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UK Autumn Statement: steady as she goes

29 NOVEMBER 2011

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CATEGORY:
ARTICLE

In an Autumn Statement tinged with unsurprising caution, a few key announcements stand out. There is a commitment to creating the most competitive tax system in the G20. In this context, most notably, a new investment relief was announced, alongside some reforms to the existing Enterprise Investment Scheme ('EIS') and Venture Capital Trust ('VCT') relief. A rather pertinent question is to what extent, if any, these reliefs counterbalance the freeze in the capital gains tax exempt amount at £10,600 for 2012-13.

Importantly, nothing was said about the draft legislation on residence and domicile which is expected on 6 December. It is hoped this will be available then or very shortly afterwards. It would be heartening to see the positive proposals contained in June's consultation documents translated into effective draft legislation which will add to the UK's armoury in attracting investment in these distinctly difficult times.

Stimulating investment – SEIS Relief

Specifically focussed on start up companies, from April 2012 Seed Enterprise Investment Scheme relief will come into effect. This will give investors up to 50 per cent income tax relief on investments up to an annual £100,000 limit for individuals and a cumulative £150,000 limit for companies, plus a bonus capital gains tax exemption where gains are realised in 2012-13 and reinvested in a SEIS qualifying business in the same year. Realistically this is a short timeframe to benefit from the capital gains tax bonus relief, but subject to how stringent the requirements are this relief is likely to be of interest to business angels and seed investors.

Additionally, up to six Enterprise Zones will qualify for enhanced capital allowances relief, and some further Enterprise Zones are to be created.

EIS and VCTs

Alongside the introduction of SEIS, EIS is to be simplified by relaxing the connected persons rules and importantly expanding the range of qualifying shares. Investors should note though that businesses which currently qualify for relief may cease to do so where structures are designed purely to obtain EIS relief, and also where, as a number have recently been, the scheme invests in Feed-in-Tariff businesses.

Meanwhile, VCTs are to be expanded, with the £1m investment limit per company to be removed.

A stealth increase?

The capital gains tax annual exempt amount has been frozen at £10,600 for 2012-13. The real question is of course when this will be unfrozen, and whether there will be any commitment to reducing the top rate of income tax in the medium term, bearing in mind that realistically such a reduction cannot be expected in a time of austerity. Doubtless much depends on the success of fiscal tightening and of course on economic developments and events.

Increased Tax and Competitiveness?

There is a projected net increase in taxes of £31 billion by 2016-17, and a key question is what further legislative changes we may see to assist in achieving this. Indeed, this may increase the likelihood that the proposed General Anti Avoidance Rule will be introduced, if so it is to be hoped that it will be sufficiently carefully crafted so as not to inadvertently catch routine transactions. In this respect, a clearance procedure, at least initially, would certainly be helpful.

The Chancellor will doubtless be mindful of the need carefully to balance increased tax receipts against the stated objective of creating the most competitive tax system in the G20.

Gifts of Pre Eminent Objects

Further to consultation, there is to be legislation to encourage donations of pre-eminent works of art or historical objects to the nation in return for a tax reduction. The relief will grant an income or capital gains tax reduction to individuals making donations, and a corporation tax reduction for companies making donations.

Pensions

Draft legislation has been published to ensure tax relief given to employers using asset backed pension scheme arrangements reflect accurately the total amount of payments employers make to the scheme, for inclusion in the Finance Bill 2012.

Other announcements

Business Rate Deferral

The business rate deferral scheme will give businesses the opportunity to defer 60 per cent of the increase in their 2012-13 business rate bills following uprating of the Retail Prices Index, to be repaid equally across the following two years.

Small Business Rate Relief

The small business rate relief holiday will be extended for a further six months from 1 October 2012.

Stamp Duty Land Tax

Analysis showing that the stamp duty land tax relief for first time buyers has been ineffective is to be published, and therefore the relief will end on 24 March 2012 as planned.

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