

Budget Statement 2013

Wednesday 20 March 2013

Headline announcements

- **Corporation tax cut by 1% to 20% from 2015** – The Chancellor said he will have achieved the largest cut in corporation tax in a single parliament in history.
- **Additional help for small businesses seeking credit** – In addition to continuing the Funding for Lending Scheme, the Chancellor announced the publication of the first strategy for the Business Bank and confirmed that it will deploy £1bn of new capital.
- **A second phase of the red tape challenge will be launched shortly** – the second phase will look at the whole regulatory system, focussing on business activities where negotiating the system is particularly complex.
- **New measures to support the housing market** – A new help-to-buy scheme will be introduced. If you put down a 5% deposit, the government will offer a 20% loan and a mortgage guarantee will help lenders provide loans to people without deposits.
- **Increased investment in capital projects** – Whitehall spending cuts will reach £3bn (not the £2.5bn predicted), and will be reinvested in a capital expenditure programme aimed at roads, railways and broadband connectivity.
- **Employers' national insurance will be cut from April next year** – new employer allowance announced.
- **Tax avoidance measures** – the UK's first General Anti-Avoidance Rule will be introduced; the Government will shortly consult on new proposals to 'name and shame' the promoters of tax avoidance schemes, intending to tackle both the supply and demand of these schemes.

Links to key documents

- [The Budget Statement \('The Red Book'\)](#)
- [The Office for Budget Responsibility: Economic and fiscal outlook](#)
- [Full transcript of the Chancellor's Statement](#)

Economic outlook

1. The OBR's economic and fiscal outlook, published alongside the budget, includes a downgraded economic growth forecast for 2012 and 2013. The OBR expects growth of just 0.6% in 2013 and 1.8% in 2014.
2. The labour market, however, continues to surprise, despite the continued weakness of GDP growth. Employment rose to 29.7 million in the three months to December. This was driven by an increase in full-time employees. The unemployment rate is expected to remain static at 7.9%.
3. The OBR report goes on to comment on the outlook:

'There are grounds for optimism... with relative calm in the Euro area and the Funding for Lending Scheme (FLS) helping to improve bank lending conditions. But there is little

evidence that this is yet increasing lending to the real economy. The situation in the Euro area also remains a risk, with the underlying situation still fragile'

4. Overall, the OBR does not expect growth to return to above-trend rates until 2015, as credit conditions begin to normalise and real wages and productivity start to recover, supporting the growth of consumption.

	2011	2012	2013	2014	2015	2016	2017
GDP growth (%)	0.9	0.2	0.6	1.8	2.3	2.7	2.8
Inflation (CPI)	4.5	2.8	2.8	2.4	2.1	2.0	2.0
Employment (millions)	29.2	29.5	29.8	29.9	30.1	30.3	30.5
ILO unemployment rate (%)	8.1	7.9	7.9	8.0	7.9	7.4	6.9

Fiscal outlook

5. Public sector net borrowing (PSNB, i.e. the deficit) is estimated to have fallen by about a quarter from its post-war peak of £158.9bn (11.2% of GDP) in 2009-10 to £121bn (7.9% of GDP) in 2011-12. The OBR forecast that it will come in at £85.5bn (5.6% of GDP) this year.
6. The OBR is cautious about further reductions in the deficit in the near future, noting that:

'Given the uncertainty surrounding all public finance forecasts – and the typical size of revisions to the outturn data – the small falls in PSNB in 2012-13 and 2013-14 are fiscally and statistically insignificant'.
7. The continuing deficit means that public sector net debt (PSND) continues to rise as a percentage of GDP, up to a peak of 85.6% of GDP in 2016-17, before falling slightly in 2017-18.

	11/12	12/13	13/14	14/15	15/16	16/17	17/18
Public sector net borrowing (% of GDP)	7.9	5.6	6.8	5.9	5.0	3.4	2.2
Surplus on current budget	-6.0	-6.0	-5.2	-4.3	-3.5	-1.9	-0.9
Public sector net debt (% of GDP)	71.8	75.9	79.2	82.6	85.1	85.6	84.8

Main taxation changes

8. **Corporation tax: main rate** – The Government will reduce the main rate of corporation tax to 21 per cent from April 2014, as announced at Autumn Statement 2012. Budget 2013 announces an additional 1 percentage point reduction to 20 per cent from April 2015.
9. **Bank Levy rate** – The Government will legislate in Finance Bill 2013 to set the full rate of the Bank Levy at 0.130 per cent from 1 January 2013. From 1 January 2014, the Government will legislate in Finance Bill 2013 to set the full rate of the Bank Levy at 0.142 per cent.
10. **National Insurance: £2,000 Employment Allowance** – The Government will introduce an allowance of £2,000 per year for all businesses and charities to be offset against their employer NICs bill from April 2014.

