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The Budget means business
Budget 2012

Budget 2012
Summary document

March 2012

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The Chancellor's focus

When the Chancellor sat down after delivering Budget 2012 the over-riding theme was that of a Budget aimed at helping UK workers. But what else did his speech focus on? Our word cloud shows you the main themes in this year's speech.

Introduction

Overall this Budget has some good headline measures that will support business and growth. But there's definitely unfinished business on the detail of the tax system.

Kevin Nicholson
Head of Tax, PwC

In the build up to Budget 2012, the Chancellor said this would be a 'Budget for workers'. This was demonstrated by the increase of the personal allowance to £9,205 and the reduction in the top rate of tax to 45p.

The Chancellor was clear that there would be no giveaways in the Budget so there were some areas designed to raise revenues, most notably the changes made to stamp duty land tax, the 25% cap on income tax reliefs and an increased focus on anti-avoidance.

Making the UK more attractive to business

Corporate tax reform has been central to the Chancellor's goal of making the UK the most attractive place in the G20 to do business. The move to lower the corporation tax (CT) down a further 1% to 22% by 2014 could have considerable benefits for UK plc. This, coupled with the reform of the controlled foreign companies (CFC) regime, will do much to change perceptions and improve confidence. Our *Paying Taxes* report, released in October 2011, shows that the UK is currently ranked 18th amongst the 183 countries covered. This latest reduction in the CT rate (to 24% from April 2012) is a further step in the right direction.

The reduction in the headline 50% personal tax rate to 45% is also helpful for multinationals looking at the UK as a location for increased investment – but this wasn't a giveaway for higher earners with the Chancellor's new form of 'alternative minimum tax' introducing a new principle that reliefs will be restricted to 25% of income (or £50,000 if higher).

Business will want this to be a signal that the headline rate is on its way down and that the Chancellor will continue to focus on looking at the comparison with other G20 countries, given that an effective 47% rate with uncapped National Insurance contributions (NIC) is still relatively high.

Encouraging innovation

The UK's reputation for technological and industrial innovation has also been at the forefront of Government thinking. The efforts made to improve the effectiveness of the research and development (R&D) tax credit have been central to this, as well as the new tax-advantaged regime for patents. By offering better incentives to companies that invest in R&D, British industry should find itself in a much more competitive position in the global marketplace. And global companies looking to invest in R&D facilities overseas will find the UK a much more attractive place to set up their operations.

A focus on fairness

One of the Chancellor's aims was that all taxpayers pay the right amount of tax.

The introduction of a general anti-abuse rule (GAAR) was recommended by Graham Aaronson QC in his initial report back in 2011 and has been confirmed today. There will be further consultation on the detail before a GAAR comes into force, which is crucial in terms of limiting uncertainty for normal business transactions.

The measures around stamp duty land tax that were announced were equally bold – their aim being to stop people buying properties through a company to avoid paying the full duty. The introduction of a 7% rate for all purchases of properties valued at over £2m is another measure aimed at increasing tax revenues.

The Chancellor made encouraging noises about reform of the tax system but the Budget itself had a more short-term focus. To simplify and streamline the UK tax system is not an easy challenge and ongoing effort will be needed.

If you would like to discuss how any of the changes announced will affect you, your company's tax strategy or your business more widely then please get in touch with me or your usual PwC contact.

What it means for large corporations, SMEs and individuals

We know the Budget affects people in many different ways. With this in mind, we've broken down the measures from Budget 2012 to show how they will affect large organisations, small to medium-size enterprises (SMEs) and individuals.

Barry Murphy

Tax Partner

Impact on large corporations

Budget 2012 brought good news from a corporate perspective. The faster and deeper corporate tax rate cut will be welcome to many. As will the commitment to the R&D incentive regime, the Patent Box regime and further benefit for the games industry and parts of the TV sector. The changes to the top rate of income tax should also help businesses trying to attract talent to the UK.

In previous announcements, the Chancellor probably upset the banking and the North Sea sectors. Today we saw another bank levy rise, probably an inevitable consequence of the deleveraging process. But for the North Sea there was better news in terms of certainty on decommissioning costs and a number of other areas targeted at investment.

While there was certainly an emphasis on the Britain open for business agenda, the announcement of a general anti-abuse rule (GAAR) maybe goes in the other direction. There will be about a year's consultation before the rule comes in. For any corporate that means setting a clear tax strategy, not only because of the GAAR but also the importance of understanding reputational impact. And we believe that goes beyond the tax function to the boardroom, to investors, right down to customers.

