



Institute for  
Fiscal Studies



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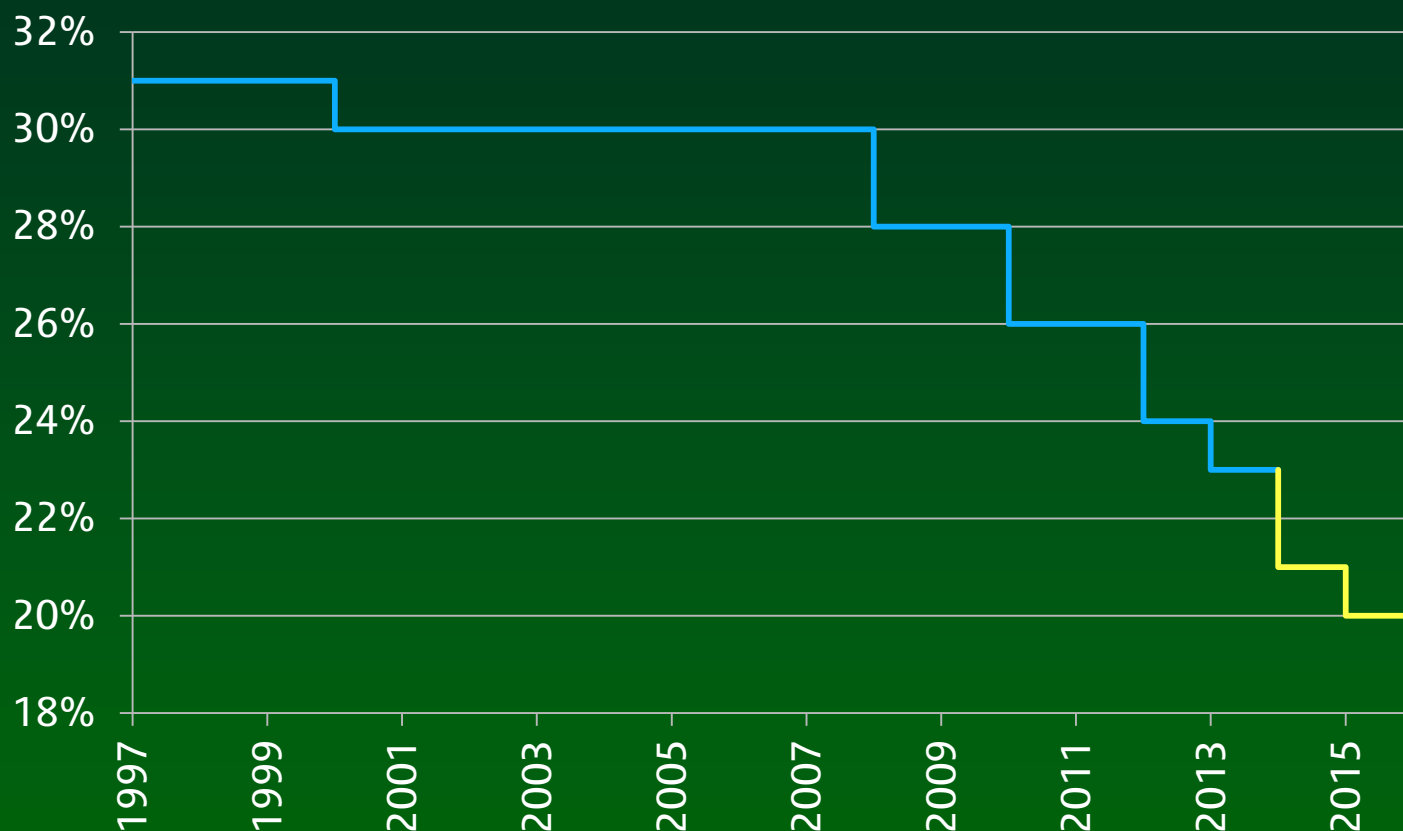
## Business and energy policies

