



Foreword

by **Martin Barber**
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Mr Osborne delivered his Pre Budget Report (PBR) to a packed house. The Coalition MPs held sheets of paper with twelve pre agreed helpful questions for the Chancellor. My view is that they needed a bookfull!

Three minutes in and we were warned that the OBR confirms a recession in Europe which could make it more likely there will be one here too. Growth proposals are significantly down and borrowing will be significantly up, not much good news there then. Mr Osborne will however work to protect Britain from Europe's "debt storm" and his Autumn Statement has three key strands:

- 1. Protecting the economy** = cutting costs; raising the state pension age and capping public sector pay awards to 1% - according to the stats this means we have a greater than 50% chance of meeting fiscal targets. How much greater is surely the question on everyone's minds
- 2. Building a stronger economy for the future** = the government will use the money saved from the spending review to fund £6.3bn of infrastructure spending and will:
 - Set aside £21bn for investments in smaller businesses
 - Help businesses with employment law and improve tax reliefs for investors in start-ups
- 3. Fairness** = action to help households and businesses cope with inflation, which amongst a raft of issues for most people, means deferring the increased duty on petrol

Our key highlights from the PBR are as follows...

Tax Measure for Gifts of Pre-Eminent Objects

Taxpayers can now get an Inheritance Tax (IHT) break and create a tax reduction when gifting assets such as historical objects and paintings to the nation, to be held in Museums, libraries etc.

The measure allows taxpayers, including businesses, to offset a percentage of the value of the asset donated against income and capital gains. The total tax reductions under the scheme are subject to an annual limit of £30 million per year.

To qualify for a tax reduction under the scheme the object gifted to the nation has to be a qualifying gift, under the pre-eminent object rules. This will be decided by an expert panel who will agree a valuation based on a set percentage of the agreed value of the object.

His Master's Voice

The Low Value Consignment Relief (LVCR) currently exempts businesses from paying import VAT on commercial consignments imported into the UK, from outside of the EU and where the value of the goods is less than £15. From April 2012 the Chancellor announced this exemption will be removed, therefore businesses based in the Channel Islands such as play.com will be required to charge VAT on purchases made by UK mail order/online customers. The message is clear – buy your CD's, Books and DVD's before April 2012 whilst the exemption still applies!

This measure is expected to net the government nearly £500m between April 2012 and April 2017.

Enterprising

The Budget 2011 announced the introduction of a number of Enterprise Zones throughout the country, including two in the North East (Tyne & Wear and Tees Valley). In today's Autumn Statement the Chancellor announced an additional two zones, taking the total to 24. These two additional zones will be Lancashire and Humber and will create thousands of job opportunities by 2015.

The Chancellor also stated that businesses in six of the previously announced new zones in England - Black County, Humber, Liverpool, North East, Sheffield and Tees Valley, will be able to claim 100% of first year's capital allowances rather than the existing 18% main rate or 8% special rate. This will apply to capital expenditure on plant and machinery used by the business within a designated assisted area in the Enterprise Zone, subject to a cap of €125 million.

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Other Key points:

Fuel Duty

- The 3p increase that was planned for January 2012 has been deferred to August 2012 and the increase planned for August 2012 will be cancelled

CGT Annual Exemption Freeze

- The Capital Gains annual exemption threshold will be frozen at the 2011-2012 rate of £10,600 for 2012-2013

Pension

- In April 2012 there will be a £5.30 increase in the basic state pension to £107.45
- Pensioners receiving pension credit will also benefit from an increase worth £5.35
- The retirement age will be 67 from 2026

Benefits

- Working age benefits (ie Jobseekers Allowance, income support) uprated by 5.2% from April 2012

Tax Credits

- The couple and lone parent element of Working Tax Credits will be frozen in 2012-2013. The child element will be uprated in line with inflation

Business Rate Deferral

Business rates in 2012-2013 are due to be uprated in line with September 2011 RPI at 5.6%.

The Business Rate Deferral Scheme 2012-2013 allows businesses to choose to defer 60% of this increase in their 2012-2013 business rate bills, with half of the amount deferred to be repaid in 2013/2014 and the remaining half repaid in 2014-2015.

It is hoped that this will provide a smoother profile of business rate payments over the next three years.

Seeds of Investment

The Chancellor announced a new tax advantage scheme today - the Seed Enterprise Investment Scheme (SEIS), which will come into force from April 2012.

Currently, individuals investing in the Enterprise Investment Scheme (EIS) can claim up to 30% income tax relief on their investment, subject to a minimum investment of £500 and maximum investment of £500,000 (rising to £1m from April 2012).

Under the new SEIS scheme, the tax relief would increase to 50% on investments up to £100,000.

In addition, an investor may be entitled to a holiday – a Capital Gains Tax (CGT) holiday. Any proceeds arising from a capital gain in 2012/2013, reinvested into the SEIS in the same tax year, will be exempt from CGT.

This could mean tax relief of up to 78% for investments up to £100,000 into qualifying businesses i.e. the CGT saving of 28% and income tax relief of 50%, which by anyone's standards is a significant tax give away and should hopefully restart investment into smaller businesses.

The tax relief available under both the EIS and SEIS schemes is restricted to the lower of the relief due on the investment or the individual's income tax liability.

The government expect this measure to cost over £100m between April 2012 and April 2017.



Asset Backed Pension Contributions

The current measure prevents unintended excess tax relief for employers making asset-backed contributions (ABC) to their registered pension schemes.

The changes announced aim to ensure the tax relief accurately reflects the amount of payments made by an employer to their scheme whilst preserving as much flexibility as possible for employers and pension schemes to continue to use these arrangements.

As of November 2011 only those arrangements that fall within the structured finance legislation will be given upfront tax relief for the contributions paid under the arrangement. This means that only the interest element will be given tax relief, not the instalments of the income stream paid to the pension scheme.

Those cases that do not fall under the structured finance legislation will not be given tax relief upfront but on payments or amounts as they arise from the income stream.

Summary

This is more like a mini-budget than a pre-budget statement, something George Osborne was totally against.

Most of us think we are in a recession now, Mr Osborne thinks it may be on its way. Let's hope we can work together to maximise returns before the upturn.

If you want to discuss anything arising from the PBR, please get in touch.

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