

A Budget for Business?

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An historic budget, indeed. Attention will focus on the huge mountain of debt, to be steadied over time only in the event of rather optimistic growth forecasts coming true. And what the Chancellor didn't even mention in his speech was the confirmation of the reform of our system of taxing international business which has been around for a century or more. That really is an important change in principle, if not immediate practice. In effect, the UK no longer asserts the right to tax the worldwide income of UK resident companies. Instead, it seeks only to tax income arising in the UK. That change ought to – though may not - have profound implications for the new Controlled Foreign Company regime, over which discussions are still taking place.

But what of the immediate help to business? The capital allowance rate has been increased to 40% for one year only. That may have a small effect on investment, but mainly to accelerate expenditure so that it takes place by the end of the fiscal year. Cash flows will be helped a little by the extension of the scheme to permit tax losses up to £50,000 to be carried back for 3 years, and by allowing the inflation uprating of business rates to be smoothed over three years.

But these three measures together cost only £2.4 billion in 2009/10. This is small beer by most of the standards of this budget. It is a drop in the ocean compared to the borrowing requirement. It is a fraction of the cost of the VAT reduction of £7.8 billion. And it is small in relation to drop in the expected revenue from corporation tax, which is forecast to fall from £46.9 billion in 2007/8 to £43.4 billion in 2008/9 and to only £34.7 billion in 2009/10.

Of course, a £12 billion fall in corporation tax may seem like a benefit to business. But at a 28% tax rate, that represents a drop in profit of over £40 billion. If business profit is expected to fall by £40 billion next year, then investment and employment will be badly hit. Of course, the Chancellor was constrained by the debt mountain in how far he could offset the effects of the downturn. But we cannot realistically expect a boost of only £2.4 billion to make much difference. So not a budget for business, or indeed really for anyone else either.