

Budget 2011 – Headlines

23 March 2011



In a pro-growth 2011 Budget the Chancellor reaffirmed his commitment to tackling the public deficit and highlighted measures to encourage economic growth and simplify the tax system.

“The UK economy is in a tricky place. The Chancellor’s determination to reduce the budget deficit is broadly going to plan, but all manner of risks have recently raised their ugly heads. Inflation is running above target, the economic recovery stalled in the last quarter and political turmoil grips the Middle East” says Stephen Gifford.

“The 2012 and 2013 forecasts are rather optimistic given the many economic and political risks revolving around the global economy. The credibility of the Office for Budget Responsibility will be riding on whether these forecasts can be achieved.”

“This was a largely neutral budget. The Chancellor announced some targeted tax measures, such as changes to personal allowances and to fuel duty, but these are small giveaways compared to the rises in VAT and national insurance already in the pipeline. Tax revenues as a proportion of GDP are predicted to increase from 36.5% in 2009/10 to 38.5% in 2015/16.”

Merger of income tax and NIC should not be a smoke screen for tax rises

George Osborne announced a consultation on plans to merge the operation of income tax and National Insurance Contributions (NICs). Grant Thornton cautiously welcomes these plans which may reduce burdens on business, while warning that rushed implementation could lead to HM Revenue & Customs (HMRC) failures and hidden tax rises.

“The 2012 and 2013 forecasts are rather optimistic given the many economic and political risks revolving around the global economy.”

Stephen Gifford
Chief Economist,
Grant Thornton

“We cautiously welcome Government plans to merge the operation of income tax and National Insurance Contributions. This could really make life easier for both employer and employee. We would, however, urge the Government not to rush anything through. It is critical that both businesses and HMRC are ready for such a fundamental change and that fully working systems to administer it are in place,” says Ellie Gamble, Senior Manager in Employer Solutions.

Chancellor awards high net worth individuals with temporary 50p tax rate and attractive capital gains reductions

“There were some welcome surprises for high net worth individuals (HNWI) which was somewhat balanced against the spectre of more complexity and onerous rules to tackle tax evasion, including the real prospect of a general anti-avoidance provision,” says Head of London Private Client, Craig Kemsley.

The Chancellor seemed adamant that the 50p tax rate would do lasting damage to the UK economy if it were to remain permanent. As such, he has directed HMRC to uncover the truth as to whether or not the tax rate adds to, or diminishes, the Treasury coffers.

“There were some welcome surprises for high net worth individuals but the real prospect of a general anti-avoidance provision.”

Craig Kemsley
Head of London Private Client
Grant Thornton

“However, there was no commitment as to when he would report back or indeed how the rate would be reduced and over what time frame. So wealthy Britons should not quite sit back yet but good news may not be far off,” continues Kemsley.

Capital gains tax (CGT), entrepreneurs’ relief and inheritance tax

Good news for investors as from 6 April 2011, the lifetime limit on capital gains which qualify for entrepreneurs’ relief will be doubled from £5 million to £10 million. This translates to a benefit worth a potential £1.8 million for each taxpayer who qualifies for the relief (up from £900,000) as such gains are taxed at 10% when compared with the 28% main rate of CGT.

Regarding Inheritance tax (IHT), the Government will continue with its plans to freeze the nil rate at £325,000 until 2015, but there was a surprise announcement to reduce the IHT rate where certain assets are bequeathed to charity.

Coalition government sends jitters among wealthy UK non domicile community

Against expectations, the Chancellor set out a framework for the taxation of non-domiciles. However this may make certain high net worth individuals re-consider long term settlement in the UK.

The Government has now committed to a consultation that is likely to include carrot and stick proposals. The carrot will consist of incentives to encourage inward investment from those who will bring business to the UK and removing the tax charge when non-domiciled individuals remit foreign income or capital gains to the UK for the purpose of commercial investment in UK businesses.

