on cigarettes, petrol and alcohol.

Vehicle excise duty

Capital gains tax

Inheritance tax

National Insurance contributions



A so called, “balanced budget,” in where the amount of money generated by tax collections, equals the Governments planned expenditure.

If the Government decides to reduce the level of spending in the economy then there would be a Budget surplus if more tax revenue is collected than planned expenditure.

If the Government plans to increase spending on the economy then it must also increase taxes accordingly, otherwise there would be a budget deficit. A budget deficit would mean that the Government would need to borrow money to balance this deficit.

Once the Budget has been decided it is passed as law under the finance act.

Research

Changes resulting From The Budget (Taxes)

Stamp Duty- There will be increases for properties between £250,000 and £500,000 from 2.5% to 3%. Stamp duty on houses over £500,000 is raised from 3.5% to 4% whilst the duty on houses under £250,000 will not change. This is to try and lower inflation and reduce the amount of house buying in the S.E of England.

House Value	Rate before the Budget in (%)	Rate after the Budget in (%)
Under £60,001	0	0
£60,001-£250,000	1	1
£250,001-£500,000	2.5	3
£500,001 and above	3.5	4

Excise Duties-Excise duty on spirits s remained the same but beer and wine were increased by 1p and 4p respectively. Petrol increased by 2p per litre and cigarettes by 25p per packet of 20.

Pensioners-Pensioners tax allowance will be set at £5,790 and for those over 75 at £6050. The winter fuel allowance will be increased from £100 - £150. This means that pensioners are now guaranteed £82 a week to live on and £172 for a couple.

Income Tax-The basic rate will be cut from 23% to 22%

	Pre Budget	Post Budget	65-75	75 and over
Tax allowance	£4335	£4385	£5790	£6050
First tax bracket	£1500 @10%	£1520 @10%	-	-
Second tax bracket	£2800 @23%	£28400 @22	-	-
Higher tax bracket	£2801 and above @40%	£2801 and above @40%	-	-

Tax free savings- The maximum level for ISA's is to stay at £7,000

Charity- The Government will pay 28p for every pound donated to charity.

Capital gains tax- Rates for businesses assets cut from 40% to 35% after 1 year, 30% after 2 years, 20% after 3 years and 10% after 4 years. This means that if somebody holds onto their businesses assets for longer than 4 years they will only have to pay 10% of tax when they sell them but if they hold onto them for 1 year or less they will have to pay 40%.

Inheritance tax- Inheritance tax threshold raised from £231,000 to £234,000.

Changes Resulting From The Budget (Spending)

As I mentioned earlier the Government decides where to spend the money that they receive from tax revenue.

The Government has announced the following major changes in it's spending as compared to last year:

Transport will receive an extra £280m

Education. Schools are to receive a direct £300m as part of a future plan which will reach £1bn.

Health, will receive an extra £2bn bringing the total to £45bn this year. This means that an extra 10,000 nurses can be recruited.

Whatever increased investment the Government put into Education and the NHS, the rich will probably not benefit from the increase because they tend to use private services such as private hospitals and private education.

Changes Resulting From The Budget (Allowances)

Under the MIRAS (Mortgage Interest Relief At Source) borrowers were given tax relief on the interest that applied to the loan. This meant that their mortgage payments were reduced by this amount because the mortgage companies paid the tax relief directly to the Government. This tax relief has now been scrapped which means that borrowers pay the full mortgage amount .

Married persons tax allowance has been scrapped as from 1st April 2000.

Children's Tax Credit this is a new allowance that will be introduced on 6th April 2001, this replaces the married persons allowance and the additional personal allowance. It will apply to couples who have children under 16 years old and is a fixed amount of £442 per year regardless of number of children. For people earning over £32,000, this amount will be reduced.

Working Families tax credit has replaced the child benefit. This is a variable allowance and is paid to people who work more than 16 hours a week.

