

# Budget 2010 – Headlines

24 March 2010

“This pre-election Budget was more like a history lesson in how the Government saved the UK economy from the financial crisis, rather than a concrete plan to reduce the Budget deficit.”

Stephen Gifford,  
Chief Economist, Grant Thornton

“This was not a big bang Budget but more a Budget of austerity and caution and an election manifesto speech.”

Francesca Lagerberg,  
Head of Tax, Grant Thornton

## Curtain raiser for election

The 2010 Budget raised the curtain for the election campaign, outlining better than expected tax receipts and lower borrowing forecasts. But slow economic growth remains and there is some strong and bitter medicine for the public sector on the way.

## The state of public borrowing

“With higher tax receipts from the emerging recovery, lower than forecast unemployment and consumer spending holding up well, the Budget was better than expected, but only slightly. The level of borrowing is now forecast to be £167 billion next year, instead of the £178 billion forecast in the 2009 Pre-Budget Report.

“The reduction in borrowing provides some welcome relief from all the turmoil of the past two years”, says Gifford. “But the Chancellor should not over play his hand. The economy and the public finances remain in a perilous state with slow growth of 1-1.5% still expected for 2010, net debt not peaking until 2014/15 at 75% and the real risk of a double-dip recession still in play.”

“Some of the better than expected tax revenues may have come from pay rises and bonuses being brought forward for high earners to avoid the introduction of the 50p rate in April 2010. We will have to wait and see whether tax receipts continue to flourish”.

## A challenge to the public sector

“Against the backdrop of high borrowing and rising net debt, the Chancellor yet again outlined the plans to halve the deficit over the next four years. Around £20 billion of savings were outlined with £11 billion in savings from efficiency programmes, £5 billion of cuts in projects and £4 billion from public sector pay restraint.”

“This Budget lacked detail on timings; which governments departments will feel the pinch the most, and where the cuts would fall first. We will have to wait until after the election for that. In the meantime, let’s hope the ratings agencies for government debt are not too disappointed”.

## HMRC continues clamp down on undeclared offshore income, capital gains and tax avoidance schemes

Today’s announcement in the Chancellor’s speech that further anti-avoidance and evasion measures will be introduced has shown a red card to taxpayers wishing to use artificial arrangements to shelter their income, and to anyone concealing assets or monies offshore.



The changes on undeclared offshore assets include raising penalties of up to 200% where there is no agreement from the country holding the bank account or assets to automatically disclose them to HMRC.

“These eye watering fines for taxpayers who hold bank accounts offshore which have not been declared to the UK taxman could ultimately lead to certain individuals paying the Revenue more than they had in the undeclared account in the first place,” says Heather Taylor, Tax investigations specialist at Grant Thornton.

“The Government has also been stepping up its campaign on targeting wealthy individuals and today’s move to change the definition of what is a tax avoidance scheme has widened the posts to leave HM Revenue & Customs with an open goal to aim at,” continues Taylor.

However, the announcement today that Belize, Dominica and Grenada will soon sign Tax Information Exchange Agreements which will limit penalty exposure on any UK taxes due on undeclared offshore matters to 100%, means that anyone with an undeclared account in these countries need not fear the new 200% penalties.

#### **Further anti-avoidance measures on the way**

“The government has also moved decisively to ensure that income is now not taxed as capital”, continues Taylor.

The Disclosure of Tax Schemes arrangements (where promoters of tax schemes must notify HMRC when a new planning arrangement is developed) will be extended to cover ‘income to capital’ arrangements from autumn 2010.

There is also a widening of the terms of what constitutes a ‘tax avoidance scheme’ and a requirement for earlier notification of arrangements to HMRC. The taxman

can also request a list of client names and addresses from a promoter and will specifically target all arrangements seeking to circumvent the new 50% higher rate of income tax.

#### **HMRC powers go further to include opening of post and criminal offences for late payers**

This Budget has seen HMRC powers go into overdrive with hard pressed employers, who have a past history of late payment or payment difficulties, being required to lodge a deposit of HMRC’s choosing with the taxman.

It will now become a criminal offence to fail to lodge such a deposit if required to do so by HMRC, with a potential fine of up to £5,000 and a criminal conviction.

“These extension of powers are truly astounding. There is also a further widening of HMRC powers which include a right to open post without notification to the recipient. Whilst this initially applies to suspected ‘Tobacco Smuggling’ this could be extended in what could become a big brother state.

