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Tax cuts for business, tax rises for the rich

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Tax cuts for businesses

- Rise in small companies' corporation tax rate from 21% to 22% delayed for another year
 - Costs one-off £500m
- Temporary increase in threshold for tax on empty business properties extended for another year
 - Costs one-off £125m
- Continuation of 'time to pay' scheme
- Corporation tax rate on income from patents reduced to 10% from 2013
 - No details yet
 - Costs £1.3bn

A 'patent box'

- Stated aim is to encourage innovation in the UK
 - Other policies like infrastructure investment and R&D tax credit likely to be more effective
- Patents need not be held in same country as R&D undertaken
- Patent box might encourage UK holding of patents
 - Bring/keep mobile income in the UK
 - Competition from tax havens + from others introducing patent boxes
- But lower tax on patent income here anyway is deadweight cost
- Measuring income 'from patents' will be very hard
 - Straightforward where licensed at arms' length. But otherwise...
 - How identify how much income is attributable to the patent?
 - A major transfer pricing problem

Tax rises for the rich

- Inheritance tax threshold frozen at £325,000 for 2010-11
 - PBR 2007 had announced an increase to £350,000
 - This change raises £190m in 2012-13
- More detail on restricting tax relief on pension contributions above £150,000
 - Still looks difficult and complicated
 - £150,000 threshold now for income including employer pension contributions
 - Raises an extra £500m
- Tax on bankers' bonuses
 - Extra 50% tax on discretionary bonuses above £25,000 paid to bankers before April 2010 (and possibly beyond)
 - Effective tax rate (including effect on corporation tax) rises from 27.3% to 55.0% (compared with 39.7% after April 2010)
 - Forecast to raise a one-off £550m this year

Taxing bankers' bonuses

- Open question about fairness, but what are its likely effects?
- Temporary tax shouldn't itself change behaviour permanently
- But might it prompt fears of more to come?
 - Do 'one-offs' make people think other 'one-offs' more likely in future?
 - Follows tax rise for non-doms, 50% rate, etc – signalling a direction?
- Stop banks bringing forward remuneration to avoid the 50% tax rate
 - Then would raise nothing this year but something next year
 - Shows danger of pre-announcing tax rises – but not just for bankers!
- Can the tax be avoided?
 - Anti-avoidance measures to accompany the reform
 - Can it prevent e.g. 'promotion' now followed by 'demotion' next year?

Indirect taxes

- VAT rate to return from 15% to 17.5% in January 2010 as announced
 - But revisions to small business flat-rate scheme
- No new announcements on excise duties
- Very little on environmental measures