Helen Miller

# Range of measures aimed at business

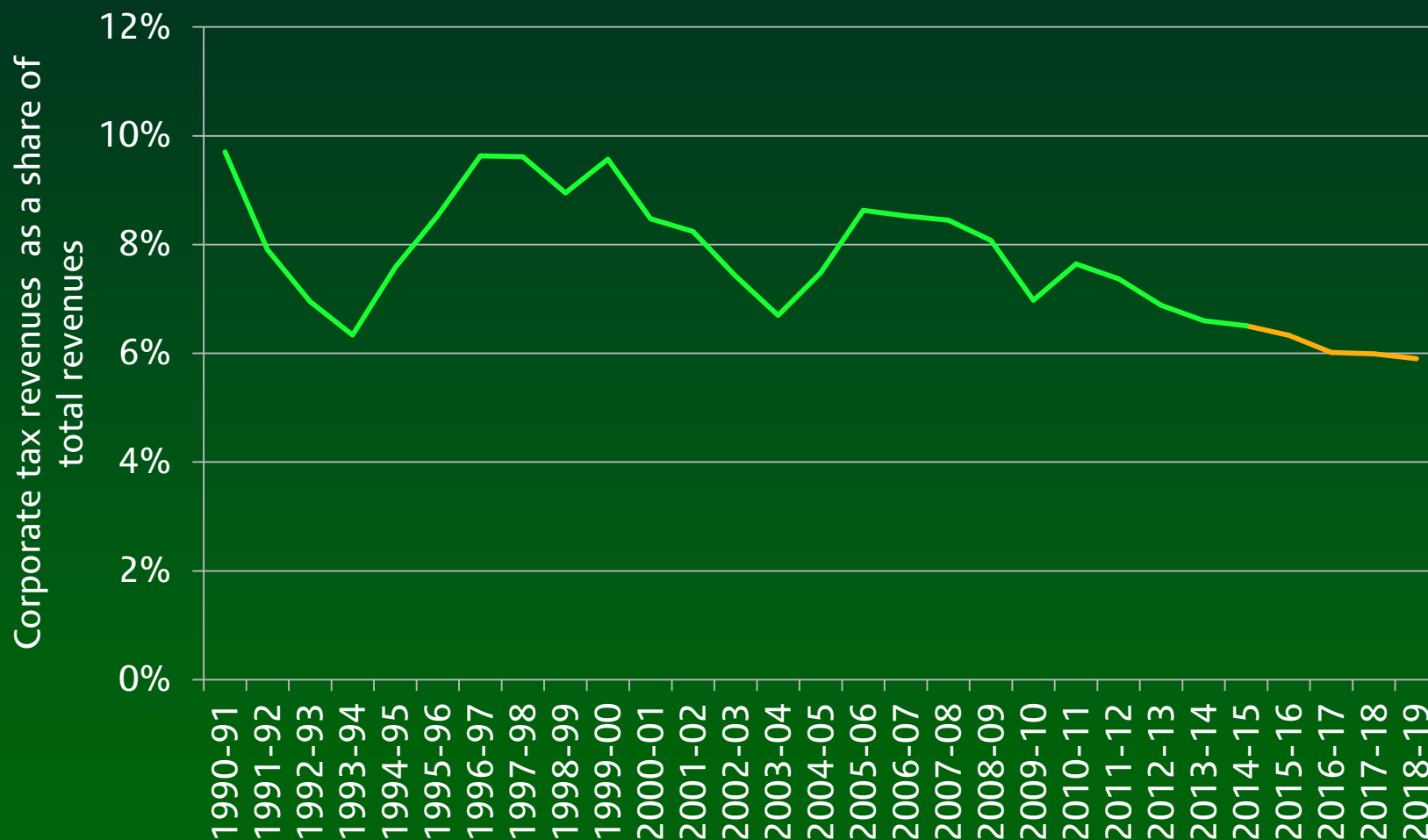
- Extension of business rate discounts and enhanced capital allowances for enterprise zones
- Some small pots of money for specific initiatives around research and innovation
- Simplification of employee benefits and expenses, employee share schemes and partnerships (following OTS recommendations)
- Increase funding to support export finance
  - direct loans of up to £50 million to overseas buyers of UK exports
  - Budget 2014 doubled total funding for scheme to £3 billion

