

## Budget 2011 briefing

### Introduction

The Chancellor claimed that Budget 2011 would put fuel back in the British economy. This was labelled as a budget for growth by him which centred on three objectives:

- a strong and stable economy
- growth
- fairness

According to Nick Robinson, BBC political editor, the main test for the government will be whether the Chancellor's plan to cut business taxes and to lower the hurdles enterprises face in the form of planning laws, tax rules and government regulations will help speed the recovery.

The Opposition, perhaps unsurprisingly, thought not. Ed Milliband, leader of the Labour Party, argued that the Chancellor's "singular" achievement was to deliver a budget for growth that downgrades the growth forecasts.

The CBI welcomed the budget, saying the Chancellor had made clear the UK is open for business. The TUC argued that this was a no change budget that had done nothing to end the basic error of imposing cuts while unemployment is growing and growth faltering.

The voluntary sector welcomed a number of announcements, including that on GiftAid. The National Council of Voluntary Organisations (NCVO) said that the government should go further to protect the sector from disproportionate cuts.

Meanwhile there was controversy about the Green Investment Bank with organisations arguing that it should have borrowing powers immediately instead of from 2015.

Media's response to the Chancellors' budget was subdued. Jeremy Warner for *The Independent* argued that it: "sounded much like one of Gordon Brown's budgets – a little bit of give here, and a lot of takeaway somewhere else." He said that the overall tax burden on business is not being reduced and that: "increased taxes on bankers and energy ultimately find their way into charges to customers, so in the end we'll all end up paying." While it was good to get the public finances back on the straight and narrow, this in itself was not the Budget for growth. He argued that the Chancellor was coming down unduly hard on big business.

*The Financial Times* Lex Column suggested that rather than a Budget for growth, it was a Budget that depends on growth. It said that the Chancellor had: "tied his hands for this Budget by committing to austerity measures." It suggested that if the expected growth does not arrive, the clue to growth could be viewed within the latest minutes from the Bank of England's Monetary Policy Committee. It argued that it may have to come "from a longer period of bargain-basement interest rates."

### **A strong and stable economy**

The Chancellor announced that, as expected, Budget 2011 would be a fiscally neutral budget.

In their forecast, the Office for Budget Responsibility (OBR) revised downwards their expectation for growth in 2011 from 2.1 to 1.7 per cent. However, the OBR said the outlook for public finances remains broadly unchanged from that announced in June Budget 2010. This includes:

- public sector net borrowing will decline from its peak of 11.1 per cent of GDP in 2009-10 to 1.5 per cent of GDP in 2015-16.

- cyclically-adjusted or 'structural' current deficit will be eliminated by 2014-15, with a projected surplus of 0.4 per cent of GDP in that year, rising to 0.8 per cent of GDP in 2015-16.
- public sector net debt will peak at 70.9 per cent of GDP in 2013-14, before declining to 70.5 per cent of GDP in 2014-15 and 69.1 per cent of GDP in 2015-16.

## Growth

Alongside the Budget, the government also released a document entitled *A Plan for Growth* which set out how the government intends to achieve its four ambitions for growth. These four ambitions are detailed below:

### **1. To create the most competitive tax system in the G20**

To achieve this, the government says it will:

- reduce the main rate of corporation tax by a further 1 per cent. From April 2011 the rate will be 26 per cent, reduced further to 23 per cent by 2014.
- implement a Corporate Tax Road Map, including introducing new Controlled Foreign Company (CFC) rules to allow groups based in the UK to compete more effectively with those based overseas, and consult on the Patent Box.
- simplify the tax system by responding to the work of the Office of Tax Simplification (OTS), abolishing 43 tax reliefs.
- consult on options for integrating the operation of income tax and National Insurance Contributions.

