

The Budget

The Budget occurs once each year, normally in March or April. It is presented in the House of Commons [Parliament] by the Chancellor of the Exchequer. The Budget is a statement of how the government will raise taxes in order to meet the estimated cost of government spending in the new 'Tax Year', which starts on 6th April each year.

The Budget has three aims:

- To raise enough money [although some borrowing is usually planned for as well];
- To raise taxes in a fair way;
- Sometimes the Budget is used as an instrument of Fiscal Policy; where taxes are deliberately increased or reduced in order to influence the level of Demand, and thereby either increase growth and job creation, or reduce inflation.

Every Budget many individual and business taxes [e.g. Corporation tax, Employers National Insurance Contributions] are changed. Therefore businesses will pay a lot of attention to the Budget to see how they are affected, and to help plan how they will need to adapt to minimise the impact of higher taxes. Also, large businesses often lobby the government ahead of the budget to try to influence the outcome.

Corporation tax – shows business profits.

Public Sector Borrowing

In most years the government will need to spend more than it takes, so it will need to borrow to fill the gap.

This gap is known as the Public Sector Net Borrowing or PSNB.

This borrowing is paid for by selling:

- National savings
- Gilt – edged stocks – IOU for government interest
- Treasury bills

Q What is a balanced budget?

A balanced budget is when taxes equal government spending.

Tax allowance – An amount of money a person can earn without paying income tax.

Tax rates – If you earn up to £6035, you pay 0% tax. If you pay up to about £40k, you must pay 20%.