



## Budget 2011

No doubt the Chancellor of the Exchequer, George Osborne would have hoped for the firm foundation of a stable economy and markets with which to deliver his first full Budget. Following the much maligned Emergency Budget of austerity delivered in June 2010, the Coalition expected that the hardest decisions should be behind them and they could concentrate on job and wealth creation.

However, with the UK armed forces opening up another front in Northern Africa, the natural disasters suffered in South East Asia, continued sovereign debt problems in Europe and rising commodity prices – the Budget speech was delivered whilst balancing upon a bowl of gelatine. Notwithstanding European and Global issues, the Chancellor managed to raise more than a few eyebrows with a Budget designed to achieve 'strong, sustainable and balanced growth'.

The Office for Budget Responsibility's latest fiscal forecast shows that the 'structural' current deficit will be eliminated by 2014-15 and public sector net debt will peak at 70.5% of GDP in that period. The strict fiscal controls put in place in June 2010 have allowed the UK to maintain the AAA credit rating and avail of low sovereign debt rates whilst others in Europe struggle. Although the national debt figures provide encouragement, the economy is only forecasted to grow at 1.7% which is lower than expected. This sluggish growth will be subject to a programme to create the most competitive tax system in the G20 and to make UK the best place to start, finance and grow businesses.

Desires to merge the national insurance and income tax regimes were briefly mentioned through the Coalition's favourite process – the consultation. The Coalition has seemed open to advice from the taxpayers themselves, though the Budget was definitely more pro-business than pro-populous. Cutting corporation tax and re-iteration of the desire to remove the higher rate of income tax should delight the job and wealth creators, rather than the employees of the economy.

### Headline Measures

- (i) Twenty-one Enterprise Zones will be created throughout England, with the first ten already announced (see Appendix A). A zone in London will also be announced subject to the Mayor of London's recommendation and ten further zones will be introduced following submission by competing regions.

These zones will include a simplified planning regime, business rate discounts for incoming businesses and superfast broadband. The Government will also consider the introduction of enhanced capital allowances and Tax Increment Financing to the regions.

- (ii) The main rate of corporation tax will be reduced to 26% (rather than the previously intimated rate of 27%), and cut by a further one percent per annum down to 23% in 2014-2015. The small companies' rate will also be cut to 20% from April 2011. A welcomed move for all companies within the UK.
- (iii) The proposed inflationary increase in fuel duty this April has been scrapped for at least a year, Labour's above inflation escalator will be scrapped and in fact the duty will be reduced by 1p per litre.

This measure will be financed through an increased supplementary charge on UK oil and gas production from 20% to 32%.

- (iv) There is also positive news for income tax payers, with the personal allowance increasing up to £8,105 in 2012 and the Chancellor also stated that the 50% higher rate will be a temporary measure only.

### The Centre-folds

- (v) The Green Investment Bank with an initial capitalisation of £3bn (rather than the proposed £1bn) will begin operation in 2012-13. Importantly, the Bank will also be granted borrowing powers from 2015-16 to increase future investment.

- (vi) The Government will ensure up to 100,000 work experience placements are available for young people and create 40,000 apprenticeships targeted at young people not in employment.
- (vii) The Government will provide £100m additional funding for science and innovation campuses and also fund an expansion of University Technical Colleges. Both measures are designed to increase the skill-set of graduates for future high-tech employment.
- (viii) The lifetime limit for Entrepreneurs Relief (for capital gains tax) will be increased to £10m. Whilst the relief available from the Enterprise Investment Scheme and Venture Capital Trusts will also be increased.
- (ix) Increased rates of the bank levy (peaking at 0.1% from March to April 2011) will be introduced with funds used to finance government loans to first-time property buyers struggling with mortgages.
- (x) R&D tax relief, which had previously been under threat from the Conservative Party, will be increased to 200% from 2011 and 225% from 2012 for small or medium enterprises. Other amendments easing rules around minimum expenditure levels, the availability of relief for sub-contracted costs of large companies and the limitation of cash credit claims have been proposed.

#### **The Devil's in the Detail....**

- (xi) The Chancellor fired a final salvo towards non-domiciled individuals before offering a parlay, by imposing a charge of £50,000 on those individuals resident in the UK for twelve years before stating that the Government would not seek to impose any further changes to the non-dom regime.
- (xii) An interesting detail for property investors included within the Budget document is a consultation seeking to impose mandatory pooling of fixtures qualifying for capital allowances.

This measure is the latest in a long line of policies designed to limit the availability of historical relief for property investors and if introduced, is likely to cause a surge in capital allowance claims activity as investors seek to bank all available allowances.

- (xiii) The rules regarding disposal periods for short life assets qualifying for capital allowances have been increased from four years to eight years, thereby lengthening the availability of these beneficial rules.
- (xiv) The commercial property market has received a boost with the proposals to improve the Real Estate Investment Trust regimes, including removal of barriers to entry including the 2% conversion charge. These amendments are subject to consultation and are expected to be introduced from 2012.
- (xv) Prior to the Budget, the Office for Tax Simplification completed a review into over 1,000 tax reliefs and allowances contained within taxation legislation. In total, 47 reliefs were nominated for abolition by the OTS and the Chancellor has responded by signalling that 43 of these reliefs will be abolished over the coming years. Notable reliefs due for removal include Land Remediation Relief and Flat Conversion Allowances.

Business Premises Renovation Relief and Enhanced Capital Allowances received a stay of execution, with BPRAs being extended for a further five years, with amendments to the ECA scheme expected.

- (xvi) To continue the recent battle against tax avoidance, the Chancellor has announced a number of measures to close opportunities to mitigate various forms of taxation including stamp duty and capital gains tax. These measures are expected to raise £1bn in the coming year and over £4bn during the course of parliament.

- (xvii) After being accused guilty of performing 'del-boy economics' by the leader of the opposition, George Osborne made his own foray towards disingenuous firms by introducing consultations to improve HMRCs approach to dishonest tax agents.

In summary, there is little doubt that families and taxpayers of middle Britain have been largely ignored within this Budget. With the opening statements regarding private sector growth, it is clear that the Coalition is looking towards businesses to support the population.

The measures introduced have provided incentives and relief to businesses based on the assumption that businesses will invest more within the UK, though with rising costs and a continued squeeze on finance, will businesses simply bank the saved cash rather than invest?

Importantly, enterprise and innovation are expected to drive growth, and the UK economy must continue to support these activities as a path to lower unemployment and higher wealth.

Regardless of the UK's geographical position, unfortunately, no man is an island and therefore we must hope that external pressures do not adversely affect the desired entrepreneurial spirit within the nation.

To find out more about the Budget 2011 and how it affects you, please contact Capitus via email on [enquiries@capitus.co.uk](mailto:enquiries@capitus.co.uk) or by telephone on 028 2564 7022.

## Appendix A

- (i) Enterprise Zones, the first ten:

- Birmingham and Solihull
- Leeds City Region
- Sheffield City Region
- Liverpool City Region
- Greater Manchester
- West of England
- Tees Valley
- North Eastern
- The Black Country
- Derby and Derbyshire & Nottingham and Nottinghamshire