Effects on individuals due to the Budget

Case Studies

The Net Entrepreneur

Simon Maissey, is 46 married with 2 children, aged 10 and 13, non smoker, social drinker, earns £85,000, he owns shares in the FTSE and owns 43% of his business called jobsinhealth.co.uk.

He doesn't feel that the Budget has effected him much, he has lost his married persons allowance and has to put up with a rise in drink prices. He has benefited greatly from the change in Capital gains taxes, before the Budget if he sold his 43% of the business then he would have had to pay 28% of that to the Government in tax. Now after the Budget he will only have to give 10% of it to the Government because he has had the percentage for longer than 4 years. He also has 100% first year capital allowance on computers, software and Internet phones. As he owns a company that helps nurses recruit, the 10,000 nurses that are signing up for the NHS will sign up through his business and so he benefits from the NHS in an indirect way. His children won't benefit from the Educational boost if they go to private school which is more than likely, if they do go to state school the children will get just the same benefits that a poor families children would get. As a result in the change in income tax he will be about £218 better off next year than this year. These are the levels of income tax a self-employed person will have to pay:

Gross income £ (per person)	Pre Budget net	Post Budget net	Win/loose
5,000	4,593	4,791	198
10,000	8,403	8,450	47
15,000	11,953	12,000	47
20,000	15,503	15,550	47
25,000	19,053	19,100	47
30,000	22,843	22,805	-38
40,000	29,240	29,458	218

50,000	35,240	35,458	218
60,000	41,240	41,458	218
70,000	47,240	47,458	218
100,000	65,240	65,458	218

The Lone Parent

Sylvia Hayhoe, 46, from Carlisle, earns £740 a month as an administrative assistant and receives £17.10 a week, for lone parent benefit. She receives £39 a month for working family tax credit, £31 a month from her husband for maintenance.

As a result of the Budget she will be £243 worse off per year. Although the basic rate goes down by 1p she is will loose her current, “additional persons allowance.” This is an allowance which she used to receive because her 15-year-old son lives with her. Sylvia’s National Insurance contributions have been lowered by £51 a year but that doesn’t compensate. Before the Budget, after paying her bills and her mortgage, she was left with around £54 a week for food, petrol and clothes. She says “running the car is more expensive than using public transport even though I don’t use the car much. These are the sort of income tax and allowances a lone parent will have.

£ Gross income	Pre Budget net	Post Budget net	Win/lose	Working families tax credit pre Budget	Integrated child tax credit post Budget
5,000	5,732.20	5,746.60	14.40	137.47	140.82
10,000	9,321.20	9,254.60	-66.60	99.51	101.27
15,000	12,671.20	12,654.60	-16.60	64.08	65.31
20,000	16,021.20	16,054.60	33.40	28.65	29.34
25,000	19,371.20	19,454.60	83.40	-	-
30,000	23,121.20	23,073.60	-48.60	-	-
40,000	29,518.20	29,726.60	208.40	-	-
50,000	35,518.20	35,726.60	208.40	-	-
60,000	41,518.20	41,726.60	208.40	-	-
70,000	47,518.20	47,726.60	208.40	-	-
100,000	65,518.20	65,726.60	208.40	-	-

The Investor

Douglas Johnston, 47, married lives with his wife and 2 teenage children in Devon. He is a financial director at the Investment Company Char twell and his wife is a primary school teacher. Their combined salary is £70,000 p.a and monthly outgoings of £3,000 (£36,000 a year). The loss of the married couples tax allowance will have more effect on his tax bill than anything announced in the Budget. As a recent investor in ISA's he was pleased to hear that the ceiling for ISA's won't drop from £7,000 to £5,000. His wife will benefit from an extra £9,000 for books and equipment in her primary school. He has 3 cars and lives in, the countryside so was pleased to see that petrol has only increased by 2p per litre.