# Main corporate tax rate



- Main statutory rate will be cut to 21% in April 2014 and 20% in April 2015

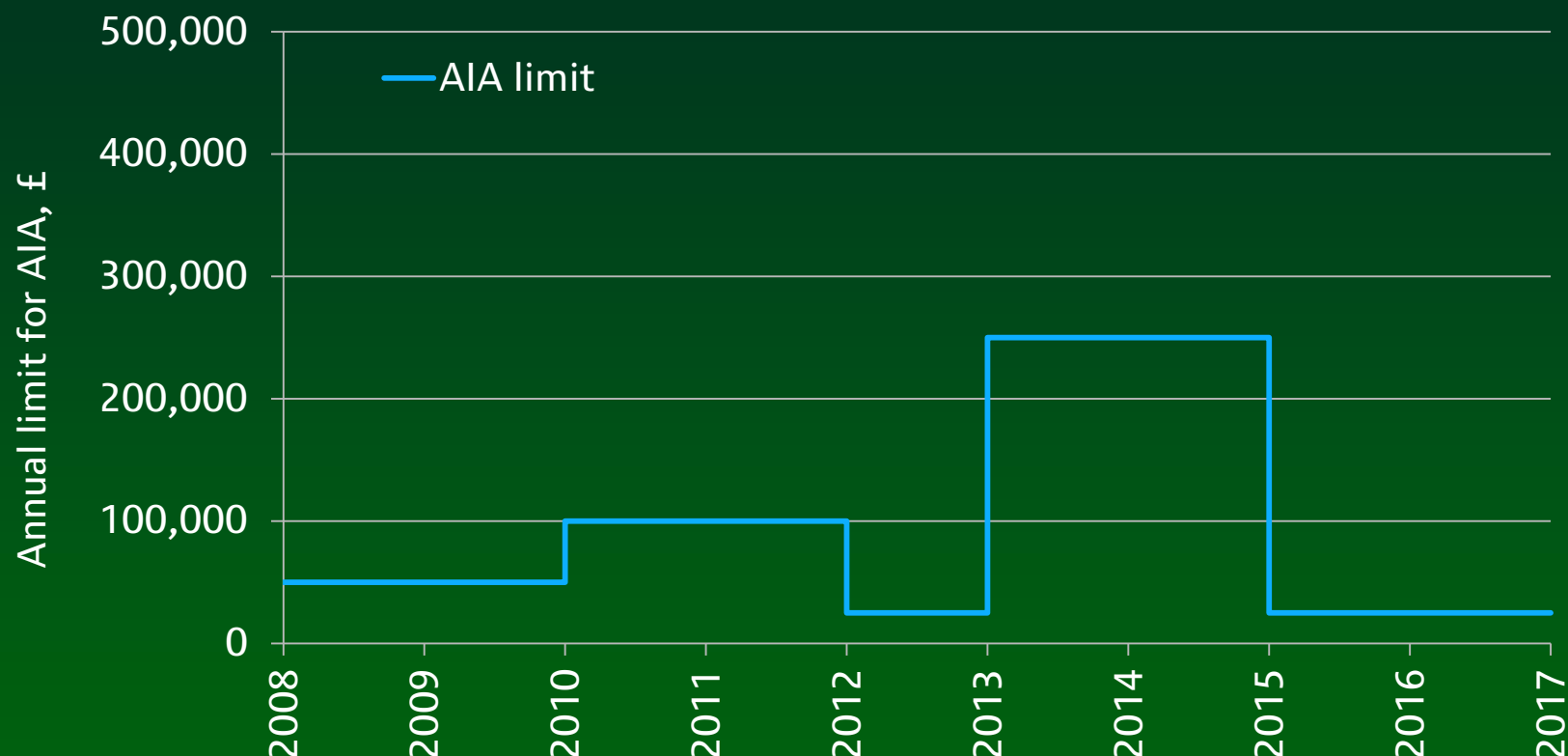
# Corporate tax revenues



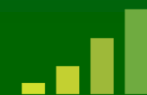
# Annual Investment Allowance (AIA)

- 100% allowance that allows immediate deduction of expenditure on most plant and machinery from taxable profits, up to an annual limit