Mary Monfries

Tax Partner

Impact on SMEs

Privately-owned businesses will have welcomed the Chancellor's opening statement that this is a Budget that rewards work and backs business. The obvious question is will they feel he delivered that?

There were a number of positives.

- A reduction in corporation tax rate to 24% from April 2012 (originally expected 25%) and further reduction to 23% then 22% in subsequent two years.
- A reduction in higher income tax rate from 50% to 45% from April 2013 – the most concrete signal yet that the 50% rate is indeed a temporary necessity.
- For those who have spent their working lives building their business and are now looking to save for retirement, no further tinkering today with pensions reliefs.
- A particular win for those companies who can use the enterprise management incentive (EMI) – an increase in the limit per individual to £250,000 (subject to EU state aid approval) and a proposed extension of entrepreneurs' relief to shares acquired through EMI.

For university research led start-ups, the proposed consultation on extending EMI to university academics will be welcomed and very small businesses (less than £77,000 turnover) will be eager to see what comes out of the proposed consultation on a simpler basis of tax accounting.

What they didn't see is a review of capital gains tax (CGT) – many believe there would be a benefit to enterprise in having a differential CGT rate to act as a broader incentive for individuals with private wealth to invest in unlisted trading businesses.

Those who compete internationally for talent, while welcoming the Chancellor's resolve in reducing the higher income tax rate to 45%, will remain concerned that the UK income tax rate (at 47% including uncapped NIC) is still comparatively high. They will be hoping that this is a step on a journey to keep the UK competitive and open for business.

Leonie Kerswill

Tax Partner

Impact on individuals

The Chancellor placed a lot of emphasis on having a simpler and fairer tax system, where those who had the most, contributed the most.

So first of all, the personal allowance. We know that's heading to £10,000. That's going to get there a little bit more quickly, and from April 2013 it will be £9,205. But 40% taxpayers will only get a quarter of that benefit, and those earning more than £100,000 will see even less benefit.

The reduction from 50% to 45% in the top rate of income tax from April 2013 is also good news. There was no announcement on whether, and when, it will come down further, but at least we no longer have the least competitive rate amongst the G20 countries, even if it is still amongst the highest of our European neighbours.

There was an interesting announcement on tax reliefs. There will be no additional limits on the amount of relief for pension contributions and enterprise investment schemes (EIS). But other reliefs, where currently there is no maximum limit on how much you can contribute, are going to have a new limit of either £50,000 or 25% of your income, whichever is greater. There are a lot of philanthropists who give a lot more money than this, and the Chancellor has said he's going to consult both with them and with charities to make sure charities aren't negatively affected.

It's not clear at the moment how this will affect a number of situations – for example, on loans funding buy-to-let property portfolios.

In terms of property tax, the Chancellor announced a 7% stamp duty rate for purchases of properties worth over £2m effective from 22 March 2012. There were also new rules about CGT for UK properties that are owned through offshore companies and offshore trusts. We need to watch that bit and see how much of an impact it will have.

Personal tax

50p rate of tax

Confirmation that the 50p top rate of tax will be reduced to 45p is a welcome step in the right direction for multinationals looking at the UK as a location for increased investment. The headline tax rate will result in a 9% saving for employers for a typical expat package, making it easier for employers to bring their global talent to the UK.

Business will want this to be a signal that the headline rate is on its way down, and that the Chancellor will continue to focus on looking at the comparison with other G20 countries, given that an effective 47% rate (with uncapped NIC) is still relatively high.

Given all the positive work the Government has done to create an attractive and stable corporate tax regime, it's good news that the regime for senior employees could become equally competitive. We won't attract businesses unless we can also attract their people.

25% cap on tax reliefs

In the build up to the Budget there was talk of a 'tycoon tax' or an 'alternative minimum tax'. While the Chancellor did not use that language, the limit on income tax reliefs (to 25% of income, or £50,000 if higher) could potentially have a similar effect. This introduces a completely new principle into UK taxation of limitation of reliefs and is one of the most significant changes in the Budget. The details will still need to be worked out but raises some interesting questions such as whether contributions to charity are to be limited in some way.

Raising personal allowance and the withdrawal of child benefits

From April 2013 the personal allowance will be raised to £9,205. There was a clear indication that this was a step towards the stated target of £10,000. This is good news for low and middle income earners whom it is intended to help (40% taxpayers will only get a quarter of the benefit).

