

2011 UK Budget Newsletter

Chancellor of the Exchequer Mr. George Osborne presented his budget on the 23rd of March 2011.

Summary

- Consultation on plans to merge income tax and National Insurance.
- Tax-free personal allowance increased by £630 to £8,105 from April 2012.
- Corporation tax to be cut by two per cent in April 2011 – more than the one per cent previously announced.
- Forty three tax reliefs to be scrapped as part of the simplification of the tax code, along with £350 million of business regulation.
- Business rate relief holiday for small firms extended for another year.
- Bank levy to be adjusted so that banks do not pay less tax.
- Ten per cent discount on Inheritance Tax for those who leave 10 per cent of their estate to charity.
- Direct tax rates to be indexed to Consumer Price Index (CPI) from 2012.
- Funding for 40,000 new apprenticeships for unemployed young people and 100,000 new work experience placements.
- Twenty one “enterprise zones” to be launched, backed by tax incentives.
- No new regulation on firms with fewer than 10 staff for three years.
- Tax loopholes to be closed to raise £1 billion this year.
- Fuel duty cut by 1p per litre from 6pm on 23 March. Planned 4p per litre rise due in April delayed until 2012. Annual fuel duty escalator scrapped until 2015. No reduction in VAT on fuel. Tobacco tax up by two per cent from 6pm on 23 March but no increase in alcohol duty.
- Council tax to be frozen or reduced this year in every English local authority.

Setting the scene

Mr. Osborne laid out his cards on the table from the start, telling Parliament that “the size of the task of repairing Britain’s finances is unchanged”. However, while this year’s Budget was not about raising taxes, neither was it about “giveaways”, he said. Instead, the 2011 Budget was about “sound money” and encouraging enterprise, export and manufacturing, while also easing the burden for families who were struggling to cope financially.

Britain had lost ground in the world’s economy, he said, and needed to catch up. The Chancellor said Britain needed to become an attractive place to do business – both for overseas companies and for new start-ups.

Mr. Osborne also revealed that the growth forecast for Britain in 2011 had been downgraded from 2.1 per cent to 1.7 per cent. The following years had also been downgraded to 2.5 per cent for 2012,

2.9 per cent for both 2013 and 2014, and 2.8 per cent for 2015. This was due to a 0.6 per cent contraction in the last three months of 2010.

Inflation would remain at between four and five per cent this year, but was expected to fall to two per cent by 2013.

The borrowing forecast was also not as high as previously predicted by the Office for Budget Responsibility. Figures now show this to be £146 billion for this year, rather than the original £148.5 billion. This would go down to £29 billion by 2015/16, Mr. Osborne said.

Duty

Having been under pressure not to increase fuel duty, which was due to go up by 4p a litre from April this year, the Chancellor instead cut it by 1p per litre as of 6pm on 23 March. The annual fuel escalator was also scrapped until 2015. The cuts will be paid for by a £2 billion tax, known as the Fair Fuel Stabiliser, on North Sea oil producers. This is a supplementary charge which will increase the tax paid on oil and gas production from 20 per cent to 32 per cent. There will be no reduction in VAT on fuel.

There was no further increase in alcohol and air duty, but tobacco tax was increased by two per cent from 6pm on 23 March.

Income tax

The tax-free personal allowance on income tax will be increased by a further £630 to £8,105 from April 2012. This is in addition to the £1,000 increase announced during last year's Emergency Budget, which comes into effect from April this year. Mr Osborne said the 2012 increase would save 25 million people around £45 a year. The measure will affect anyone earning less than £115,000 a year.

Direct tax rates will be indexed to the Consumer Price Index (CPI) from 2012. Income tax relief on the Enterprise Investment Scheme will increase from 20 per cent to 30 per cent from April 2011.

There were no personal tax increases. The 50 per cent top tax rate will remain, but this will be reviewed to see how much it raises.

Mr. Osborne also revealed that a consultation is to take place into a long-term plan to merge income tax and National Insurance, saying that having two separate taxes imposed unnecessary costs on many businesses.

Business and enterprise

Mr. Osborne announced that corporation tax will be cut by two per cent in April 2011. This is a bigger reduction than the one per cent originally planned.

Tax simplification also played a leading role in the Budget, with 43 tax reliefs being scrapped by the Chancellor following recommendations from the Office for Tax Simplification.

There was also a boost for small firms, with a moratorium on new regulation for firms with fewer than 10 staff for three years. The business rate relief holiday for small firms will also be extended by another year until October 2012.

Entrepreneurs' relief will be doubled from £5 million to £10 million from April, while capital allowances will be doubled from four years to eight years in a bid to encourage more investment in new equipment.

Research and Development tax credits for small businesses will be raised to 200 per cent this year.

Twenty one new "enterprise zones" will be launched, backed by tax incentives, while new rules will require planners to prioritise jobs and growth when making planning decisions.

In terms of jobs and skills, there will be funding for a further 12 university technical colleges, as well as 40,000 new apprenticeships for unemployed young people and 100,000 work experience placements.

Science facilities will also receive a £100 million funding boost.

Housing and mortgages

Mr. Osborne pledged £250 million to help 10,000 first-time homebuyers purchase newly built flats and houses in England. The scheme, which will be funded by profits from the bank levy, will involve the buyer putting up five per cent of the cost while the Government and home builder would both put up 10 per cent. The move is also aimed at boosting the construction industry.

A scheme to help out-of-work homeowners with mortgage arrears, introduced by Labour, will also be extended.

Council tax will be frozen or reduced this year in every English local authority, Mr Osborne announced.

Benefits and working families

Mr. Osborne said that help would be available for families “who do pay their taxes but struggle with the daily costs of living”. This will come through the council tax freeze, more child tax credit for lower income families and a “pay lift” of £250 for public servants on incomes of less than £21,000.

Pensions and retirement

Mr. Osborne branded Britain’s pensions system “unbelievably complex”. He said the long-term aim was for a £140 per week flat-rate state pension. This would not apply to current pensioners.

Tax avoidance

Three forms of Stamp Duty Land Tax loopholes will be among those closed by the Treasury in a move expected to raise £1 billion each year. Capital allowances would also be “tightened” to “shut down open abuses”, said the Chancellor.

Charities

Gift Aid will be “dramatically simplified” with the introduction of an online filing system in 2013.

Mr. Osborne said changes would be made so that Gift Aid could be claimed on donations up to £5,000 without the need to fill out forms or envelopes. This would see 100,000 charities benefit from £240 million, he said.

The environment

The Chancellor pledged an extra £2 billion of funding for a “Green Investment Bank” offering incentives for investment in green technology, to be launched in 2012. A carbon price floor will be introduced for the power sector in the UK.

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