### **2. To make the UK the best place in Europe to start, finance and grow a business**

To achieve this, the Government says it will:

- drop existing proposals for specific regulations which would have cost business over £350 million a year. This will include not extending the right to request time to train for businesses with less than 250 employees.
- introduce a moratorium exempting micro-business and start-ups from new domestic regulation for three years from the 1st April 2011.
- implement the proposals of Lord Young's review of Health and Safety<sup>1</sup>.
- launch a public thematic review to reduce the stock of regulation, with a presumption that burdensome regulations will be removed.
- introduce a new presumption in favour of sustainable development, and pilot land auctions, starting with public sector land.
- streamline the system for planning applications and introduce new fast-track planning for major infrastructure.
- reform the Enterprise Investment Scheme (EIS) and Venture Capital Trusts, including raising the rate of EIS income tax relief to 30 per cent from April 2011.
- increase the SME rate of R&D tax credit to 200 per cent from April 2011 and 225 per cent from April 2012.
- double the lifetime limit for Entrepreneurs Relief to £10 million.

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<sup>1</sup> A copy of Lord Young's review can be found at: [http://www.number10.gov.uk/wp-content/uploads/402906\\_CommonSense\\_acc.pdf](http://www.number10.gov.uk/wp-content/uploads/402906_CommonSense_acc.pdf)

- invest £100 million in science capital development.
- launch the first Technology and Innovation Centre in high value manufacturing.

### **3. To encourage investment and exports as a route to a more balanced economy**

To achieve this, the Government says it will:

- extend the limit for capital allowances short life assets election from four to eight years.
- provide £200 million of new funding for rail projects and £100 million for local authorities to repair potholes.
- establish 21 new Enterprise Zones.
- reform the stamp duty land tax rules applied to bulk purchases for residential properties and make Real Estate Investment Trusts easier to set up and more accessible to investors.

The government also announced today that it will introduce a carbon price floor for electricity generation from 1 April 2013 to drive investment in the low-carbon power sector. On top of this, a further £2bn has been pledged to the Green Investment Bank which will start operating in 2012-13. However, it will only be allowed to borrow from 2015.

### **4. To create a more educated workforce that is the most flexible in Europe**

The government says it will:

- fund an additional 80,000 work experience places for young people, ensuring up to 100,000 places will be available over the next two years.

- fund up to 50,000 additional apprenticeship places over the next four years.
- expand the University Technical Colleges programme to establish at least 24 new colleges.

The government says that it will also provide equity loans, jointly funded with house-builders, through a FirstBuy programme assisting over 10,000 first time buyers to purchase a new-build property.

## Fairness

Budget 2011 also set a range of taxation measures aimed at realising the Government's vision of a fair, simple and efficient tax, benefit and pensions system. To achieve this, the government will:

- increase the personal allowance for under 65s by £630 in April 2012, with the higher rate threshold unchanged, a further step towards the £10,000 personal allowance commitment.
- change the underlying indexation basis for direct taxes to the Consumer Prices Index (CPI) from April 2012. For the duration of this Parliament, the annual increases in the employer NICs threshold, the age related allowance and other thresholds for older people will be over-indexed compared to the CPI and will increase by the equivalent of the Retail Prices Index (RPI).
- cut fuel duty by 1 pence per litre on Budget day. The fuel duty escalator will be replaced with a fair fuel stabiliser that increases tax on North Sea oil production when oil prices are high. The April 2011 inflation-only increase will be delayed to January 2012. The April 2012 increase will be delayed to August 2012. The Government will increase the Supplementary Charge on oil and gas production to 32 per cent from 24 March 2011.

- reform the state pension system for future pensioners so that it provides simple, contributory, flat-rate support above the level of the means tested Guarantee Credit.
- reform the taxation of non domiciles, including an increase in the annual charge for non domiciled individuals who have been in the UK for more than twelve years.
- tackle tax avoidance including action to prevent attempts to disguise employment income, raising around £4 billion over the Parliament.
- reduce the rate of inheritance tax to 36 per cent from April 2012 for estates leaving 10 per cent or more to charity. Charities will also be allowed to claim new Gift Aid on up to £5,000 of small donations per year.

