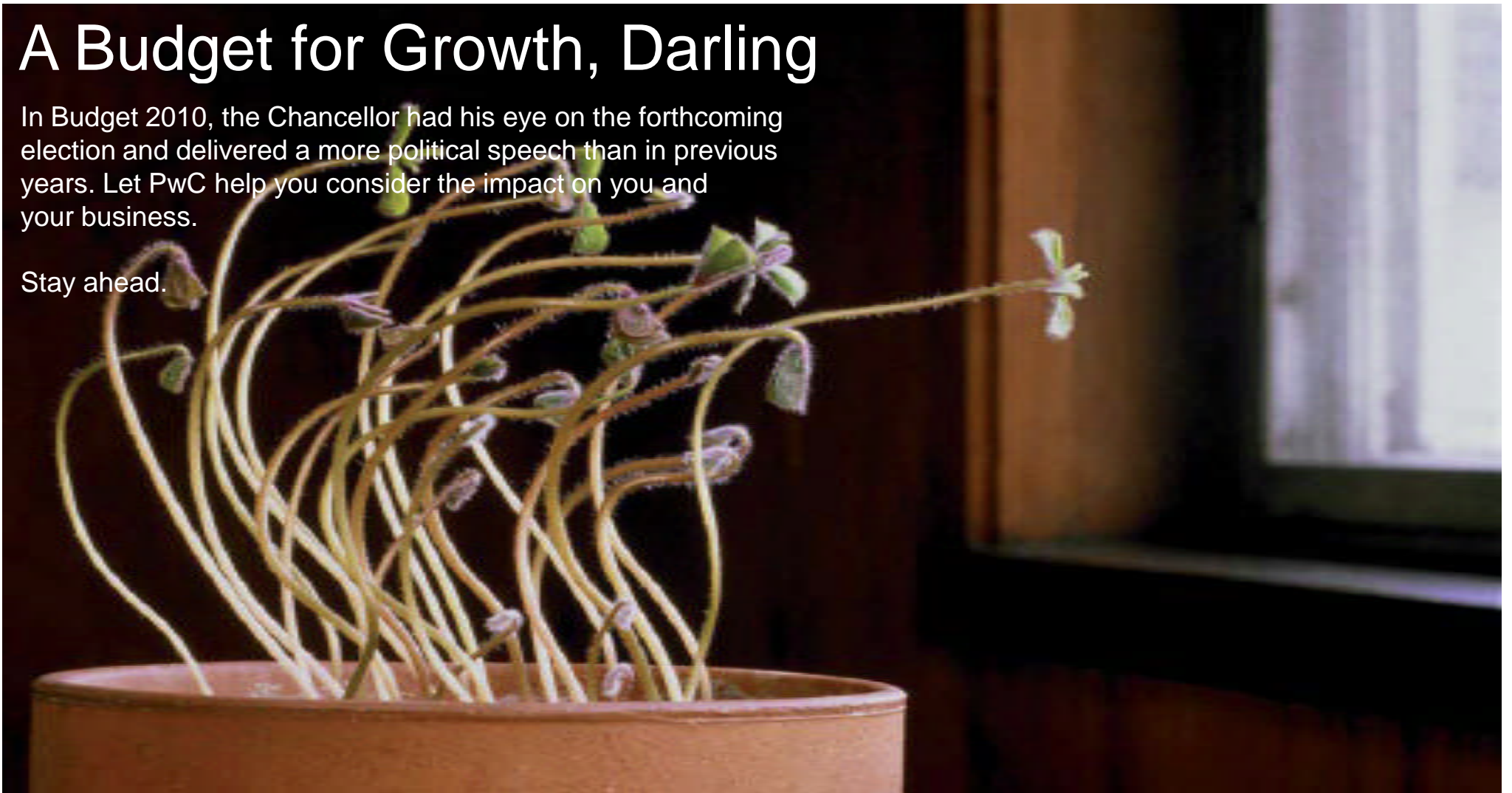


# A Budget for Growth, Darling

In Budget 2010, the Chancellor had his eye on the forthcoming election and delivered a more political speech than in previous years. Let PwC help you consider the impact on you and your business.

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## Comments: A Budget for family business?

The Chancellor started by saying that this was 'a Budget to secure the recovery' and that 'at its heart is a growth package to help small business and promote innovation'. This was an important and obvious linkage underpinning the huge contribution entrepreneurial business can make to economic growth.

A lot was said about support for small and medium business especially around the announcement of a £2.5bn one-off growth package. However, we need to remember that the most important things for UK Enterprise are stability and certainty in the tax system and maintaining the competitiveness of the UK in attracting entrepreneurial investment from an increasingly global world. What businesses didn't want is "big-bang" announcements and significant change – and on the whole they got their wish.

The most significant statements covered things the Chancellor had made a conscious decision not to do, fuelled by a desire to encourage entrepreneurial investment. He didn't take away capital investment allowances to fund a lower corporation tax rate and in fact he doubled the £50,000 first year investment allowance to £100,000.

In addition, he didn't increase the rate of Capital Gains Tax and instead doubled the gains level for Entrepreneurs Relief (lower 10% tax rate on gains) from £1m to £2m. Keeping Capital Gains Tax on investments in trading businesses low is crucial as a "payback" incentive for the commitment made, and personal risk taken, by entrepreneurs.

Not in the speech, but in the press releases, was a welcome announcement of further consultation on Enterprise Investment Schemes (EIS) and Venture Capital Trusts (VCT) to look at whether the current size criteria for qualifying companies are too low.

