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, I doubt we will have much in the way of big surprises this year. I suspect we may see announcements in the following four areas:

1. Corporation tax – further development of rules to tackle tax avoidance by corporates seems likely as a response to the continued political and public disquiet about huge who pay very little corporate tax. However, I would not be surprised to see a further drop in the main rate of corporation tax to assist with this process (on the basis that the lower the rate of tax the less value there is in seeking to avoid it). It is due to fall to 21% from 1 April 2013, and we may see an announcement that it will fall to 20% from next year- to bring larger and smaller businesses in line at this single rate.
2. Enterprise investment schemes – these have been a feature of Coalition budgets to date and I suspect further development of this area this year. This may include widening the eligibility of the Seed Enterprise Investment Schemes (SEISs). Introduced last year, these have now had a year to bed in.
3. Personal allowances rising to £10,000 – there is a clear promise that the basic personal allowance will be at least £10,000 by the end of the Parliament in 2015 but I suspect the Chancellor may seek political capital from doing this a year earlier and announce this rate from 6 April 2014, which should grab some headlines.
4. Childcare support – families have lost a number of arguably weakly targeted tax breaks in the last two years. This may be the time to provide some support back into the system that is better targeted at those who most need this help as working parents.

I think it is unlikely we will see any substantial new taxes on the wealthy, such as the mansion tax (although I think this will come eventually under whichever government we have post 2015), personal tax rates (as the 45p rate only commences 6 April 2013 so will be allowed to bed in for a while before further changes are made) or amendments to the Capital Gains Tax. In the latter case there have been calls for the upper rate (28% for 40% and 50% rate tax payers currently) to rise to perhaps 30% to narrow the large gap between this rate and the equivalent higher income tax rates. This would help rebalance the UK tax system with an increase in the under taxed area of wealth taxation, although sums involved may be small in practice. I also don't see a long term future for the large tax free lump sums from pensions. I suspect these will be capped in the not too distant future.

Andy Lymer, Professor of Accounting and Taxation, Birmingham Business School, University of Birmingham.