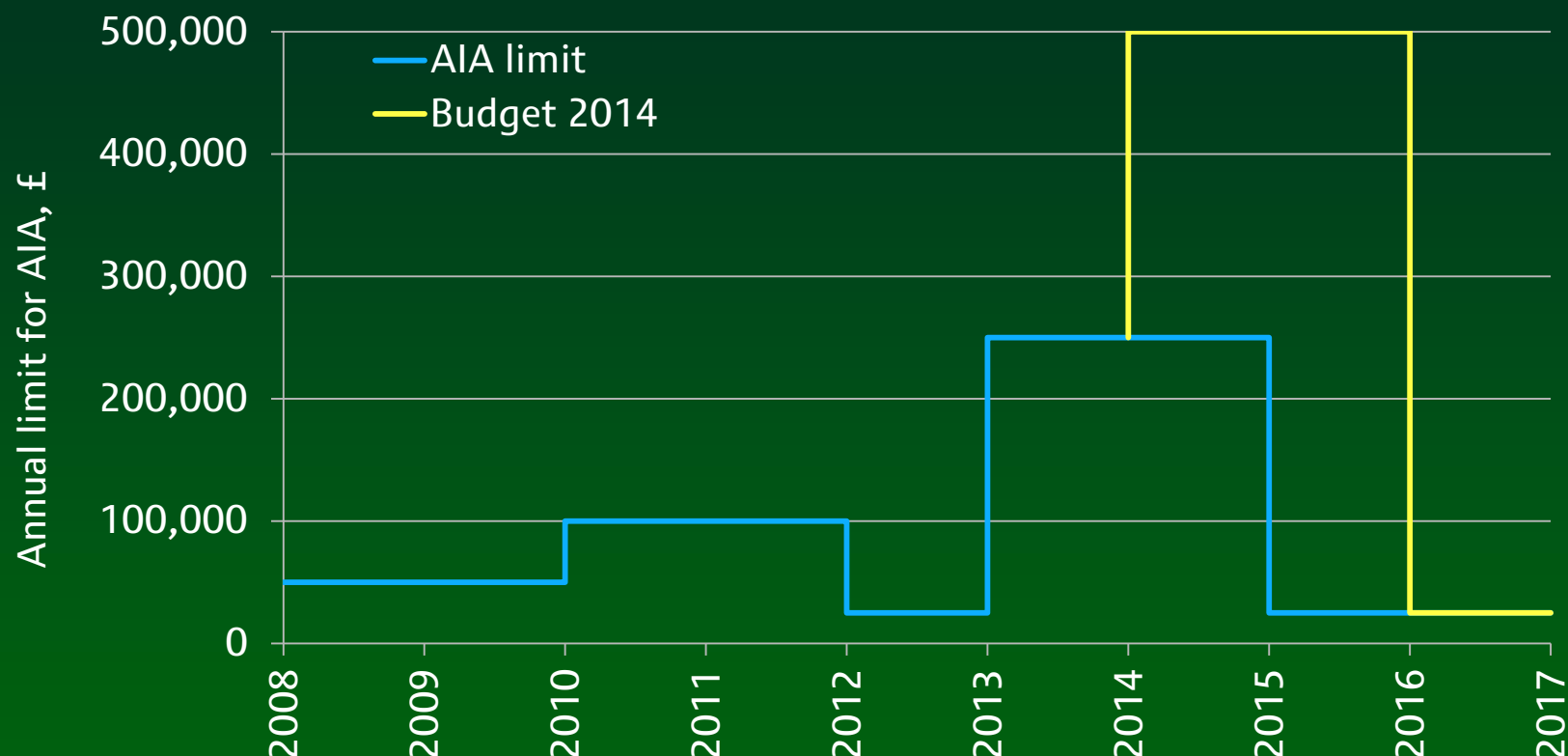
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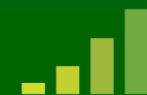
- AIA set at £250,000 for 1 Jan 2013 – 31 Dec 2014. Would have returned to £25,000 in January 2015. Now £500,000 from April 2014 to end of 2015



