



Business and Investment Incentives

Corporation tax rates

Corporation tax rates and bands are as follows:

Financial year to	31 March 2010		31 March 2009	
Taxable profits				
First	£300,000	21%	£300,000	21%
Next	£1,200,000	29.75%	£1,200,000	29.75%
On profit over	£1,500,000	28%	£1,500,000	28%
Tax credit on dividends	10%		10%	
Marginal relief fraction	7/400		7/400	

As previously announced the main rate of corporation tax will remain at 28% from 1 April 2009. The rate for 'ring fenced' profits arising from oil rights in the UK and Continental Shelf will remain at 30%.

The small companies rate will remain at 21% from 1 April 2009 (19% for ring fence profits). Marginal rates will apply for profits between £300,000 and £1,500,000 with the small companies relief fraction being set at 7/400 (11/400 for ring fenced profits).

Capital allowances

The Chancellor has announced a new temporary rate of first year allowance on plant and machinery of 40% for expenditure incurred by companies between 1 April 2009 and 31 March 2010 (Unincorporated businesses 6 April 2009 to 5 April 2010).

The annual investment allowance of £50,000 remains unchanged.

The list of environmentally beneficial technologies qualifying for 100% capital allowances will be revised in 2009 prior to the summer Parliamentary recess. The main change will be to add uninterrupted power supplies to the list.

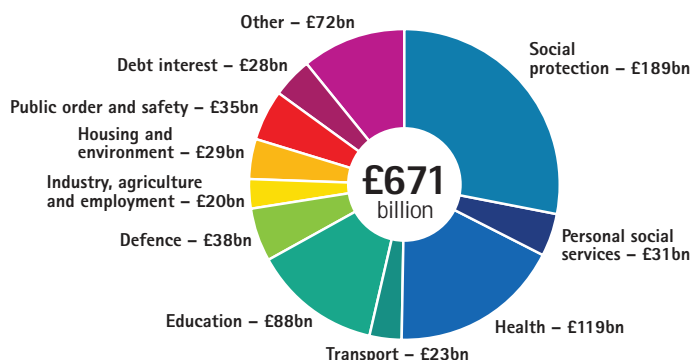
Extension of trading loss carry back for businesses

As announced in the Pre-Budget Report the Chancellor has given some relief to businesses suffering from the effects of the recession by allowing current losses to be carried back against profits of the previous three accounting years (subject to a maximum £50,000 notwithstanding the standard carry back relief) with consequent tax repayments resulting. The measure will have effect on and after 22 April 2009 for company accounting periods ending in the period 24 November 2008 to 23 November 2010 and for the two tax years 6 April 2008 through to 5 April 2010 for unincorporated businesses.

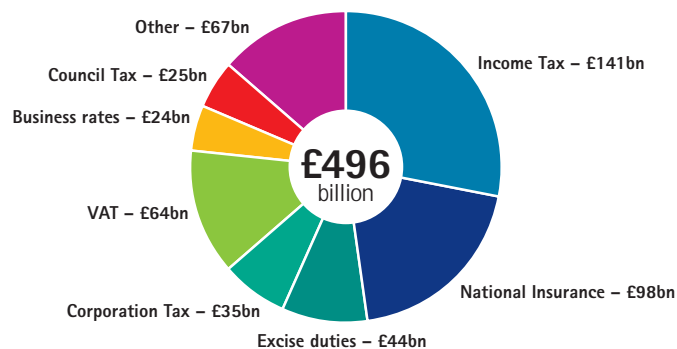
Tax payments

At some point on or after April 2011 HM Revenue & Customs will introduce voluntary managed payment plans (MPPs) which will allow taxpayers to spread their income tax or corporation tax payments equally over a period straddling the normal due dates. It is also proposed to introduce arrangements whereby small tax debts may be collected through the PAYE system, but the arrangements required to facilitate this are unlikely to be in place until April 2012.

Government spending



Government receipts



Deliberate tax defaulters

Names and details of individuals, businesses and companies who are penalised for deliberate defaults leading to a loss of tax of more than £25,000 will have their names published. Details will be published quarterly on HM Revenue & Customs's website within one year of the penalty becoming final and will be removed from the website after 12 months. This will not apply where a full unprompted disclosure is made or a full prompted disclosure is made within the required time.

Taxation of foreign profits and dividends

This is an important measure for companies receiving foreign dividends as it brings the treatment of foreign dividends received by UK companies into line with the receipt of dividends from other UK companies. Foreign dividends have until now been subject to UK corporation tax whereas UK dividends are exempt. This measure exempts foreign dividends from UK corporation tax and will be particularly important to UK holding companies with foreign subsidiary or associated companies. This will apply to distributions received on or after 1 July 2009.

The other measures in this package include a cap on finance expenses paid by UK members of a group limiting it to the consolidated gross finance expense of the group. This takes effect for accounting periods beginning on or after 1 January 2010. Consequentially the controlled foreign company 'superior and non-local' exemptions and 'acceptable distribution policy' exemption will be removed. The changes to the CFC regime have effect for accounting periods starting on or after 1 July 2009 with provisions for straddling periods. The exemption for non-local and superior holding companies may be available until 1 July 2011.

