

# Review

Budget 2011



## The Chancellor of the Exchequer Announces that the UK is “Open for Business”

On 23 March 2011, George Osborne, the Conservative Chancellor of the Exchequer, delivered his second budget since the change of Government in 2010. The budget measures introduced were designed to stimulate growth in the UK economy and to encourage businesses to set up in the UK.

**What measures were introduced that might encourage investment in the growth and development of your business, here in the UK? If you are an early stage business or an investor in these types of businesses, the UK could be a good place to operate or look for investment opportunities:**

**Enhanced Research and Development Tax Credits for SMEs** – SMEs (small and medium sized enterprises) can be entitled to deduct 175% of their expenditure on qualifying research and development to reduce their corporation tax liability. For expenditure after 1 April 2011, this deduction will be worth 200% and after 1 April 2012, the deduction further increases to 225% of expenditure. Increasingly, larger life sciences companies are encouraging early stage R&D of ideas through smaller independent businesses and then acquiring the rights after, for example, phase 1 testing. The enhanced R&D tax credit is targeted at encouraging these smaller businesses to set themselves up in the UK, as are Osborne’s changes to EIS relief (see below). Keep an eye out for the sting in the tail – Vaccine Research Relief for SMEs is being restricted to 20%.

**Raising EIS relief to 30% on an increased annual investment of £1 million** – To assist smaller, riskier UK companies compete for finance by incentivising individuals to invest in such companies, the Government plans to increase income tax relief for investors in EIS (Enterprise Investment Scheme) companies to 30% for shares issued on or after 6 April 2011 and to double the annual amount that can be invested to obtain relief from £500k to £1million from 6 April 2012. Once again, the hope is that this will spawn the growth of smaller businesses that typically carry out early stage research into new ideas and which ultimately lead to larger companies taking these great ideas to the world market.

**No tax charge for non doms remitting foreign income for UK investment** – What else can be done to encourage investment money into UK business? How about allowing investors who would usually suffer a tax charge on remitting money to the UK to be able to skip the usual charge? Another investment enhancing measure will be introduced for non-domiciled individuals. They will now be allowed to remit foreign income or capital gains into the UK without incurring a tax charge if this is done for the purpose of investment into UK businesses.

**Doubling of lifetime allowance for Entrepreneur’s Relief to £10million** – Once investors have grown their businesses and want to realise gains what has been offered to encourage entrepreneurs to cash in and try again? Individuals making qualifying disposals of trading businesses or shareholdings in companies that qualify for Entrepreneur’s Relief can reduce their capital gains tax rate down to just 10% on a massive £10 million, double the previous limit! With a bit of forethought, this can become £20m!! Expect to see entrepreneurs looking for an exit any day soon.

## Is there anything in this budget for bigger, more mature businesses?

**Corporation tax reduced by 2%** - Once investment has been secured for your UK business with the aid of the measures above, the Government has recognised that to sustain growth, tax needs to be reduced for the companies that are going to take ideas into the big-time. With the aim of creating the most competitive tax system in the G20, corporation tax has been slashed by 2% (rather than the planned 1% cut) to 26% with future 1% annual reductions to take the main rate of corporation tax down to 23% by 2014/2015, the lowest rate in the G7.

**Patent Box** - The Government has affirmed its commitment to introduce a "Patent Box" regime. This will enable you to incur a reduced rate of corporation tax of just 10% on income from patents. A consultation document is expected to be released in May 2011.

**A controlled foreign company regime that you can live with** – One of the major errors in judgement of the previous government was the clumsy attempt to bring overseas profits into the UK tax net. The result? A steady flow of UK based companies re-domiciling to more stable (from a tax point of view) and less onerous jurisdictions. The Government confirmed their commitment to reversing the onerous CFC rules planned by the previous administration and a promise of a stable tax environment for UK plc. The result? Several companies have already confirmed their commitment to returning to the UK if the treasury lives up to its commitment on CFCs and stability! Now that's a result!

### And if that was not enough, Osborne has had the foresight to implement a number of non-tax measures as follows:

- Creation of 21 Enterprise Zones – Thinking of setting up in the UK, but don't know where? 21 Enterprise Zones will be created with the following advantages:
  - 100% discount on Business Rates;
  - rollout of superfast broadband; and
  - development of radically simplified planning approaches.

Ten new urban Enterprise Zones have been announced in the following areas: Birmingham & Solihull; Leeds City Region; Sheffield City Region; Liverpool City Region; Greater Manchester; West of England; Tees Valley; North Eastern; the Black Country; and Derby/Derbyshire/Nottingham/Nottinghamshire. The Mayor of London will also designate an area of London as an Enterprise Zone and a further 10 Enterprise Zones are to be established.

- First Technology & Innovation Centre - The first Technology and Innovation Centre in high value manufacturing will be launched to integrate the work of several existing high performing centres in Bristol, Coventry, Redcar, Rotherham, Sedgefield and Strathclyde.
- An injection of an additional £100m in 2011/2012 has been announced to provide facilities for the commercialisation of research.

Let's hope that the above measures will "position the UK at the forefront of the global economy" and "make the UK the best place in Europe to start, finance and grow a business" as was intended by Mr Osborne's Budget 2011.

### For more information about the Budget, please go to [www.ssd.com](http://www.ssd.com) or contact:

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