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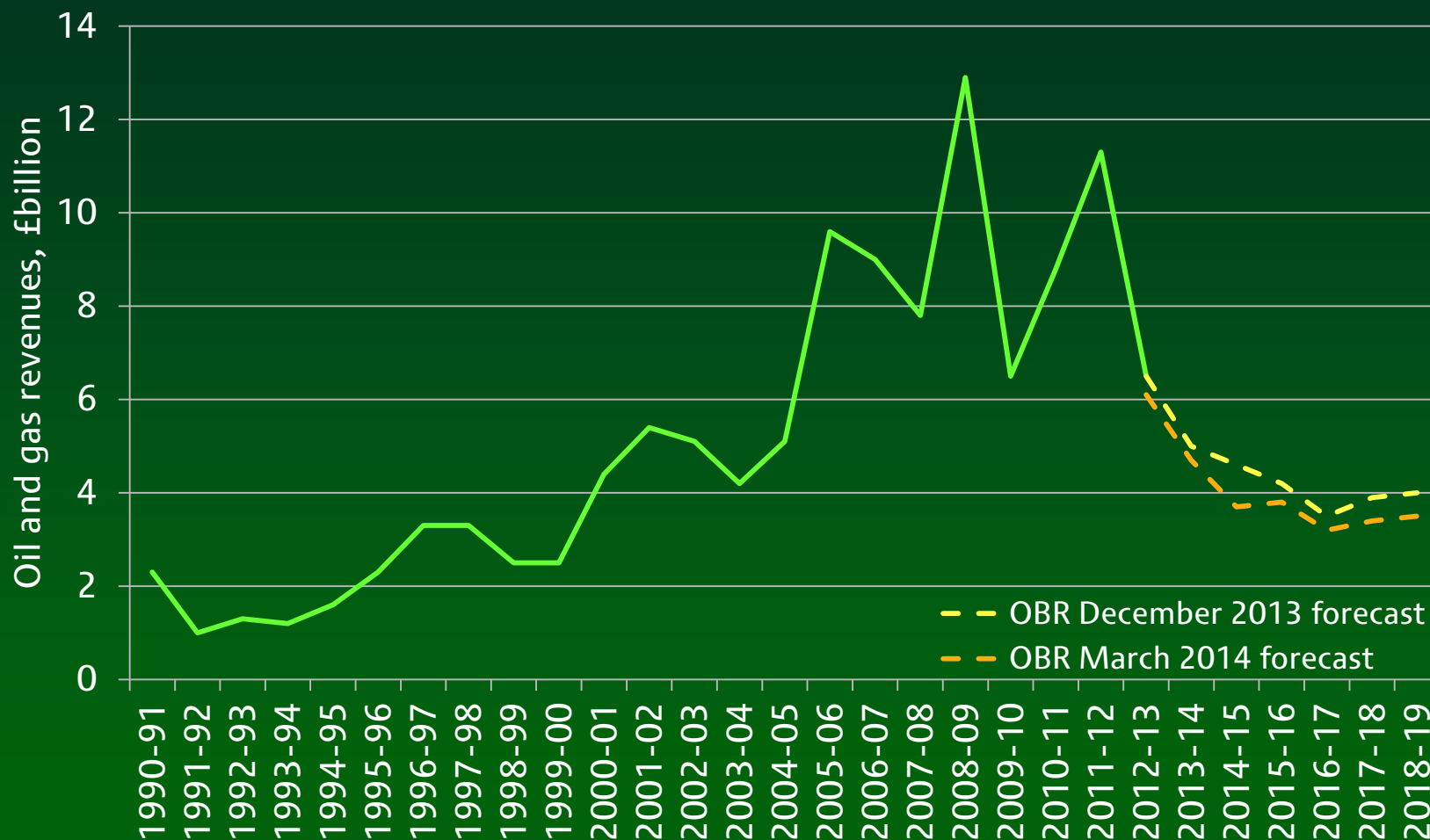
- Increasing AIA limit to £500,000 from April 2014 to end of 2015
  - £2bn upfront cost, largely recovered in cash terms later
- Reduces disincentive to investment
  - but why restrict AIA to only plant and machinery – this distorts the treatment of different assets
  - and why favour investment in that takes place April 2014 to end 2015?
- Constant changes create an administrative burden
- Instability is highly undesirable



# Other measures in the corporate tax system

- R&D tax credits
  - SMEs can deduct 225% of allowable R&D costs from taxable profits
  - part of the credit is repayable in cash for loss-making SMEs
  - repayable credit rate increasing from 11% to 14.5% from April 2014 (previous changes: 1 August 2008: 14%; 1 April 2011: 12.5%; 1 April 2012: 11%)
  - cost: £50m 2015-2016