“All eyes will be on what HMRC will be imposing next as their powers relentlessly increase,” concludes Taylor.

#### **Budget provides entrepreneurs with £80,000 giveaway**

For entrepreneurs, Chancellor Alistair Darling provided a potential £80,000 giveaway in today’s Budget.

“Rather than raising Capital Gains Tax rates (CGT) as expected by many, the Chancellor announced an increase in Entrepreneurs’ relief from £1 million to £2 million. This means that entrepreneurs selling their businesses and qualifying for the relief should only pay 10% CGT on their first £2 million of gains, saving them up to £160,000 of tax as compared to £80,000 previously,” commented Paul Cooper, Tax Partner at Grant Thornton.

“There is a catch for entrepreneurs who have already claimed for relief on gains of over £1 million in the current tax year. Under the proposed change they cannot claim additional relief to the new £2 million limit in this current tax year, but need to wait until they realise other gains in the future.”

“The idea of introducing a Small Business Credit Adjudicator to review banks lending decisions is novel, but you have to question whether it will be able to operate quickly enough for companies who have been refused a loan and have their back to the wall,” said Grant Thornton’s Paul Cooper.

“It is great that the government is setting up an equity growth capital fund, although there is an element of “back to the future” as 3i used to provide this kind of capital widely.”

“The extension of the time to pay arrangements, which have already helped over 200,000 businesses, is good news and to be welcomed. Smaller businesses will particularly benefit from the announced increases to the level of investment allowances and business rate relief. But, we would have preferred a reduction in the headline rate of corporation tax for small companies,” Cooper concluded.

#### **Robin Hood style Stamp Duty change will help first time buyers but change will create uncertainties**

The increase in the threshold of Stamp Duty Land Tax (SDLT) for first time buyers wishing to purchase residential property up to the value of £250,000, is a welcome vote-winner, although clear guidelines defining first-time buyers are needed.

The SDLT relief for those purchasing property to the value of £250,000 may help stimulate the market and aid the new build property market which has experienced very difficult times since 2007. However, this is a ‘Robin-Hood’

style move that will see those purchasing homes worth over £1million suffer an increase to 5% on rates from April 2011.

The SDLT 'holiday' will be introduced tomorrow and the Chancellor believes nine out of ten first time buyers will pay no Stamp Duty at all.

Karen Campbell, Head of Stamp Taxes at Grant Thornton, is pleased that the Government is making an effort to revive the residential market by using the tax system but says a clear definition of a first-time buyer must be established to avoid exploitation of the relief.

Campbell says: "This is a 'better late than never' move. However I suspect that this change will immediately fall into difficulty as there is little clarity in how to establish if a person is a first time buyer which could potentially encourage abuse. For example, there is currently scope for a couple that co-habit to assign the ownership of a new house to the partner who is a first time buyer, consequently avoiding SDLT.

"Failure to identify legitimate first time buyers will throw off kilter the Government's careful plan to create a tax-neutral, but vote-winning measure and place a further burden on public finances. A similar measure in the US led to mass exploitation of the relief and substantial costs to Government.

"This pre-election sweetener will be tainted for those who have to deal with the red tape and consequently safeguards will be needed to prevent abuse. As it has not been clarified who will be monitoring qualification, it is likely that it will fall to solicitors and this will be a thankless task. The relief will not help most first time buyers as the deposits required to secure a property are still high due to reduced bank lending.

"In addition, delaying the implementation of the 5% rate provides impetus to those planning to purchase a house over the value of £1 million to act now in order to save a potential £10,000.

"Also announced were plans to introduce targeted anti-avoidance measures designed to clampdown on Stamp Duty schemes exploiting loop holes in the rules for partnerships. This will affect both the residential and commercial sector."