But the smoothing of the withdrawal of child benefit and the changes to restrict the benefit of the personal allowance increase will bring added complexity for those whose earnings are around the top of the basic rate band, or the bottom of the 40% tax band.

Raj Mody @PensionsRaj

After all the speculation, no change to pensions tax is welcome. But rumours still harmed confidence. Time for an independent commission?

Pensions

On plans to introduce a new single-tier state pension

True simplification has to be good news for savers and pensioners. Having a simpler and clearer idea of what base level of state pension people can expect will be a good starting point for building their further savings on top of that. But expectations do need to be realistic. With the links between state pension age and life expectancy we can see the state pension age easily being 70 by 2050. A newborn today may not expect to see their state pension until past age 75.

On the announcement not to make any changes to the pensions tax relief framework

This is really welcome news, although doesn't change the fact that even speculation about changes in the run-up to the Budget was already undermining confidence in the pensions savings regime, and causing some individuals to make snap judgements about their retirement plans. What we really need to see going forward is a stronger commitment from Government to a long-term stable framework for pensions tax, possibly supervised by an independent commission, so the management of the pensions framework isn't always subject to short-term political interference.

Personal tax statement

The Chancellor's announcement of a personal tax statement for individual taxpayers is one way of making the tax system as transparent as possible. Each taxpayer will see a breakdown of where their money goes.

Making the UK a more attractive place to do business

Corporation tax reduction

Budget 2012 saw a reaffirmation of the Government's commitment to deliver on their ambition for the UK to have the most competitive tax regime in the G20. Full reform of the controlled foreign companies (CFC) rules will be delivered in Finance Bill 2012. This comes alongside the confirmed introduction of the Patent Box, with a 10% tax rate for profits attributable to patents, and a new R&D tax credit regime. Both measures are confirmed for introduction in this Finance Bill from 2013.

These corporate tax reforms, combined with the welcome acceleration in the reduction of the main rate of corporation tax – now down 2% this year to 24% from April and to just 22% by 2014 – should help put Britain on the map, both for ensuring businesses based in the UK stay here but also for encouraging new investment from foreign companies.

A boost for creative industries

For many years the games industry has asked to be recognised for the value it drives, in a manner similar to the film industry. It looks like it's now game on with the Chancellor announcing that film tax breaks will extend to video games and some TV productions too. This is good news for the British industry as it was under increasing competitive pressure from other countries offering lucrative credits.

The Government will consult over the summer and introduce the relief from 1 April 2013.

Gambling consumption tax

The introduction of a consumption tax on remote gaming had been widely predicted and will mean that duty is payable on all bets made by UK customers irrespective of where the gambling business is located. Recently many large online bookmakers and remote gaming businesses have moved offshore to benefit from the lower rates of duty and tax in locations such as Gibraltar and Alderney.

PwC UK @PwC_UK
Plenty of ambition for the UK as a global centre of enterprise - playing to the UK's strengths in film and media #Budget2012

The Government faces a number of challenges ahead of the introduction of the duty to ensure that it can be effectively administered. A similar form of duty is already in place in some mainland European states but it is interesting to note that the introduction of a similar regime in Ireland has been delayed for over a year.

This move is intended to remove the incentive for companies in this industry to leave the UK.