# North sea tax revenues



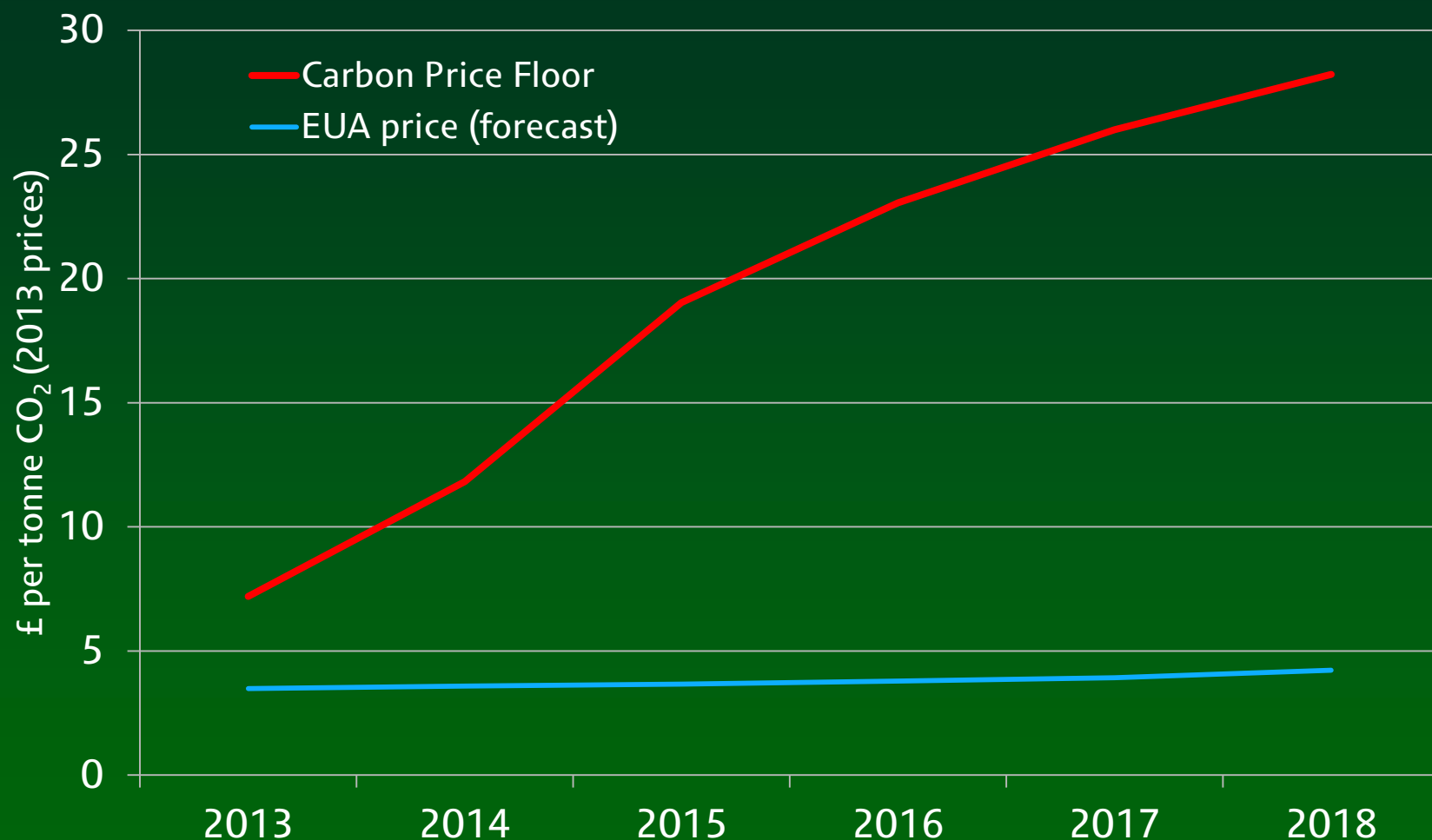
# Other measures in the corporate tax system

- North Sea fiscal regime
  - revenues from North Sea have been falling over time and the OBR has revised down its forecasts
  - government to undertake a review of the taxation of North Sea activities in collaboration with a new ‘oil and gas body’
  - aim to incentivise exploration as fields mature