The type of income tax and allowances they could experience are:

Gross income £ (per person)	Pre Budget net	Post Budget net	Win/ loose	Working families tax credit pre Budget	Integrated child tax credit post Budget
5,000	10,934	10,968	34	155.10	159.94
10,000	17,915	17,984	69	81.26	85.74
15,000	24,615	24,784	169	10.39	13.81
20,000	31,315	31,584	269	-	-
25,000	38,015	38,384	369	-	-
30,000	45,515	45,620	105	-	-
40,000	58,309	58,928	619	-	-
50,000	70,309	70,309	619	-	-
60,000	82,309	82,309	619	-	-
70,000	94,309	94,309	619	-	-
100,000	130,309	130,309	619	-	-

Pensioner

Anne Donnelley, 66, retired telex and fax operator of British aerospace, receives £67.09 a week and a monthly occupational pension of £84.20 but £60 of this goes on her council tax. She spends between £50 -£60 a fortnight on food. She has recently given up smoking and doesn't drive because she finds it is too expensive because of the amount of tax involved. The only change in her income is, her winter fuel allowance has increased from £100-£150. She doesn't have central heating because she believes it is unhealthy but she will still receive this extra £50 which she

can use for extra purposes. Pensioners have been promised at least £82 a week but Anne doesn't think this is happening. She can't cope with the bills and tax, she has asked the council to reduce the council tax but nothing has been said so she is now thinking of cancelling her house contents insurance which is £20 a month. She also wants the television licence to be lowered.

Some income taxes and allowances a lone pensioner will experience are

Gross Income £	Pre Budget net	Post Budget net	Win/loose
4,000	4,000	4,000	0
8,000	7,671	7,681	10
12,000	10,751	10,801	50
15,000	13,061	13,141	80
20,000	16,592	17,747	155
25,000	20,442	20,647	205
30,000	24,292	24,547	255

The average wage for a person in England is £17,500, a rich person earns about 3 times this amount. I believe that most pensioners are classed as poor because they have very little income.

Conclusion on the next page

Conclusions

My hypothesis is, “the recent budget has helped the rich more than the poor” I agree with my hypothesis that the budget has helped the rich more than the poor. The Government is encouraging people to move into e-commerce and use the internet, which means more people will work in the e-commerce industry. Jobs in the e-commerce industry are highly paid but involves highly skilled jobs. This puts the poorly educated people who are also financially poor, at a disadvantage.

If the Government wanted to help the poor, then instead of taking 1p off the basic rate of income tax they should have increased the 40% upper level.

The rich can cope with the loss of the married persons allowance but the poor will find this harder to overcome.

The improvement in Capital gains tax means that the rich share owners will benefit but very few poor people own shares. The new capital gains tax system means that shares held for 1 year have 40% capital gains tax applied, for 2 years 30%, 3years 20% and 4 or more years, 10%. Unlike a partnership or a sole trader who cannot sell shares in their business (because there aren't any shares to be sold), Companies which consists of Plc's and Ltd's are owned by small and large shareholders. These large shareholders can now sell their shares and achieve a bigger tax benefit. Normally only the rich own a Company (not a firm) and this involves owning a high number or shares in the business, the rich can now sell their business for reasonably little tax. For example Simon Maissey, the Net entrepreneur.

I think that the Government has done well to discourage the poor from using their cars a and to try and reduce drinking and smoking. This should reduce the demand for hospital services .The rich don't see the rise in excise duties as a threat because these are regressive taxes. A regressive tax hits the poor more than the rich in terms of percentage for example VAT.

I think that the pensioners need to be looked after a bit more as they have worked for most of their lives and want to spend some of their time relaxing and not worrying about where the next money is going to come

from to pay for the next bill. The Government is trying to convince people buy their own private pensions but poor people cannot afford to buy private pensions.

In my opinion I think that the groups that need the most help are the pensioners and single parents. As I just mentioned the pensioners haven't come off well in the budget but lone parents have come off the worst, they have lost married person tax allowance and also the additional persons allowance. Although the basic tax bracket has been lowered to help the poor they have lost so much in other areas. The income tax reduction does not compensate for the allowances they have lost as can be seen in the single parent income tax table.

My bibliography:

The Guardian, Budget 2000 Prudent for a purpose,
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and the social trends book

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