

AUTUMN STATEMENT 2011

Capital Allowances
Sustainability Incentives
International Tax Depreciation
R&D Tax Relief

Is it a pre-budget report? Is it a mini-budget? Well, no - officially, it is George Osborne's 'Autumn Statement' delivering a review, update and proposed direction for the UK economy. Operating from a position of weakness, entrenched in excessive levels of private and public debt must be difficult for any Chancellor, but the continuing Eurozone crisis coupled with domestic malaise have weighed down the floundering economy. As a result, GDP is expected to grow at only 0.9% in 2011, 0.7% in 2012 and Government deficit reduction targets will be missed.

Many of the key policies were announced in advance of the statement, perhaps to quash the surge in criticism, perhaps to deflect attention away from the forthcoming unpopular proposals. Although the Coalition's blinkered path away from public and domestic consumption remains austere, the Office for National Statistics have forecasted net trade to make a positive contribution to growth (it had been negative in the pre-crisis decade), providing a light pat on the back for Mr Osborne.

Fiscal and Monetary Actions

The Chancellor announced a number of measures designed to induce short term productivity and longer term sustainability in the economy whilst attempting to regain fiscal prudence.

Further recognition of the importance of credit to the engine room of the economy has been recognised as the Government will guarantee £20bn loans to Small or Medium Enterprises (SMEs) and make £1bn available to directly fund them.

A number of measures designed to reduce expenditure (and increase Government income) include:

- (i) Freezing of working tax credits.
- (ii) Raising the State Pension Age to 67 between April 2026 – 2028.
- (iii) Restrict public sector pay increases to 1% when current freeze ends.
- (iv) Increase Bank Levy to 0.88% from January 2012.
- (v) Capital Gains Tax annual exemption frozen at £10,600.

Investment in Infrastructure

Up to £6.5bn will be released for capital investment projects in UK infrastructure. These projects include investment in communications, road and rail networks as well as other logistical projects. The Government have agreed a 'Memorandum of Understanding' with leading Pension Funds to secure an additional £20bn of funding for future projects.

Planning Regulations are also due to be relaxed, with greater emphasis on fast decision making and a more efficient appeal process.

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Skills, Education and Jobs

The Chancellor has not only announced further investment £1.2bn in school education, but also increased support for younger people not in education, employment or training to find work experience and apprenticeships.

In order to complete the goal of a 'more flexible' UK workforce, the Chancellor announced desire to deregulate the labour market further with measures to reduce bureaucracy within the hiring, firing and dispute reconciliation processes.

Support for Business

Unfortunately, there were no champagne measures announced, but the Chancellor provided a few tasty morsels to reiterate the desire to drive the private sector with proposals including:

- (i) Additional £1bn injection into the Regional Growth Fund,
- (ii) 100% capital allowances for investment within the Enterprise Zones located in the Black Country, Humber, Liverpool, North East, Sheffield and Tees Valley,
- (iii) Seed Enterprise Investment Scheme providing 50% income tax relief for investments. Existing EIS and VCT rules will be simplified.
- (iv) In response to recent consultation, introduce 'above the line' credit for large companies claiming R&D tax relief,
- (v) Small business rate relief holiday will be extended to 1 October 2012.

Support for Individuals

In response to recent complaints, the Chancellor has agreed to delay the proposed fuel duty increase until August 2012, providing welcomed relief to motorists. Those using public transport would also welcome the restriction in regulated railway ticket price increases.

Support for first-time buyers, housebuilders and social housing tenants were also announced. Although these proposals are far from conclusive, each should have a positive impact on the suppressed residential housing market.

Conclusion

It is not difficult to speculate whether this Autumn Statement relates to Plan A, Plan A+ or Plan B for the economy. Whilst it is likely that the Chancellor always retained the option of bringing forward certain measures, including the infrastructure investment plan, in reality there were few unexpected measures contained within this statement.

The Coalition had presented the plan for fiscal consolidation in the June 2010 and March 2011 Budgets and have reiterated a desire to stick to the task in hand. Indeed, whilst external pressures mount and action required, the destination remains the same – fiscal sustainability and a rebalanced economy.

As with all Budget statements, there is good news for some and bad for others but will the ever changing redistribution of wealth actually assist in the creation of wealth? Certainly commentators and politicians alike may have expected a more positive economic picture as we enter 2012, but it seems the definite recovery remains attainable only in the medium term.