The Budget

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In a very combative Budget speech in the House of Commons, with the shadow chancellor being admonished for not listening quietly, George Osborne started by saying he was going to focus on those people saving for retirement and running a business. With so little to play with, the Red Book listed 24 measures that had been previously announced and added a further 41.

So did the Budget raise money or give it away?

The Budget netted down to a giveaway of only £140m over the five year forecast period, but this number hides significant swings over the period. As shown in the chart below, the Budget raises over £1bn in each of 2013/14, 2016/17 and 2017/18 but provides significant net giveaways in 2014/15 and 2015/16 (the years prior to the next election). This of course chimes with the Institute for Fiscal Studies' observation that tax rises tend to follow rather than precede general elections!

What were the most significant tax changes?

The chancellor's 'rabbit out of the hat' was the new £2,000 employment allowance which, costing £1¾bn per annum by the end of the forecast period, obscured the other pro-business cuts including the corporate tax rate cut to 20% and even the achievement of the £10,000 personal tax allowance for 2014. Significant indirect tax measures included the 1p in the pound cut in beer duty, cancellation of the beer duty escalator, and cancellation of the intended September rise in fuel duty.

Where is the tax coming from?

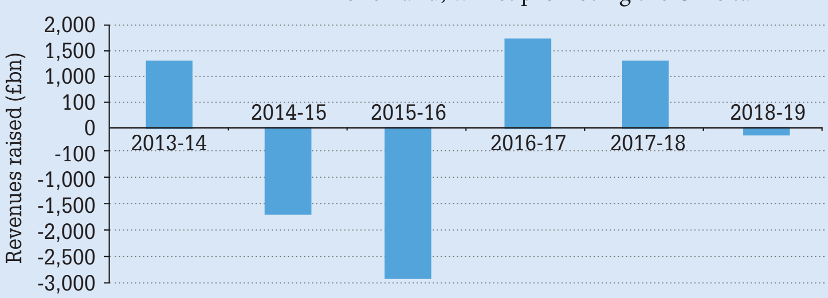
The Budget continued the shift in who pays tax in the UK. With the reduction in corporate tax rate and the increased incentive for R&D, the proportion of tax raised in corporation tax has dropped from 7.8% of total government receipts in 2010/11 to 6.4% in 2013/14. VAT and excise duties have picked up the slack rising from 22.9% to 24.5%. Ultimately all taxes are paid by people, but the changes in the relative tax mix suggests that the UK is moving towards a less distortive tax system with a lower burden of direct taxation.

What was said on tax competition and the 'fair tax' debate?

As ever the chancellor was required to perform the difficult balancing act of sending tough messages on tax avoidance on the one hand, whilst promoting the UK's tax competitiveness on the other. As well as confirming (again) the GAAR, the chancellor announced one of the largest ever packages to tackle tax avoidance and evasion, which provides one of the most significant sources of additional revenue in the Budget - raising nearly £5bn in total across the five-year period.

However, the chancellor was also clear that to support growth 'nothing beats having the most competitive business tax system of any major economy in the world. That is what this government set out to achieve. That is what we're delivering.' The further reduction in the main rate of corporation tax was the chancellor's trump card for reinforcing his 'Britain is open for business' message. This makes the UK's main rate the lowest in the G20 (alongside Russia, Turkey and Saudi Arabia). Once again, for banks, this reduction will be offset by an increase in the bank levy and rates for oil and gas are unaffected.

The reduction in the main rate in April 2015 to 20% also helps his simplification credentials as he can abolish the small profits rate. The reduction is welcome and certainly supports the government's objective of making the UK one of the most competitive tax systems. We would not expect any further reductions now that the main and small profits rates will be harmonised.



What about non tax technical measures to deter avoidance?

The government has also announced that it intends, from 2015, for HMRC to publish an annual report on the operation of the Code of Practice on Taxation for Banks. The only detail provided on the contents of the proposed report is HMRC's intention to name any bank which it does not consider to be complying with the code. Quite what 'non-compliance' will mean in practice remains to be seen and the government has promised a consultation period before legislating. We also saw significant changes to the rules on government procurement with changes to the scope and timing of the rules, but maintaining the start date of 1 April 2013.

Were there any hidden surprises?

We're used to having to look in to the detailed Budget documents for lots of 'hidden gems' and no doubt we may find more over time. In the meantime, one oddity was the way the chancellor announced that 'we'll support the manufacture of ultra low emission vehicles in Britain with new tax incentives'. Looking at the small print the detail is quite surprising. From 6 April 2015, the chancellor has changed the company car benefit bands to include zero emission cars within the new lower band of 0-50g CO_2/km. Whilst this may help those currently in the wider taxable band, this may be somewhat of a shock to zero emission cars owners currently paying no tax, who may not see this as an incentive!

What's next?

Publication of the Finance Bill next Thursday.