Research and development

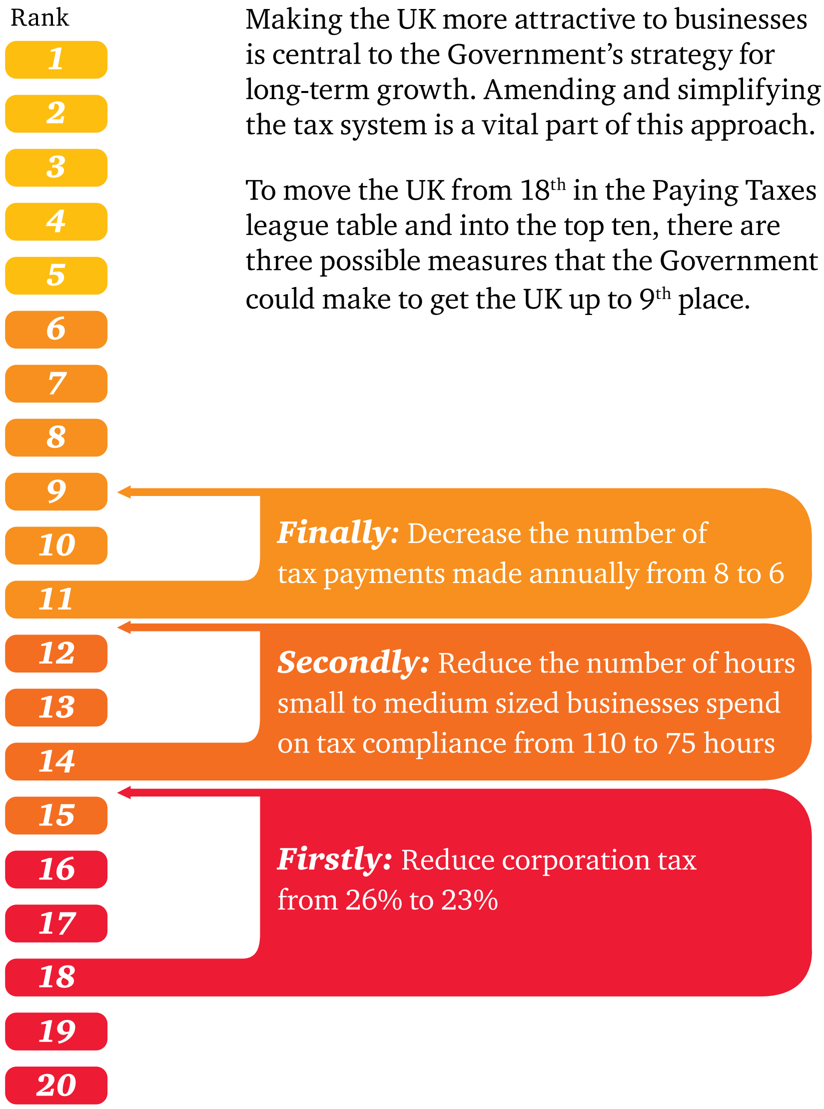
The Government has confirmed it will introduce a Patent Box regime which will come into effect from 1 April 2013. This will apply a 10% tax rate to profits relating to patents and is good news for high technology businesses.

Changes to the R&D tax credit regime should also provide an incentive for more foreign multinationals to invest in R&D in the UK. 'Above the line' R&D tax credits with a minimum rate of 9.1% will also come in from 1 April 2013. This change will allow the benefit of the tax credit to be recorded in the company's accounts in profit before tax, rather than as a reduction in the tax charge, as is the case now, and will provide an increased incentive to the individuals who control R&D budgets.

Paying Taxes league table

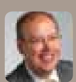
Making the UK more attractive to businesses is central to the Government's strategy for long-term growth. Amending and simplifying the tax system is a vital part of this approach.

To move the UK from 18th in the Paying Taxes league table and into the top ten, there are three possible measures that the Government could make to get the UK up to 9th place.



Source: Paying Taxes 2012, PwC

Residential property


Andrew Sentance @asentance
High paid people and companies are very mobile but houses cannot leave the UK. Hence Budget strategy of tax rate cuts and higher stamp duty

The Chancellor increased the stamp duty land tax rate to 7% for residential properties over £2m, effective from 22 March 2012.

He also introduced a stamp duty land tax of 15% for residential properties worth more than £2m purchased by companies and other entities, effective from 21 March 2012.

The increase in the rate of stamp duty land tax to 7% on expensive residential properties is not altogether surprising, but the punitive charge of 15% on expensive residential properties transferred into companies is a clear sign that he's throwing the book at avoidance. Combined with a threat of retrospective legislation for avoidance, it's a strong signal that residential property sales cannot escape tax.

The Chancellor has stopped short of introducing the widely called for stamp tax on sales of companies already owning residential property. But the consultation on an annual property tax for high value residential properties held by companies and a capital gains tax on off-shore companies may cause owners to think twice about their current ownership structure.

