March 2011

Review

Budget 2011

BUDGET NOTES - PUBLIC EQUITY

Today's Budget was billed as a budget for growth. Did it live up to this so far as public companies are concerned?

The Chancellor reported the Office for Budget Responsibility's assessment of the economy. Lower growth is forecast for 2011 and 2012, with inflation remaining above the 2% target until 2013. However, Government borrowing is still projected to fall as a proportion of GDP with the budget being in balance before the next election 2015.

This was the first Budget under the Government's new approach to tax policy. This meant that many of the tax changes we heard about this afternoon were in fact announced last year. Draft legislation was then issued for consultation in December and this will form the bulk of the Finance Bill due to be published next week. Of course, there were some new announcements - many of which have been well trailed in the press in the last couple of weeks but, as always, there were a few surprises.

Key points to note for public companies:

- The planned reduction in corporation tax rates has been accelerated, with a 2% fall to 26% from 1 April. The rate will then fall by 1% a year until 2015. The bank levy is being increased to ensure that the banks do not benefit from this additional cut in corporation tax.
- There will be consultation on merging the operation of income tax and NICs for employees. Running two separate taxes through PAYE clearly adds to the burdens on business but a full merger of income tax and NICs would not be straightforward. It is not intended to extend NICs to investment income or to make pensioners liable for NICs. The danger is that the tax system could become even more complex with a wide range of different tax rates. Or, if a blended rate is applied to all income, there could be some substantial winners and losers.
- The disguised remuneration rules announced last December will come into effect next month. Some proposed changes were announced in February and we can expect to see these in the Finance Bill next week. These new anti-avoidance rules are very wide ranging and have been widely criticised. Although primarily targeted at arrangements to defer income using EBTs, the Government is also using them to enforce the new £50,000 contributions limit on tax efficient pensions by making alternative arrangements costly.
- Enterprise zones are being re-introduced with up to 21 zones being created across England and discussions with the devolved administrations about creating zones in Scotland, Wales and Northern Ireland. The intention is that the zones will benefit from reduced business rates, superfast broadband and simplified planning. Further consideration is being given to the availability of enhanced capital allowances for manufacturing in the zones and the use of tax increment financing. The regions in which eleven of the zones will be located have been announced today. The remaining ten will be chosen in the summer.

- Fuel duty has been cut by 1p per litre from 6pm today and a stabiliser regime is being introduced to limit future rises. This will be paid for by increased tax on North Sea oil production.
- The Government is pressing ahead with reforms to the taxation of controlled foreign companies, overseas branches and overseas funding structures. There will be further consultation on a patent box system of low taxation of IP royalties. The Chancellor's stated aim is to have the most competitive tax system within the G20 but he is clearly also keen to stem the flow of PLCs that have relocated outside the UK in recent years.
- As always, there was an emphasis on blocking avoidance by individuals and corporates. A strategy paper on tackling avoidance has been published.
- And finally, press speculation that the Government intends to extend air passenger duty to private jets proved correct. APD on commercial flights has been frozen until next year.

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