Top earners face higher taxes as Gordon Brown and Alistair Darling reduce a borrowing bill that will hit nearly £120 billion next year.

The Chancellor is expected to announce a new top rate of tax of 45 per cent that will apply to those earning more than £150,000.

The new rate – which is likely to come into effect immediately after the next general election – is expected to be among the deferred tax rises announced to show how the Treasury intends to rebalance the books. It will affect nearly 300,000 people and raise about £1.2 billion.

Borrowing will rise sharply to record levels next year after Mr Darling today slashes VAT to 15 per cent, cuts income tax by £120 for those on the basic rate and postpones planned rises in vehicle duty and corporation tax.

In the most important Pre-Budget Report since Labour came to power, the Chancellor will announce a tax-cutting and spending package worth about £16 billion aimed at helping people to get through the recession.

He will say that without it the downturn would be deeper and longer. The price will be heavy, however, with borrowing likely to soar to about £70 billion this year and then to a hoped-for peak of £120 billion the following year. The combined total equates to almost £10,000 per family.

To pay for that Mr Darling will set out a series of deferred tax rises, alongside reductions in the growth of spending, designed to reassure the markets that the borrowing figure will decline sharply over the following three years.

Mr Brown resisted the temptation throughout his ten years as Chancellor to raise tax rates, although he introduced a one-off national insurance rise to increase health spending. However, he and Mr Darling know that they have to show that the borrowing surge will be reversed, and to specify the means of doing it. They believe that a higher rate for top earners would not be generally unpopular.

The VAT cut from 17.5 per cent to 15 per cent, costing about £11 billion, will last just over a year before the rate reverts to 17.5 per cent early in 2010.

Mr Darling will announce plans to get banks lending to small companies again with an expansion of government guarantees for loans. A 1p rise in corporation tax for small companies will be postponed and firms will be told they can delay payment of tax bills if they are in trouble.

School and hospital building projects will be brought forward to help the construction industry, as will a big “green” programme to make council houses more energy efficient.

Mr Brown said yesterday that to do nothing would be irresponsible and uncaring. “I don’t see this as a gamble. I see this as necessary, responsible action that any sensible government would want to take. Those people who say do nothing now would leave people as in the 80s and 90s without hope that their mortgage or job problems could be sorted out,” he said.

He suggested that the Conservative approach lacked compassion. In an obvious attempt to compare David Cameron’s attitude to Margaret Thatcher’s hardline stance in the 1980s, he added: “I really despair of people who say in a moment of difficulty facing a country there’s nothing we can do . . . it’s back to the idea that unemployment is a price worth paying.”

Mr Cameron said that the PreBudget Report might not provide any lasting benefit because people were aware of the “tax bombshell” they faced in future to repay the national debt. “I think people are going to be shocked when they see the extent of government borrowing,” he said.