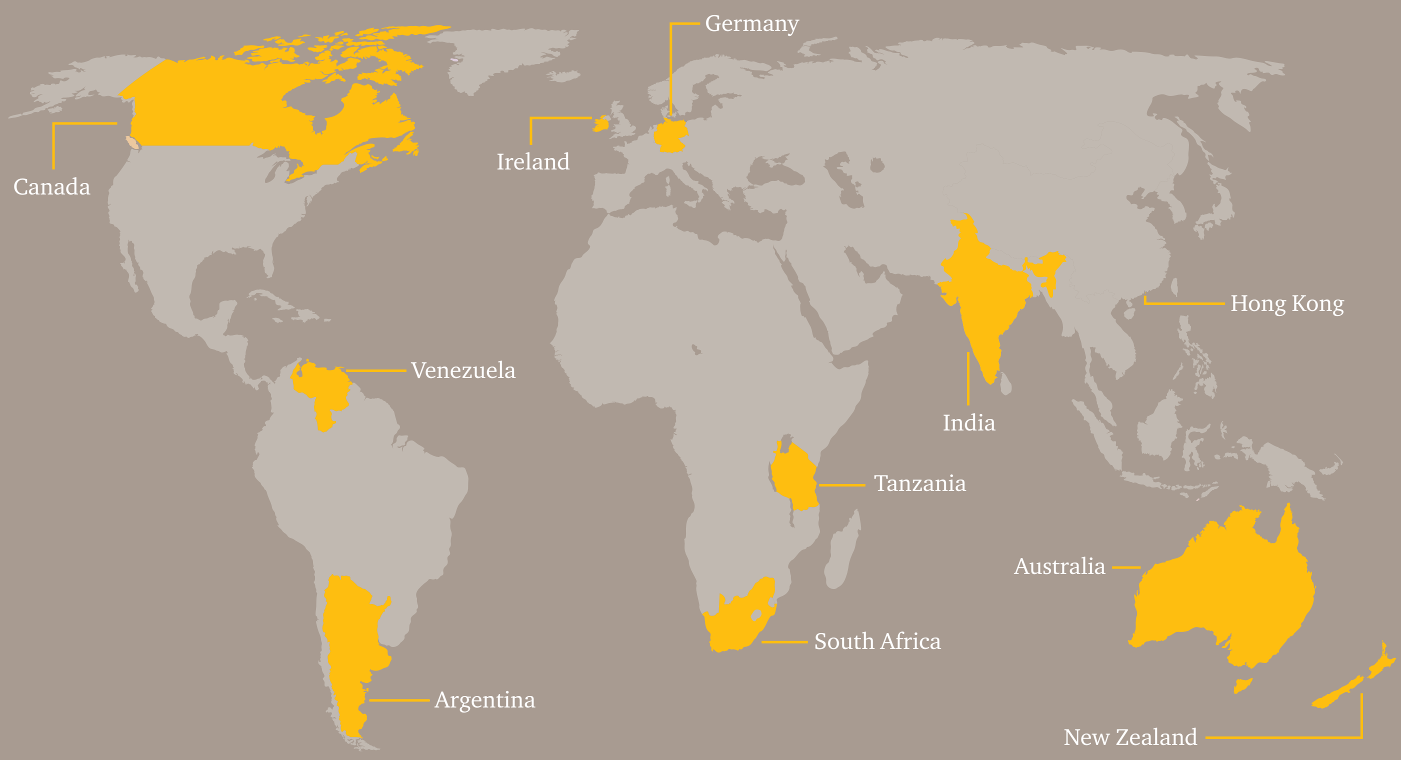
The announcement that the new GAAR is to include stamp duty land tax is a surprise but perhaps explains why, over five years after a stamp duty-specific GAAR was introduced, we have yet to see HM Revenue & Customs (HMRC) take a case to court. Investors in UK commercial real estate will breathe a huge sigh of relief that the rate increases are restricted to residential property otherwise this could have had a significant impact on liquidity in the commercial real estate sector.

Anti-avoidance

The general anti-abuse rule
The Chancellor announced that he will launch a formal consultation in the summer on adopting a general anti-abuse rule (GAAR) similar to the one proposed by Graham Aaronson QC in his report of November 2011. It's aimed at countering 'artificial and abusive tax avoidance' – an intent that few would take issue with. There will be concerns on the uncertainty this may create for normal business transactions because people's views differ on this highly subjective and emotive area. This is something that businesses and people with complicated tax affairs will be worried about – one person's reasonable tax planning is another person's avoidance – so the consultation period will be important.

There was an encouraging sign that the Chancellor recognises the potential for collateral damage to business and mainstream transactions when he indicated the target is the most extreme tax avoidance. If this could be achieved, the benefits would in fact outweigh the cost of the uncertainty it may create.

Countries that already have a GAAR in place



Other measures

VAT

Budget 2012 has targeted VAT on various products from warmed-up sandwiches to large caravans. Now, sandwiches which are not hot, but warmer than the 'ambient air temperature' will attract VAT. But the issue is by no means cut and dried. For example, products with freshly baked bread aren't caught in the net.

