

# Briefing

## Emergency Budget 2010

The Rt Hon George Osborne MP delivered his first budget and honoured a Conservative manifesto commitment to hold an emergency budget within 50 days of forming a new government.

The theme of the budget was balance, simplicity and fairness where everyone did their bit and where measures would affect higher and lower earners.

### Capital spending

For the construction industry, the relief came early on with the news that there would be no reduction in capital spending. This means that, certainly for the time being, the government would continue to invest in the major building projects. The approach being taken is not to reduce the total being spent, but to look at how the money is spent. Priority will be given to those projects that produce the greatest economic benefit. The government is still committed to a spending review in the autumn, so there may still be a comprehensive review of capital projects such as Building Schools for the Future.

### Income tax

The personal allowance for basic rate taxpayers under 65 will be increased by £1,000 to £7,475 in April 2011. This will move approximately 880,000 of the lowest paid out of the tax net altogether.

### VAT

From 4 January 2011, the standard rate of VAT will rise from 17.5% to 20%. While the government was not expected to raise the rate, the ease with which it can be done explains the move. VAT is seen almost as a one-arm bandit: the government raises the rate and money comes pouring into the Treasury. It is a simple tax lever, and faced with the enormity of the deficit and the government's aim to spread the load across the population, it was probably too easy an opportunity to pass up.

The NFB is disappointed that the government has still not recognised the benefit of reducing the standard rate to 5% for repair and refurbishment work. Raising the standard rate to 20% has widened the gap between reputable builders and those operating in the black economy.

Perhaps to counter this, the government will raise the threshold from which businesses are obliged to pay VAT. The current threshold is currently £2 million. The government has not said what the new threshold will be, but it will legislate the change in 2011.

### Corporation tax

The current rate is 28%. The government will reduce the rate of corporate tax by 1% each year until the rate reaches 24%.

### Small companies tax

This has been reduced from 22% to 20% and is a welcome reduction in the overall tax burden. When Mark Prisk met NFB members in July 2009, this was one of the measures he said he would like to cut. Now, as both the minister with responsibility for construction and for small business, it is clear he continues to recognise where measures can make a difference.

## Enterprise Finance Guarantee (EFG) scheme

Banks have come together to publish a set of principles that they will follow when lending to SMEs. Taken with the extension to the EFG scheme, this recognises the importance of lending as well as the difficulties that SMEs have faced when trying to obtain credit. An additional £200 million has been added to the amount available to claim before April 2011 - £700 million in total – and there is a 20-day limit on responding to applications banks should not keep businesses waiting indefinitely for a decision. The six binding principles are:

- Banks are happy for SMEs to bring their professional advisers with them to support them in their discussions with their business manager, acknowledging shadow directorship boundaries in the provision of advice
- Banks will use either in house guides or industry-standard literature to provide guidance on the factors that determine pricing.
- Banks will always inform customers of the time it will take for a lending decision to be taken, starting from the point when a full suite of information is provided to complete an application.
- Banks will ensure they have fair and effective processes in place to review decisions to decline a lending request.

- Wherever practical, banks will provide clear feedback to SMEs when a decision has been taken to decline a borrowing request and what next steps they might take, for example contacting Business Link for further advice and support.
- Banks will work with SME representatives and with the lending code standards board to promote both these initiatives and the lending code itself.

A new enterprise capital fund of £37.5 million will be introduced to provide additional equity finance for small businesses.

In addition to these measures, the business secretary Vince Cable will review business finance and publish his findings in summer 2010.

## Plant/Assets and capital allowances

The rate of capital allowances on the general pool of plant and machinery will be reduced from 20% to 18%, and the rate of allowance in the special rate pool of plant and machinery will be reduced from 10% to 8% from April 2012.

## Finance for regional capital projects

While the budget attempted to spread the pain, it also attempted to widely distribute some benefit. A regional growth fund in 2011-12 and in 2012-13 will support an increase in business employment and growth in England.

As part of a change to regional development, the government will abolish regional development agencies and replace them with local enterprise partnerships that will improve the co-ordination of public and private investment in transport, housing, skills regeneration and other areas of economic development.

## National insurance contributions

From September 2010, any new business will not have to pay the first £5,000 of Class I employer national insurance contributions for the first year that they are in business 12 months of employment for each of the first ten employees.