# Energy measures

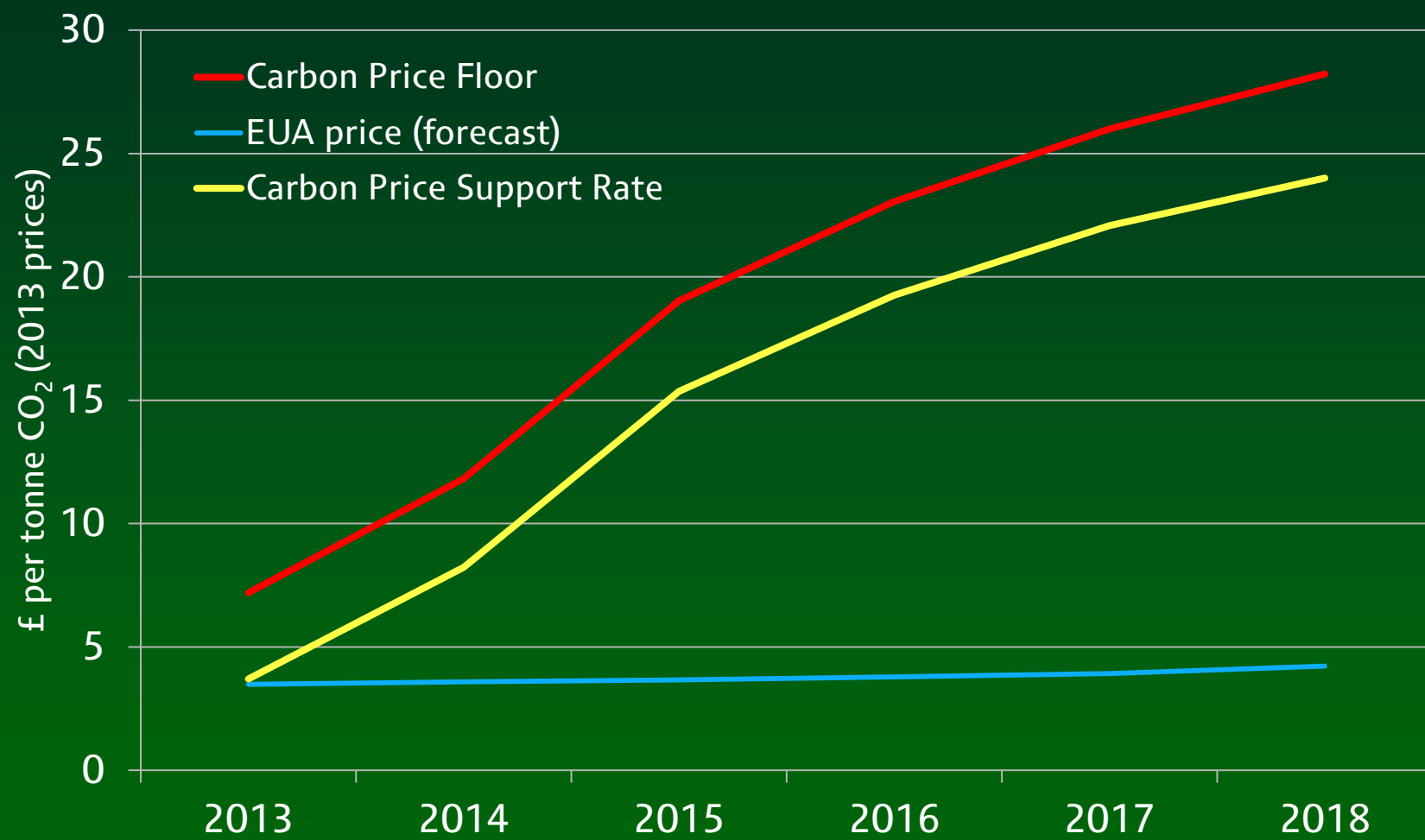
- Compensation for ‘energy-intensive industries’
  - for higher electricity costs resulting from the renewables obligation and small-scale feed in tariffs for renewable generation
  - remove competitive disadvantage of energy-intensive companies
  - unclear what the best method of compensation is
- Carbon Price Support Rate (CPSR)
  - CPSR introduced in April 2013 to ‘top up’ the EU Emission Trading Scheme carbon price to meet the Carbon Price Floor (CPF) set by the government
  - applies to all UK generators of fossil-fuel-based electricity