#### Further Property announcements

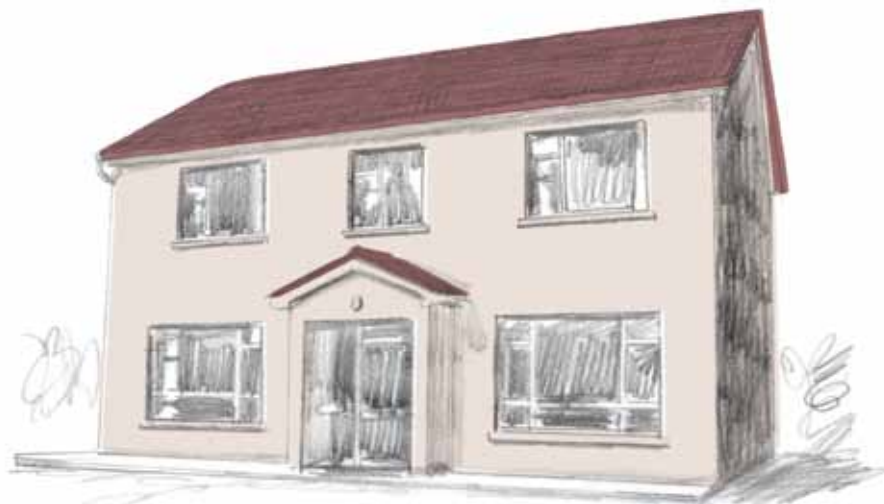
"In addition, the agreement with Lloyds Banking Group and The Royal Bank of Scotland to lend £105 billion to homebuyers and businesses over the next 12 months may help reduce the shortage of credit available. Of this amount, £41 billion will be targeted at small businesses and some of this may find its way into the property sector which has suffered a significant shortfall in financing resulting from the tightening of bank lending to the sector. Unless the lending makes its way into the hands of the property sector, more businesses will fail and the sector will continue to suffer," says Marion Cane, Property Director at Grant Thornton.

"Another welcome change is the decision to allow Real Estate Investment Trusts (REITs) to issue stock dividends

in lieu of the cash dividends currently required to meet the conditions of the regime. This move will be welcomed by the REITs who have been lobbying for this change for some time. It is not likely that this measure will come in until next year which is a disappointment but, when it does, it will help REITs retain their cash for investment in growing the business at a time when bank lending is still tight."

"It is good news that there has been no change to the normal Capital Gains Tax rate which remains at 18%. The increase in the lifetime limit to £2 million on accumulated qualifying gains qualifying for the reduced 10% rate will also be welcomed by entrepreneurial property traders.

"There were no changes to the rate of SDLT on commercial property purchases but the Budget did contain measures to clampdown on SDLT saving schemes in the commercial property sector. One modest boost to the commercial property businesses that are paying tax in these difficult times is the increase in the annual investment allowance for qualifying expenditure on plant and machinery. The allowance is extended from £50,000 to £100,000 for expenditure incurred on or after 1 April 2010."



### Government takes further responsibility for helping the unemployed get back to work but it's not new funding

The Chancellor was obliged in this pre-election Budget to further outline the Government's responsibility to help the unemployed, particularly the young - often referred to as 'NEETs' (people under 25 years old not in employment, education or training) - and the measures announced today will go some way to provide the necessary measures but did not go far enough.

Ellie Gamble, Senior Tax Manager at Grant Thornton says: "Whilst any measure to tackle the problem of unemployment amongst the under 25s are to be welcomed, the money to pay for the extension of the Young Person's Guarantee of work, work experience or training for under 25s who have been unemployed for more than six months to March 2012 is only an underspend of the existing budget allocation. It's not new funding."

"A closer inspection to ensure that the scheme is properly targeted and fully fit for purpose is warranted if this 21st century phenomenon is to be solved, rather than left to solve itself," concludes Gamble.

### Grant Thornton sceptical about green investment fund

Alistair Darling today announced plans to create a new state fund backed by £2bn of public and private money to help finance companies planning to build green energy projects and high-speed rail links. But the plans risk further complicating an already murky investment landscape for infrastructure finance in the UK and the impact in terms of available funding is likely to be limited says Grant Thornton.

Nathan Goode, Energy Environment and Sustainability Partner at Grant Thornton says: "This Government still seems to think that pretending to throw money at a problem is the best way of fixing it. Instead of working on creating clearer conditions for effective infrastructure investment, another theoretical pot of money has been lobbed into the deepening quagmire of funding initiatives and support mechanisms in the UK.

"The numbers look great but as Scotland knows, £2bn barely buys you a bridge. The term 'Green Bank' has interesting echoes of the Conservatives' recent document 'Rebuilding Security'. The difference is that the Conservatives

propose a Green Investment Bank to amalgamate the various public funding sources and to act as an intermediary whereas this looks like another standalone initiative alongside a host of others.

"We need much more clarity about the plans for a Green Bank and where the private sector money is coming from before we can take a view on the likely impact. When will money from this source find its way to where it's supposed to go given that it is predicated not only on Government asset sales but also matched funding from the private sector?"

"Without greater detail the market is bound to be sceptical about the Green Bank's role and its ability to add real value" says Goode.

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