Business and energy policies

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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

Corporate tax revenues as a share of total revenues

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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
• 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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Annual Investment Allowance (AIA)

- 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
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 CO2.
Carbon Price Support Rate (CPSR)
Carbon Price Support Rate (CPSR)

• Budget 2014: CPSR cap of £18/tCO$_2$ 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