# Carbon Price Support Rate (CPSR)

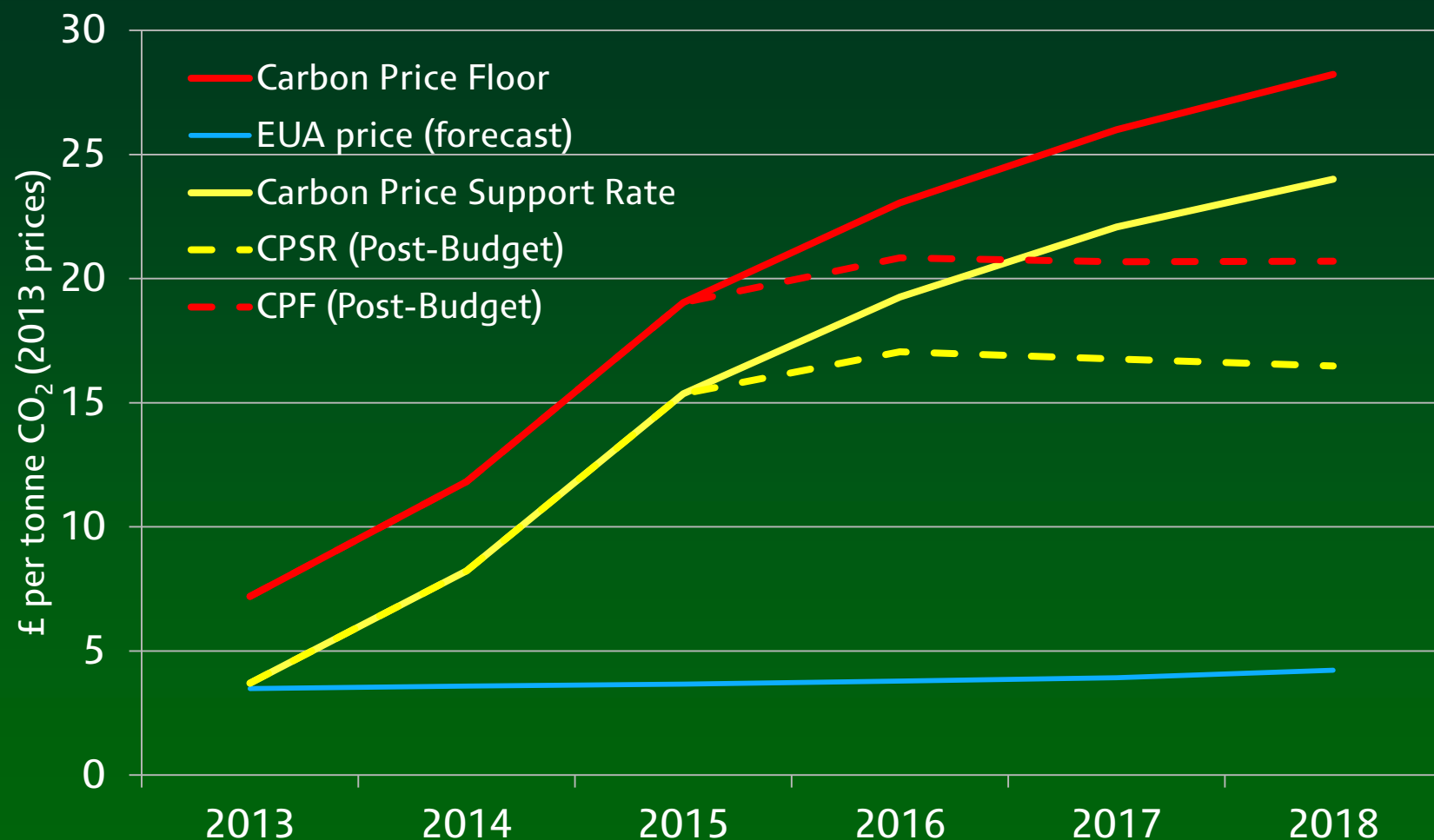


EUA price shows the forecast price of purchasing an EU ETS permit to emit one tonne of CO<sub>2</sub>

# Carbon Price Support Rate (CPSR)



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- Budget 2014: CPSR cap of £18/tCO<sub>2</sub> from 2016-17 to 2019-20
  - cost: £340m, £615m & £870m in 2016-17, 2017-18 and 2018-19
- Provides savings for businesses and households in the short run
- The policy relies on the credibility of the price signal
  - this is damaged by the cap
  - 2020s CPF trajectory review hints at further changes



# Other environmental measures

- Cuts to air passenger duty for long-haul flights
  - reduces cost of around 9 million flights by between £17 and £58
  - 0.3 million tonnes more carbon dioxide emissions
  - costs £225m in 2016-17
- Company car taxation
  - 2% increase in the tax on most cars in each of 2017-18 and 2018-19
  - continuing recent series of increases
  - raises £480m in 2018-19

# Summary

- Range of measures aimed at promoting investment
- Most were relatively small and are unlikely to make a substantial difference to the weak performance of UK investment and exports
- The exceptions to this were generous capital allowances and policies to lower the cost of energy
- Unwelcome theme was temporary policies or frequent changes that add uncertainty