Impact of the Budget on Corporation tax, personal tax allowances and childcare support

Professor Andy Lymer

With little, if anything, to give away in tax cuts and the need to stimulate growth becoming clearer by the day, this year's Budget offered little in terms of give-aways or large tax hikes so was a largely unexciting affair. However, reviewing the predictions we made:

1. Corporation Tax main rate falling to 20% proved correct. This will come into effect from April 2015 so that all business will pay tax at 20% from that point on, irrespective of size.
2. Enterprise investment scheme amendments would be made – again correct. Further changes were announced to SEISs (Seed enterprise investment schemes) to extend Capital Gains Tax relief when reinvesting gains made in 13/14 in that year, or in 14/15.
3. Personal allowances will rise to £10,000 in advance of the promise for 2015 – again we were correct! This was one of the 'big' announcements this year. This new basic personal allowance rate will come into effect from April 2014 for everyone born after April 1948 (those born before this continue to get higher age related allowances as currently). Unlike other recent changes to this threshold however, it will not be offset by a decrease in the higher rate threshold meaning only those on lower incomes benefit from the rise. The higher threshold will also rise in 2014 (to £41,865). This is 1% higher than currently.
4. Childcare support - again we were spot on. New tax credits for vouchers for child care was announced of the value of up to £1,200 a year (actually 20% of these costs up to a maximum of £1,200) – albeit not commencing until the autumn of 2015. This will apply to almost everyone with children in the UK – only those where one parent (at least) earns more than £150,000 will not be eligible. It will start with those who have children under five and eventually apply to all with children under 12. Those families receiving Universal Credit will get extra support. They currently receive up to 70% of their childcare costs (to a cap) but this will rise to 85%. It is hoped this will help encourage more low income workers to work up to full time.

Of the other headline tax changes perhaps the National Insurance Contributions allowance of £2,000 off employers' (Class 1 secondary) contributions for all businesses (whatever their size) and charities stands out as an attempt to boost future employment levels given this directly helps make employing staff cheaper. I suspect this will particularly aid employment in small businesses where this will present a higher proportion of their NIC costs and may motivate them to take on extra staff (or they may just pocket the money in extra profits of course). However, as this won't come into effect until April 2014 it will not have an immediate effect on job creation.

The cancelling of the fuel duty rate rise that was due in September (1.89p/litre) will also be welcomed by all – although scrapping something that hasn't happened is not really making anyone better off of course and prices are unlikely to fall because of this, which really would have helped directly – just makes us feel better somehow.

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