### Cost analysis

The table below shows the costings of the policy decisions outlined in Budget 2011.

The measures relating to the reduction in fuel duty create a reduction of around £2.1bn over five years to the government . The increase in the supplementary charge on North Sea oil and gas production from 20 per cent to 32 per cent accounts for an increase in revenue of around £1.8bn for the government from today's measures.

The table also shows that the measures relating to Corporation Tax, when combined, amount to a reduction in revenue of just over £2bn. Measures relating to personal taxation amount to a reduction in revenue of around £1.2bn.

	Head	£ million					
		2011-12	2012-13	2013-14	2014-15	2015-16	
<b>Growth and Enterprise</b>							
1	Corporation tax: decrease main rate to 26% in 2011-12, 25% in 2012-13, 24% in 2013-14 and 23% from 2014-15	Tax	-425	-810	-910	-1,000	-1,075
2	Corporation tax: interim improvements to Controlled Foreign Company rules	Tax	-55	-15	-25	-25	-25
3	Corporation tax: taxation of foreign branches reform	Tax	0	-30	-70	-80	-80
4	Corporation tax: corporate capital gains simplification	Tax	+5	-5	-15	-35	-55
5	Corporation tax: full reform to Controlled Foreign Company rules	Tax	0	-210	-540	-770	-840
6	Bank Levy: increase first year effective rate to 0.075% and rate to 0.078% from January 2012	Tax	+630	+285	+100	+105	+100
7	Enterprise Investment Scheme and Venture Capital Trusts: reform	Tax	0	-105	-115	-110	-120
8	R&D tax credits: increase SME rate to 200% from 2011-12 and to 225% from 2012-13	Spend	-20	-75	-105	-105	-
9	Capital allowances: extension of short life assets limit	Tax	-10	-40	-70	-100	-170
10	Capital allowances: extension of business premises renovation allowance	Tax	0	-5	-30	-25	-30
11	Business rates: Enterprise Zones	Tax	0	-20	-40	-65	-80
12	Business rates: one-year extension of relief for small business from October 2011	Tax	-190	-185	+5	0	0
13	Capital gains tax: increase Entrepreneurs' relief lifetime limit to £10 million	Tax	0	-50	-70	-90	-100
14	Science facilities: additional investment	Spend	-100	0	0	0	-
<b>Housing and Employment</b>							
15	Stamp Duty Land Tax: bulk purchasing	Tax	-70	-90	-120	-130	-150
16	Support for Mortgage Interest: one-year extension from January 2012	Spend	-10	-110	-15	0	-
17	FirstBuy: support for first-time buyers	Spend	-250	0	0	0	-
18	Enterprise Allowance: extension	Spend	-5	-15	-5	0	-
19	Work experience: 80,000 additional placements	Spend	-20	-20	0	0	-
20	University Technical Colleges: additional investment	Spend	-150	0	0	0	-
21	Apprenticeships: 50,000 additional places	Spend	-100	-60	-45	-5	-
<b>Personal tax</b>							
22	Personal allowance: increase by £630 in 2012-13, with adjustment to basic rate limit and no change to higher rate threshold	Tax	0	-1,050	-1,210	-1,200	-1,230
23	Direct taxes: switch the default indexation assumption to CPI from 2012-13	Tax	0	+105	+235	+630	+1,080
24	Direct taxes: over-index employer NICs threshold, age related allowances and other allowances <sup>2</sup>	Tax	0	0	0	0	0
25	NICs: implement Government Actuary's 'best estimate' approach on contracted-out rebates from 2012-13 <sup>3</sup>	Tax	0	+640	+630	+620	+610
26	Non-domicile taxation: reform	Tax	0	0	+110	+70	+50
<b>Motoring tax</b>							
27	Fuel duty: 1ppl reduction from 23 March 2011, removal of previously announced above-RPI increases and delay of RPI increases	Tax	-1,900	-1,600	-1,700	-2,100	-2,100
28	North Sea: increase in supplementary charge from 20% to 32% and restriction on decommissioning relief from 2011-12	Tax	+1,780	+2,240	+2,120	+2,090	+1,870
29	Fuel duty: rural rebate	Tax	*	-5	-5	-5	-5