In terms of better access to finance, the Chancellor announced that RBS and Lloyds will lend £94bn in new business loans, 50% of which is to go to small and medium business. This will be especially welcome to those enterprises that have experienced difficulties in getting funding in the past year. In addition, the setting up of an agency to enable businesses to challenge declined credit requests will help further.

However, businesses do still need to focus on the basics - being credit-worthy - as there will continue to be high competition for available funding.

The creation of a £35m University enterprise capital fund to support innovation to kick-start the commercialisation of UK research and innovation must be welcome, but it will only be successful in the long-term if later-stage growth capital is also available.

The Chancellor said that there would be rationalisation of the various announced initiatives on stimulating private sector investment into growth businesses – under the umbrella of "UK Finance for Growth." If this brings clarity on the initiatives, it will be genuinely welcome – but it shouldn't be allowed to damage or slow down existing funding channels.

Government itself also looks to be working towards supporting the sector with the announcement of a 15% increase in central Government contracts awarded to small and medium businesses, which represents some £15bn of work. In addition, the Chancellor pledged that all local government organisations will commit to ensuring 80% of their invoices are paid within five days.

## Summary

Although the Chancellor's speech lacked headline grabbing tax changes, the Treasury still managed to produce 71 specific Budget Notes detailing the changes set out across 161 pages and we summarise some of these changes [here](#).

Despite the absence of further fundamental tax changes, we must not forget the deferred changes which will come into effect as of April 2010 (and beyond), which have been introduced by previous Budgets.

The 2010 Budget contained a large number of tax and spending initiatives, but most have only a small fiscal impact and, in combination, they were broadly fiscally neutral. Overall, the initiatives amounted to £1.4 billion (0.1% of GDP) of net fiscal loosening in 2010/11, followed by net fiscal tightening of £0.2 billion in 2011/12 and £0.7 billion in 2012/13. Changes of this magnitude will have almost no impact on the path of the government deficit or the growth rate of the economy as a whole.

Overall, we continue to expect that significant further fiscal tightening through additional tax rises and/or spending cuts will be needed after the general election, irrespective of its outcome.

## Personal taxes

### Income tax

There were no new announcements in relation to income tax and personal allowances. This produces an effective income tax rate of 60% on income between £100,000 and £112,950, comfortably the highest in the G20.

### Capital gains tax and entrepreneurs' relief

The Chancellor confirmed that the capital gains tax rate would not be increased as part of his measures and this would remain at the flat rate of 18%. The lifetime limit for entrepreneurs' relief will increase to £2m for disposals on or after 6 April 2010 meaning an effective CGT rate of only 10% on the first £2m of qualifying gains – providing an additional tax saving of £80,000.

### Pensions

The tapered restriction to basic rate from 6 April 2011 of tax relief on higher-income individuals' pension contributions (with employer contributions as taxable benefits) is to proceed as outlined in PBR. After consultation, decisions have been made on various details – for example the use of age-related factors, varying by both age and normal pension age, to value deemed contributions to defined benefit schemes.

Legislation in Finance Bill 2010 will target those with total income of £150,000 or over, including the value of any employer contributions, but excluding employees who save in a registered pension scheme and have total annual income below £130,000 excluding employer contributions.

### Corporation tax

The extended £50,000 loss carry-back of up to three years ends for accounting periods ending before 23 November 2010.

### Annual investment allowance (AIA)

From 1 April 2010, the AIA for capital expenditure on items qualifying for capital allowances will be doubled to £100,000. The relief will be increased for income tax purposes from 6 April 2010. However, a new anti-avoidance rule will be introduced that will disallow property losses to the extent that they are due to AIA, if the losses arise as a result of relevant tax avoidance arrangements. It is worth noting that the current 40% first year allowance rules have not been extended.

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#### Indirect taxes

##### Stamp taxes

###### **Residential property**

The Budget introduced a relief from stamp duty land tax (SDLT) for purchases of residential property of up to £250,000 by first-time buyers from 25 March 2010 for two years. To fund this additional relief a higher SDLT rate of 5% will be introduced from 6 April 2011 for purchases of residential property exceeding £1 million.

###### **SDLT and partnerships**

Rules are being introduced in relation to SDLT applying to transactions between members of a partnership. Existing anti-avoidance rules currently apply SDLT in respect of 'notional land transactions' and these rules are being extended to prevent the special partnership rules from applying to such transactions.

##### VAT

Although the rate of VAT remains at 17.5%, a number of changes were announced.

All businesses with turnover in excess of £100,000 and all newly-registered businesses, whatever their turnover, will be required to file VAT returns online and pay electronically (obligatory e-filing extended for all taxpayers in 2012).

#### Other measures introduced

##### Anti-avoidance measures

A number of anti-avoidance measures have been introduced as part of the Budget tackling various forms of planning and we flag the material areas below:

###### **Loans to participators**

Legislation effective from 24 March 2010 will deny a corporation tax deduction for the amount of the release, or write-off, of a loan made by a close company to a relevant person (participator). The release or write-off will continue to be treated as a distribution in the hands of a relevant person.

###### **NICs**

From 6 April 2011, employer's NIC will increase by 1.0% to 13.8% and, for employees, NIC will increase by 1.0% bringing the rate for those above the upper earnings limit to 2.0%.

###### **Inheritance tax (IHT)**

Nil rate band will, contrary to previous announcements, remain at £325,000, but Business and Agricultural Property Relief continues unchanged.

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