The temperature issue also begs the question of whether VAT is payable depending upon how hot a day it is. Some major players in the hot food market, sandwich chains for example, will be caught by this. So they will need to decide whether to put their prices up, or let it hit their margins. At the budget end of the market, where a price increase may not be possible without the threat of customers walking away, it may cause these businesses to struggle. The cafe culture of eating outside may also be affected because, cold takeaway food served in roped-off pavement areas around cafes is also caught. These changes are expected to raise £50m in 2012/3 rising to £120m in 2016/7, which some may see as highly ambitious.

Elsewhere, sports drinks are now going to be liable to VAT, as will be the very large caravans which were previously regarded as homes and zero-rated.

In a surprise move the Government has withdrawn the VAT relief for alterations to listed buildings. The Government has recognised the inequality in the fact that altering a listed building was not liable for VAT, but repairing it to maintain its heritage features attracted VAT. But it's disappointing that the Government has chosen to withdraw the relief altogether. It's expected that this will raise £35m next year, rising to £125m in 2016/7, which means the Government is expecting people to spend a lot on altering their homes.

Overall, given the scale of the reliefs in the VAT system, the Chancellor's changes are extremely modest.

Mike Bailey @MikeBailey
Budget has targeted VAT on various products from warmed-up sandwiches to large caravans. Some changes could see more litigation #Budget2012

Harmonisation of income tax and NIC

The Chancellor announced that the Government is about to launch a detailed consultation on the integration of the operation of income tax and NIC.

While the integration of these two regimes makes a great deal of sense from an administrative perspective, the complexities and issues that will have to be addressed shouldn't be underestimated. The Chancellor's announcement of a detailed consultation recognises that this is a huge task that will take a number of years to complete. Arguably it will be the most significant change in payroll taxes since the introduction of PAYE in 1944. It also comes at a time when the payroll teams at UK businesses are facing an unprecedented wave of change with both pension auto-enrolment and HMRC's real-time information (RTI) about to land for most employers over the next 18 months.

Taken alongside the planned harmonisation of the operation of PAYE and NIC, this means that businesses are facing significant payroll changes. None of these changes will be trivial and taken together they will present all employers with significant operational complexities in the short to medium term.

In light of these developments, it's now important that all employers objectively review their payroll operations, systems and providers to ensure that they understand the implications and any operational issues before it's too late. It's also the perfect opportunity for employers to review and benchmark their payroll providers to make sure they continue to meet their specific needs and requirements and to provide the necessary level of governance.

Pension schemes

On plans to help pension schemes invest in infrastructure

This is an interesting trend and will help a limited number of pension schemes diversify their asset portfolio and returns while at the same time creating access to capital which can support the country's infrastructure needs. But it won't be the solution which the industry as a whole needs to escape from the crippling impact of historic low long-term yields. At the scale envisaged, direct pension fund infrastructure investment will remain a minority sport for a small number of interested funds. Even those funds involved will have to consider carefully the risk and return profile of these investments – not all infrastructure opportunities are the same and they'll need to make sure they match the opportunities to their needs.

On plans to introduce longer-term and even perpetual gilts

This could be a welcome development for pension fund sponsors and trustees alike. Even closed schemes still have time horizons stretching out several decades into the future. Current low gilt yields are creating artificial pressures for pension funding and investment management, and often painting a distorted picture of the true financial health of occupational pension schemes. A new framework for gilts issuance may allow pension schemes to better assess their financial state against more meaningful objective benchmarks.

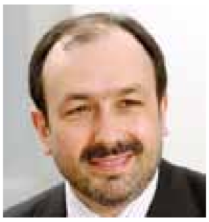
It may also mean that although much of the pension buy-out industry has been focused on existing pensioner liabilities, opportunities may open up to buy-out non-pensioner members on a more affordable basis.

Machine gaming duty

The Chancellor has today announced a higher duty rate of 20% for the new machine games duty (MGD) which is coming into effect from 1 February 2013.

This new rate will have a major impact on pub chains and leisure companies as a whole. For the leisure industry, this will almost certainly be the most significant announcement coming out of today's budget as many operators considered a revenue neutral MGD rate would be around 16/17%. So the rate announced today could affect EBITDA at a time when many leisure businesses are already struggling.

Contacts



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