The stick will be a more level playing field for those who have been here for many years, with an increase on the existing £30,000 annual charge to £50,000 for those who have been resident in the UK for more than 12 years.

“The Government has listened to representations and is proposing to include an improved finance company partial exemption...”

Paul Smith
Head of International Tax
Grant Thornton

Statutory residence test

The Government has announced that it will consult in June on the introduction of a statutory definition of residence which we expect to be introduced in the lifetime of this parliament.

“The Chancellor definitely pulled the rabbit out of the hat with this move. It is likely that due to recent high profile cases including Gaines-Cooper, the Treasury and HMRC had to push forward their plans on introducing this residence test. This is good news as it could provide certainty to the international mobile community who currently can not always be sure of their UK tax liabilities,” concludes Francesca Lagerberg, Head of Tax.

Osborne gives green light to lure back multinational companies to the UK

Today’s Government announcement that it would reduce the rate of corporation tax by 1% more than previously announced, from the current 28% to 26% from 1 April 2011, reducing by 1% per annum thereafter until it reaches 23%, is an unexpected but welcome move to make the UK a more attractive place for multinationals to locate.

This is good news for most companies which will see a saving of £425 million. It will be funded by an increase in the bank levy which is estimated to raise £630 million in 2011/12.

Paul Smith, Head of International Tax, comments that, “The Government has listened to representations and is proposing to include an improved finance company partial exemption, resulting in an effective UK tax rate of one quarter of the main rate on profits derived from overseas group financing arrangements (equivalent to 5.75% by 2014). This will remove the incentive for groups to move out of the UK in order to obtain similar finance company benefits in the Benelux countries, Switzerland etc.”

Purge on tax avoidance in Chancellor’s budget

The Chancellor has laid out plans for a further clamp down on tax avoidance as the Government seeks ways to raise £4 billion of extra tax revenue in order to plug the £42 billion tax gap.

The new measures include the expected proposals to counter ‘disguised remuneration’

(where tax is avoided by using employment benefit trusts, loan arrangements and pension schemes), and techniques to avoid both Stamp Duty Land Tax (SDLT) on high value property transactions and Capital Gains Tax by large companies.

“There is also to be action to remove the cash flow advantage to taxpayers who use tax avoidance arrangements. It is intended that they should be fully aware that in using a scheme of tax avoidance they leave themselves open to surcharges on the late payment of any tax which may prove ultimately to be due,” says Paul Roberts, Head of Tax Investigations.

Taxman takes common sense approach to SDLT avoidance

Today’s Budget announced three changes designed to counter stamp duty land tax (SDLT) planning arrangements on property acquisitions. The legislation making such changes will be included in the 2011 Finance Bill but, subject to transitional arrangements, will generally be effective from 24 March 2011.

Tony Hennessy, Tax Director says, “The new anti-avoidance measures introduced today seem to reduce the number of SDLT

planning arrangements available to the sophisticated property buyer, by reducing tax avoidance opportunities in this area. However, they do not appear to have eliminated the scope for SDLT planning entirely.”

“There are still planning ideas available which may be appropriate and, in any event, suitable structuring of an acquisition can often reduce the charge to SDLT without using a ‘scheme’. As in all such matters, detailed specialist advice needs to be taken. This seems a common sense approach in an area that has frequently been subject to knee-jerk reaction measures.”

Paul Roberts, Head of Tax Investigations, adds, “The budgetary announcements on countering tax avoidance include proposals to tackle the avoidance of SDLT. This shows how seriously the Government is seeking to tackle high level tax avoidance.”

Online retail sales to be hit by reduction of VAT relief

Today’s announcement that the limit for Low Value Consignment Relief will be reduced from £18 to £15 from November is a potential boost for high street retailers and a blow for online retailers operating offshore.

However, Head of VAT, Lorraine Parkin points out that the Government will need to lobby the European Commission to achieve a consistent approach across the EU for the move to be fully effective.

The measure originally benefitted businesses such as those supplying fresh flowers from the Channel Islands. However the expansion of internet retailing has meant that many other goods now enjoy the benefit.

