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Impact of the 2010 Emergency Budget on Manufacturers

During his Budget speech, George Osborne told us that "Manufacturing as a whole will pay less tax". Whether this is the case remains to be seen as there will no doubt be winners and losers depending on whether the reduction in corporation tax rates outweighs the capital allowances reductions."

There were many headline-grabbing measures in the recent emergency Budget but not many appear to be of benefit to Manufacturers. On the tax front there were increases in VAT (from next year) and CGT (immediately) while corporation tax will be reduced over the next four years from 28% this year to 24% from 1 April 2014 (a potential benefit for Manufacturers with significant profits).

Employers were given some relief, in relation to employees earning under £21,000, from the effect of the increase in the employer's National Insurance Rates.This is in addition to the NIC "holiday" that will apply to new businesses set up outside the South and East of England after 22 June 2010. The actual starting date for the holiday is uncertain, but 6 September is the current proposed date. So for those thinking of setting up a new business this may encourage them to get started.

The increase in Capital Gains Tax is largely balanced, for business owners, by the increase in the Entrepreneurs' Relief allowance from the first £2,000,000 to £5,000,000 of gains on qualifying assets (part of a business or shares in a trading company). Individuals realising gains on qualifying assets of up to £7,400,000 are likely to be better off under the new system. This may stimulate the serial Entrepreneur and be of benefit to the Manufacturer thinking of retiring, but it is of less interest to those trying to manage and grow their manufacturing business in these difficult times.

George Osborne showed, once again, that if there is one thing that no Chancellor of the Exchequer can resist it is fiddling with the capital allowances rules.

The changes proposed to come into effect from the 1 April 2012 are:

·A reduction in the AIA from £100,000 to £25,000;

·A reduction in the main plant and machinery capital allowances rate from 20% to 18%; and

·A reduction in the "special" (i.e lower) rate of capital allowances from 10% to 8%.

The justification for the reduction in the rates is to align the rates more closely with commercial depreciation.The fact that it will increase tax take in the short term is, presumably, a welcome side effect!

While the headline rate of corporation tax is being reduced from 28% to 24% over four years, and the small companies' rate is being reduced from 21% to 20% with effect from 1 April 2011, the changes to capital allowances rates means that larger companies, and companies with a high capital spend will see their tax base increase thus finding themselves no better off. It may also be a further disincentive for Manufacturers to invest in plant in the UK.

The Chancellor explained in his speech, that businesses would still be able to obtain a full deduction for their capital expenditure, but over a longer timescale.As an illustration, the number of years required to obtain relief for 90% of the cost of an asset at different rates is illustrated below.

Rate	25%	20%	18%	10%	8%
Number of years to obtain 90% relief	8	11	12	22	28

The effect on companies spending more than £25,000 on qualifying assets is even more pronounced as expenditure between £25,000 and £100,000 which, until 1 April 2012, would qualify for an immediate write off.Relief for this expenditure will now be spread out over a number of years.

The Chancellor said that the £25,000 AIA would still mean that 95% of businesses would obtain an immediate write off for all annual capital expenditure.In cases where this will not be sufficient, businesses would be well advised to make what capital investments they can before 1 April 2012.As always, maximising claims by identifying all qualifying expenditure and allocating this to the correct pool is essential, particularly where buildings are being acquired.Also, the various 100% first year allowances, for energy efficient and environmentally beneficial plant or machinery (including low emission cars) should be used to the greatest extent possible.

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