11. **Income tax: personal allowance in 2014-15** – The Government will increase the income tax personal allowance to £10,000 in 2014-15. The basic rate limit will decrease to £31,865 in line with the Autumn Statement 2012 decision to increase the higher rate threshold by 1 per cent to £41,865. The personal allowance will then be increased by CPI from 2015-16.
12. **Stamp tax on shares: growth markets** – Following consultation, the Government will abolish stamp tax on shares in companies quoted on growth markets such as the Alternative Investment Market and the ISDX Growth Market.

Avoidance measures

13. **International agreements to improve tax compliance** – The Government will include legislation in Finance Bill 2013 to implement the UK-US Agreement to Improve International Tax Compliance and to Implement FATCA. Final Regulations will be issued shortly. The Isle of Man, Guernsey and Jersey have agreed to enter into similar automatic exchange agreements.
14. **General Anti-Abuse Rule (GAAR)** – As announced at Budget 2012, the Government will introduce a GAAR in this year's Finance Bill to tackle abusive tax avoidance schemes.
15. **Corporate 'loss buying'** – The Government will introduce targeted anti-abuse rules, with immediate effect, to prevent companies entering into arrangements with unconnected third parties where the potential to create corporate losses are bought and then relieved against profits unconnected from the activity from which they arose.
16. **Enhanced information powers for tax avoidance schemes** – The Government will consult on new powers to take tougher action against high risk promoters of tax avoidance schemes, including new information and penalty powers, and the possible use of 'naming and shaming'.
17. **Penalties in avoidance cases** – This measure announces a consultation on a penalties-based approach to taxpayers who fail to settle with HMRC in circumstances where an avoidance scheme has been defeated in another party's litigation through the courts.
18. **Review of two areas of partnership tax rules where tax is being lost** – Following an announcement at Autumn Statement 2012 to review partnerships as a high risk area of the tax code, this measure confirms consultation on legislation to counter the use of LLPs to disguise employment relationships and the artificial allocation of profit/loss to secure tax advantages.

Employment law related announcements

19. **CGT: employee shareholder status** – As announced on 8 October 2012 the Government will exempt from CGT gains on up to £50,000 of shares received by individuals adopting the new employee shareholder employment status. The CGT exemption will apply to shares received from 1 September 2013, when the new status comes into force.
20. **Employee shareholder status** – To ensure that the first £2,000 of share value received by those adopting the new employee shareholder status is free from income tax and NICs, the Government will legislate to deem that employee shareholders have paid £2,000 for shares they receive from 1 September 2013, when the new status comes into force.

21. **Employee ownership: additional support** – The Government will provide £50 million annual funding from 2014-15 to support employee ownership. This will include the introduction of a CGT exemption on qualifying disposals of a controlling interest in a business into an employee-owned structure from April 2014.

Housing and planning related measures

22. **Help to Buy: mortgage guarantee** – The Government will create the Help to Buy: mortgage guarantee to increase the availability of mortgages for those with small deposits across the
23. **Help to Buy: equity loan** – From 1 April 2013 Help to Buy: equity loan will be opened up to all those who aspire to own a new build home. The Government will:
- 23.1. provide an equity loan worth up to 20 per cent of the value of a new build home, repayable once the home is sold;
 - 23.2. significantly widen the eligibility criteria for shared equity to ensure as many people as possible are able to benefit. The maximum home value will be £600,000 and there will be no income cap constraint; and
 - 23.3. ensure that the scheme is open not only to first time buyers but also to all those looking to move up the housing ladder.

Other Stimulus measures

1. **Capital spending plans** – The Government has increased capital spending plans by £3 billion a year from 2015-16. The Government will take a long-term approach to capital as part of the 2015-16 Spending Round, setting plans out to 2020-21 for the most economically valuable areas of capital expenditure.
2. **Industrial Strategy** – The Government will provide £1.6 billion to support a range of sectors as part of the Industrial Strategy. From this fund the Government, in partnership with industry, will create an Aerospace Technology Institute. This will provide £2.1 billion of R&D support to the aerospace sector over seven years, with government and industry contributing equal shares. Funding for other sectors will be announced later in 2013.
3. **Research and Development (R&D) tax credit: 'Above the Line' (ATL)** – As announced at Autumn Statement 2011, the Government will introduce an ATL credit for large company R&D expenditure incurred on or after 1 April 2013. Budget 2013 increases the ATL credit to a rate of 10 per cent before tax. Companies with no corporation tax liability will be able to claim a payable credit. The ATL credit will be introduced alongside the existing super-deduction in April 2013, and will fully replace the super-deduction in April 2016.
4. **Growth Vouchers** – The Government will provide £30 million for an SME Growth Vouchers programme to test a variety of approaches to help SMEs overcome barriers to achieving growth.

For further information please contact:

Richard Heinrich (Government and Parliamentary Affairs Unit)

T: 020 7316 5527 / M: 07794 335509

E: Richard.Heinrich@lawsociety.org.uk