Enterprise Investment Scheme gets more generous

In today’s Budget announcement, the Chancellor, George Osborne announced major changes to the Enterprise Investment Scheme (EIS) in another measure to improve ‘enterprise Britain’. There will be a consultation on simplifying access to tax reliefs for investors in EIS and Grant Thornton welcomes the increase of tax reliefs from 20% to 30% of the amount subscribed for shares (limited to £1 million and subject to state aid approval).

“It is great news for small businesses looking for funding that investors can claim higher tax relief for investments in the Enterprise Investment Scheme. We also hope

to see a reform that simplifies the approval process for the relief which has long been administratively burdensome and opaque to many investors,” says Francesca Lagerberg, Head of Tax.

“These are great incentives for those who are comfortable with the risk involved in this type of investment. Not only did they double the EIS limit for investors to £1 million, but investors will be able to reclaim almost a third of their investment from HMRC. Moreover, if shares in EIS companies are held for at least three years, any gains from their sale will continue to be entirely free from tax.”

Local authority engagement is key to enterprise zone success

The Chancellor has declared there will be 21 Enterprise Zones in today’s Budget, which will be established across some of Britain’s most deprived areas.

Phil Woolley, partner in the firm’s Government and Infrastructure Advisory team says, “The Enterprise Zones (EZ’s) announced in the Budget, offer broadband infrastructure, a discount on business rates and simplified planning applications. This together with the potential for

“It is great news for small businesses looking for funding that investors can claim higher tax relief for investments...”

Francesca Lagerberg

Head of Tax
Grant Thornton

enhanced capital allowances will help to get developments moving. However, the challenge now falls to local authorities and Local Enterprise Partnerships (LEPs) to fully engage and deliver dynamic enabling support to developers.

“If the EZ land is held by a Local Authority and their emphasis is more on operating as a traditional planning authority than a regeneration agency, then acting as land owners, they will negate the benefits of a relaxed planning regime. A key challenge for the local authority will also be managing any displacement issues, which were significant in the EZs of the 80s.”

The impact of the Budget on the construction sector

Kathryn Hiddleston, Head of Construction, comments, “Developers will benefit from positive changes to the planning regime combined with a number of incentives aimed at purchasers. This includes further support for first time buyers; making Real Estate Investment Trusts (REITs) easier to set up and more accessible to investors; and the potential reduction of SDLT for bulk residential acquisitions.

“Other sectors will be encouraged by measures such as subsidies to local councils of £100 million to repair last winter’s potholes; the opportunities afforded by the announcement of new enterprise zones and the investment of £30 billion in transport over the next four years. Bigger businesses will welcome the reduction by 2% of the corporate tax rate.”

The impact of the Budget on the property sector

Clare Hartnell, Global Head of Property for Grant Thornton commented that “It is good news that the Chancellor has taken on board comments from the industry and listened to their concerns. The Budget is a step in the right direction but there is still more needed. Easing the process for planning permissions can only be welcomed and the relaxation of certain elements of the Real Estate Investment Trusts (REIT) regime will be good news, not only for existing REITs, but also for those considering a REIT as a vehicle for their businesses. But there were a couple of surprises. Listed in the reliefs to be removed at some point is the tax break

“The Budget is a step in the right direction but there is still more needed.”

Claire Hartnell
Global Head of Property
Grant Thornton

for cleaning up contaminated land. It is also hoped that the Government reconsider the scope of capital allowances for the new Enterprise Zones.

“Amongst the 43 reliefs the Chancellor announced would be withdrawn, of key concern is the withdrawal of Land Remediation Relief. Land Remediation Relief is a relief from corporation tax which operates by giving 150% tax relief for qualifying expenditure. No date has been confirmed but the relief will not be withdrawn before 2012, perhaps giving companies with contaminated land an incentive to remediate the land in the short term.”

