nment's economic and
very low ebb.

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As expected, Mr Major left he basic rates of income tax nchanged at 25 per cent and 0 per cent respectively and eaffirmed the Government's goal of bringing the basic rate lown eventually to 20 per cent.

He decided to index by 7.7 per cent in line with inflation most personal allowances before which income tax is paid. The exception was his decision to leave unchanged the basic rate limit at which the higher 40 per cent tax rate takes effect, which will hit higher earners.

Contrary to some expectations, he decided also to index most excise duties – even though that will add around 0.5 percentage points to the inflation rate. Duties on spirits, cigarettes and petrol were raised by 10 per cent.

It was in the details of the Budget that Mr Major sprang his surprises and won support from his own backbenches. In a move that will benefit the City, he decided to abolish stamp duty on share transactions around the end of 1991.

Among several measures to promote what he called a "culture of thrift," he announced:

- The establishment of new tax exempt special savings accounts (Tessas) for small savers. From January next year, every adult will be allowed to open one such account and benefit from tax free interest earnings on deposits of up to £9,000 over five years.

John Major delivers his Budget, flanked by the Prime Minister and Kenneth Clarke

- The abolition from April 6 1991 of composite rate tax. This tax, currently 22 per cent, is paid on bank and building society deposits. After the independent taxation of husband and wife takes effect next month some 14m people will be paying this tax, even though, Mr Major said, they "have savings income that does not merit taxation."
- The increase by 25 per cent to £6,000 in the maximum amount that an individual can invest each year in a Personal Equity Plan (PEP). The annual limit that can be invested in unit and investment trusts in a PEP is being increased to £3,000 from £2,400.
- Further encouragement to employers to establish employee share ownership.

Other eye catching and potentially vote catching announcements in the Chan-

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Disappointment for UK markets

By Rachel Johnson and Andrew Marshall

FINANCIAL markets reacted with almost uniform disappointment to a Budget which came under fire for failing to support sterling or tackle inflation.

As the Chancellor gave his statement, sterling fell a pfennig to close at DM2.7282 and almost a cent against the dollar in response to what traders described as Mr John Major's "Budget for the backbenchers."

The inflation outlook given in the Budget, and the announcement that the Retail Price Index would rise by 1 per cent with the introduction of the poll tax, hit government bond prices, which dropped more than 1½ points.

Disappointment in the markets was keenest over the lack of explicit commitment to joining the exchange rate mechanism of the European Monetary System. Traders said this deprived sterling, a weak currency, of a possible prop on the foreign exchanges.

Mr Gerrard Lyons, currency and bond economist at DKB International, the Japanese-owned merchant bank, said: "The Budget has not removed the vulnerability of sterling." Dealers said sterling could fall below DM2.70 and test $1.60

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April 1991. Non-taxpayers to be paid gross but taxpayers will still have tax deducted at source.

- **SAVINGS:** New tax-exempt special savings accounts in banks and building societies with capital tax free if left for five years.
- **CORPORATION TAX** main rate unchanged at 35 per cent. Corporation tax reduced limit of 25 per cent to apply from £200,000 profits instead of £150,000.
- **VAT:** Relief on written-off debts over two years old from April 1991. Threshold for companies raised to £25,400. VAT paid on directors' accommodation no longer deductible.
- **CAPITAL GAINS** exempt amount unchanged at £5,000 for individuals. Married couple now have £10,000 exemption. Business donations to training and enterprise councils to qualify for tax relief.
- **STAMP DUTY** on share transactions to be abolished late in 1991-92.
- **POLL TAX** and housing capital cut-off for benefit doubled from £8,000 to £16,000. Income Support and family credit limit up from £6,000 to £8,000.
- **PERSONAL EQUITY PLANS** limit to be raised from £4,800 to £6,000.
- **PETROL** up 11p a gallon, unleaded 9p, diesel 9p. Wine up 7p a bottle, beer 2p a pint, spirits 54p a bottle, cigarettes 10p for 20. Vehicle excise duty on cars unchanged.
- **COMPANY CAR** scale charges up by 20 per cent from April 6.
- **WORKPLACE NURSERIES:** Tax relief allowed from April 6 on nurseries provided by companies.