30	Vehicle excise duty: freeze rates for Heavy Goods Vehicles in 2011-12	Tax	-15	-15	-15	-20	-20
31	Approved Mileage Allowance Payments: increase allowances from 2011-12	Tax	-35	-35	-35	-35	-35
<b>Environmental tax</b>							
32	Carbon price floor: introduce from 2013-14 with £30 per tonne of CO <sub>2</sub> target	Tax	0	0	+740	+1,070	+1,410
33	Climate Change Agreements: reform	Tax	0	0	-40	-50	-50
34	Climate change levy exemption: supplies of gas in Northern Ireland	Tax	*	*	+5	+5	+5
35	Company car tax: adjustment to rates for 2013-14	Tax	0	0	+125	+130	+135
36	Air passenger duty: defer RPI increase in 2011-12 to 2012-13	Tax	-145	0	0	0	0
37	Aggregates levy: postpone rate increase until 2012-13	Tax	-15	-15	-20	-20	-20
<b>Indirect tax</b>							
38	VAT: decrease low value consignment relief threshold to £15 from November 2011	Tax	+5	+10	+10	+10	+15
39	Tobacco duty: rebalance for cigarettes and increase for hand rolled tobacco from 2011-12	Tax	+80	+60	+65	+70	+80
<b>Avoidance, evasion and administration</b>							
40	Disguised remuneration: avoidance	Tax	+750	+760	+730	+770	+760
41	Currency for tax calculations: avoidance	Tax	+60	+60	+60	+60	+60
42	Sale of lessor companies: avoidance	Tax	+25	+20	+20	+15	+15
43	Leasing double allowances: avoidance	Tax	+80	+130	+130	+120	+120
44	Stamp Duty Land Tax: avoidance	Tax	+30	+30	+40	+40	+50
45	VAT: supply splitting using printed matter	Tax	+40	+50	+50	+50	+60
46	VAT: fraud on imported road vehicles	Tax	0	0	+125	+110	+105
47	Protection life insurance	Tax	0	0	+60	+90	+120
48	Qualifying Time Deposit accounts: change to tax treatment	Tax	0	*	+35	+40	+40
49	PAYE: holding security	Tax	*	+5	+5	+5	+5
<b>Philanthropy</b>							
50	Inheritance tax: reduce rate to 36% for estates with charitable donations of more than 10% from 2012-13	Tax	0	-25	-75	-125	-170
51	Gift Aid: small donations scheme	Spend	0	0	-50	-85	-
<b>Other spending measures</b>							
52	Housing Benefit: not introduce reductions for long term jobseekers	Spend	0	0	-105	-115	-
53	Disability Living Allowance: mobility components for claimants in residential care	Spend	0	-75	0	0	-
54	Local Housing Allowance: transitional protection for existing claimants	Spend	+30	-30	0	0	-
55	Employment and Support Allowance Youth: abolish National Insurance concession	Spend	0	+10	+10	+15	-
56	Benefit fraud: sanctions and debt recovery	Spend	0	+25	+45	+65	-
57	Coinage: delay implementation of reduction in metal cost	Spend	-10	0	0	0	-
<b>TOTAL POLICY DECISIONS</b>			<b>-10</b>	<b>-265</b>	<b>+25</b>	<b>-115</b>	<b>+335</b>

## Further reading

- 2011 Budget document
- Growth
- Air Passenger duty: a consultation
- Policy costings
- Debt and reserves management report 2011-12
- Tackling tax avoidance
- Data sources
- Notes on Budget resolutions
- Overview of tax legislation and rates

All documents can be read and downloaded from: [http://www.hm-treasury.gov.uk/2011budget\\_documents.htm](http://www.hm-treasury.gov.uk/2011budget_documents.htm)