Good day for green energy

During his Budget speech, the Chancellor highlighted the Coalition Government’s commitment to being a world centre for green energy. He confirmed that the green investment bank will start operations in 2012 (a year earlier than previously expected) but will not be able to borrow till 2015-16 and only then if Government debt is falling as a percentage of GDP.

Nathan Goode, Head of Energy, Environment and Sustainability, says, “Confirmation that the Green Investment Bank (GIB) is to be funded with £3 billion (rather than the £1 billion announced earlier) and start operations a year earlier is very encouraging. The power to borrow from 2015-16 also means that in time it will be able to contribute on a bigger scale.

“For the bank to be a success, its purpose needs to be clear. In broad terms, GIB should accelerate the transition to a low carbon economy, particularly in the energy sector by focusing on areas of market failure.”

“Announcing the timing of setting up the bank was not unexpected. I am pleased that the Government has carefully considered timelines and how the bank will run. However, industry is now keen to see more concrete decisions. The location of the bank’s headquarters provides a unique opportunity to secure effective collaboration between industry and finance and accelerate the path to commercialisation.”

Budget provides some boost for the media sector

Liz Brion, Head of Media, comments on how the Chancellor’s Budget may impact the media industry, “Overall, today’s Budget announcement gives a commitment to support the media sector, and some changes that will have an immediate effect.

“As ever though, we need to see the detail of the proposed changes to get a real sense of just how effective they are. The migration of companies out of the UK is an increasingly big problem in the media sector and any steps taken to curb this ‘brain drain’, by making the system simpler and more beneficial is welcome to keep our industry talent in the UK. Reducing some complexity in the tax law is a good signal to send as part of the Government’s plan to make the UK a great place to be for business. The question is whether these changes will be enough for companies with migration plans to stop in their tracks or do a u-turn and come back to the UK.”

Great news for the technology sector as the chancellor takes clear stand on R&D support

Samantha Vanags, Head of R&D, comments on the Chancellor’s announcement this afternoon of support for research and development, “It is great news that the Government recognises the importance of innovation and growth in the UK by taking immediate action on upping the support for R&D.

“R&D provides a key platform for UK business and makes a major contribution to our competitiveness on the global stage. It is vital that this activity is encouraged.

“The Chancellor has introduced four changes that are all moving in the right direction. Following consultation on the effectiveness of the R&D schemes, the Government has taken Dyson’s recommendation and will increase the SME scheme rate of relief on R&D activities to 200% from April 2011. But he has also gone one step further with an increase to

“It is great news that the Government recognises the importance of innovation and growth in the UK... upping support for R&D.”

Samantha Vanags

Head of R&D
Grant Thornton

225% from April 2012, subject to EU State aid approval. This is a fantastic move and really sensible as the future growth of UK plc is likely to come from the knowledge economy.”

Budget provides income boost for charity sector

The Chancellor has announced a reduction in the rate of inheritance tax for those estates leaving 10% or more to charity, from a rate of 40% to 36%. In addition, the Finance Bill 2011 will increase the Gift Aid benefit limit from £500 to £2,500. The Gift Aid system will also be modernised, so that charities will in future be able to make Gift Aid claims online. Measures will be introduced that will enable charities to claim Gift Aid in relation to street collections and other small donations where there is no formal Gift Aid declaration in place.

Carol Rudge, Head of Not for Profit, says: “The proposed increase in the Gift Aid benefit limit from £500 to £2,500 is particularly helpful, and has the potential to bring more donations within the Gift Aid regime.

“It is widely recognised that the Gift Aid system is in need of reform. We welcome the proposals to bring the scheme into the 21st century by computerising the charity registration and Gift Aid claim process, although this will not be in place for at least another year.”

“It is widely recognised that the Gift Aid system is in need of reform. We welcome the proposals to bring the scheme into the 21st century by computerising the charity registration and Gift Aid claim process, although this will not be in place for at least another year.”

Carol Rudge
Head of Not for Profit
Grant Thornton

For further information please contact us on:

T +44 (0)20 7383 5100
E clientsfirst@uk.gt.com