

Budget 2011

A Budget for growth and inward investment

The UK Chancellor, George Osborne, outlined on 23 March 2011 his fiscal strategy for the next 12 months. The announcement was made with the backdrop of cuts in public spending and tax increases that were put in place last year. This follows the Government's strategy of controlling Government deficit.

The outcome of this year's Budget was good news for companies looking to invest in the UK and should strengthen the benefits of investing in the UK to those deliberating about which country to expand into.

This note by its nature will not go into the detail but the following are the highlights:

Corporation tax rates – it was announced last year that the 2011/2012 rate will be reduced by 1% to 27%, with a subsequent 1% reduction in each of the following three years so that the rate in 2014/2015 would be 24%. The Chancellor went further this year and reduced the rate for 2011/2012 to 26% with a further reduction of 1% over each of the next three years so that the rate in 2014/2015 will be 23%. This gives the UK one of the lowest rates of corporation tax in the "developed" world. Combined with exemption from capital gains tax on disposal of subsidiaries, it also increases the country's attractiveness as a location for a headquarter company.

Research and Development (R&D) – the R&D credit for "small" companies is to increase from 1 April 2011 to 200% so that a company receives a deduction of £2 for every £1 spent on qualifying R&D. This is to increase by a further 25% to 225% from 1 April 2012, so that a deduction of £2.25 will be available for every £1 spent. In addition, the Chancellor has made some further technical changes which makes this scheme even more attractive.

The Chancellor has also announced that he is to consult widely later this year on the implementation of the patent box legislation, which at present proposes to reduce corporation

tax on profits from exploitation of IP created in the UK. We will be lobbying for the patent box to include copyright and other IP so that it is attractive for a broad range of businesses.

Personal tax – the personal tax rate on income over £150,000 was increased from 40% to 50% last year. This was one of the Government's revenue raising measures. The Chancellor made clear in his speech this year that the increase is a temporary measure and will be reduced as soon as economic conditions allow. This clarity is welcome as there was concern that a rate of 50% would in the long run discourage expats from coming to the UK.

Simplification of tax system – the Government is looking to combine social security and income tax so that there is clarity on the rates as well as simplified administration. This is welcome news for businesses as it reduces administration costs. This proposal was part of a number of measures looking to reduce the administrative burden on businesses.

Entrepreneurs' relief – for individuals looking to come to the UK and start a business, the Chancellor has doubled from £5m to £10m, the level of profit on disposal of a business that would be taxed at only 10%.

Enterprise zones – the government has created 21 enterprise zones. Businesses established in these zones will get some tax breaks as well as reduction in costs.

All of the above combine to make this good news for businesses in the UK, or looking to locate there.

For further guidance on these issues, in the first instance please contact:

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