The package also replaces the Treasury Consent Rules for pre-transaction clearances with a post-transaction reporting requirement this will be effective for transactions on or after 1 January 2010.

Legislation will also be introduced in the Finance Bill 2009 to ensure that the reduction in the main rate of corporation tax to 28% does not unjustly restrict the amount of double tax relief available to companies in receipt of foreign dividends. This measure will have retrospective effect from the financial year beginning 1 April 2008 onwards.

An anti-avoidance provision has been announced to prevent companies claiming double tax relief where there has been a repayment of foreign tax suffered to a person other than the claimant. Companies will now be obliged to notify HM Revenue & Customs and amend their claims for double tax relief accordingly. This takes effect on 22 April 2009.

Corporate intangible assets

The Budget measures include clarification of certain aspects of the 'regime' applicable to goodwill and other internally generated assets. The Finance Bill 2009 will confirm that the definition of goodwill includes internally-generated goodwill and also clarify whether this should be treated as created before or after 1 April 2002. The legislation will take effect from 22 April 2009 and will be treated as always having had effect.

Loan relationships and connected companies

There are two changes to the rules regarding the taxation of loan relationships between connected companies and these will mostly affect companies in groups. The first change will give symmetry of treatment for the debtors and creditors within a group in that the write off of a debt between connected companies will have no tax effect for either party: this takes effect on 22 April 2009. The second change allows interest to be allowable as a deduction on an accruals basis to a connected company which is outside of the loan relationship rules so long as the creditor company is not resident in a 'tax haven.' This change takes effect for accounting periods beginning on or after 1 April 2009.

Venture capital schemes

This Budget sees a number of improvements to the various schemes. For Enterprise Investment Schemes there is a relaxation of time limits for the employment of the money invested (effective 22 April 2009) and also the removal of the link to other shares of the same class issued at the same time as qualifying shares (effective for shares issued on or after 22 April 2009). There is also an extension of the period for carry back of relief and the ability to carry back the full amount subscribed subject only to the overriding limit which will be effective for tax years commencing 6 April 2009 onwards. An anomaly has also been cleared up which arose on an investor's capital gains tax position in the event of a share for share exchange (effective for new holdings issued on or after 22 April 2009).

There is a relaxation of the time limits for investment of sums raised by Corporate Venturing schemes (effective 22 April 2009) and the Venture Capital Trust schemes (effective for funds raised on or after 22 April 2009).

Groups

Groups which include subsidiaries with preference shareholders issued to external investors will not lose the ability to claim group relief. This will be of particular importance to subsidiaries registered with the FSA which have been recapitalised using preference shares as Tier 1 regulatory capital. This will become effective for accounting periods commenced on or after 1 January 2008.

Losses denominated in foreign currency

Companies which incur a loss for tax purposes computed in foreign currency and then use that loss to offset a profit in a different accounting period must now use the same conversion rates for the loss and profit offset. This was first announced on 18 December 2008 and will apply to accounting periods commencing on or after 29 December 2007 unless an election is made for deferment until the first accounting period beginning on or after Royal Assent to the Finance Bill 2009.

Anti avoidance provisions

In common with all recent Budgets this year's announcements include a long list of various anti avoidance measures the most notable being those below.

Two schemes have been reported to HM Revenue & Customs which are now being tackled. The first concerns intra-group finance arrangements under a bond which is highly likely to convert into shares of the issuing company. The scheme involved obtaining a deduction for the accrued interest on the bond which exceeded the amount accounted for as received by the creditor.

In the second scheme a company would de-recognise a derivative contract carried at fair value resulting in profits falling out of account for tax purposes. Both these schemes are rendered ineffective for debits and credits on or after 22 April 2009.

Draft legislation had been published on 13 November 2008 to deal with tax avoidance in respect of plant and machinery leasing. This ensures that sale and leaseback arrangements do not result in more relief than would have been due if the lessee had obtained its own finance. It also dealt with tax avoidance by lessors granting long leases and obtaining an excessive amount of relief at the end of the leasing period. These measures will take effect from 13 November 2008. There are also new definitions of sale and leaseback arrangements which take effect on 22 April 2009.

Schemes which abuse the foreign exchange matching rules by matching gains or losses on borrowings or derivatives will also be blocked for accounting periods beginning on or after 22 April 2009.

Returns from arrangements which produce 'disguised interest' will be treated as interest and taxed accordingly for corporation tax purposes (effective for arrangements entered into on or after 22 April 2009). The Finance Bill will also introduce a measure to deal with the 'payment of manufactured interest.' This measure was first announced on 27 January 2009 following a High Court decision.

The tax treatment of such payments will follow the accounting treatment applicable under UK Generally Accepted Accounting Practice (effective for payments made on or after 27 January 2009).

New regime for business cars

The 2008 Budget announced the abolition of 'expensive cars' for the purposes of capital allowances and its replacement by an emissions based system. The details of the proposals were announced in December 2008. The Government confirmed the changes on 1 April 2009 and published revised draft legislation. The new rules will generally be effective for expenditure (or leases) on or after 1 April 2009 for companies and 6 April 2009 for unincorporated businesses. The regime provides for capital allowances to be given according to the CO₂ emissions of the car.