

Budget 2009 - key areas affecting manufacturers

CORPORATE AND BUSINESS TAXES

Corporation Tax Rates

Comment: The budget announcement maintains the current 21% rate for small companies and the headline rate of 28% for the year commencing 1 April 2010. It is disappointing that the Chancellor did not take the opportunity to reduce the tax burden on smaller companies.

Capital Allowances - Plant and machinery - temporary first year allowances

There will be a new temporary 40% first year allowance for expenditure on general plant and machinery for capital expenditure incurred in 2009/10. There are a number of exclusions including cars.

Comment: This measure is clearly designed to encourage firms to bring forward investment in new plant. Since April 2008 businesses have been entitled to claim an Annual Investment Allowance (AIA) of up to £50,000 on expenditure on plant and machinery. The new 40% allowance will only be relevant to expenditure over and above the AIA threshold, so may be of limited application to smaller businesses.

Plant & machinery Leasing

The definitions of sale and leaseback arrangements have been revised to cover the types of transactions that are in the market. The changes will come into force from today and effectively mean that a business entering into a sale and leaseback does not gain any more relief than it would have done if it had obtained loan finance.

Comment: This will affect leasing businesses and businesses that have entered into tax planning arrangements involving sale and leaseback of plant and machinery.

Extension of Trading Loss Carry Back for Business

The Chancellor, in his Pre-budget statement in November 2008, announced an extension of the ability of businesses to carry back their trading losses to set against earlier years' profits for up to 3 years, generating repayments of corporation tax. The relief was limited to accounting periods ending between 24 November 2008 and 23 November 2009 - in practice one year only. Further, the maximum amount that could be carried back under these provisions was £50,000, worth in tax terms a maximum of £20,000. As widely predicted, the relief has been extended for a further 12 months, to cover accounting periods ending in the period between 24 November 2009 and 23 November 2010.

Comment: Whilst the extension is welcome, the limitation to losses of only £50,000 means that the relief is of relatively little value to all but the smallest businesses.

VAT

The VAT registration threshold

This will be increased from 1 May 2009 to £68,000; the de-registration threshold will be increased to £66,000 from the same date.

The standard rate of VAT of 15%. This is to remain in force until 31 December 2009 as previously announced, whereupon it will revert to 17.5% from 1 January 2010.

Comment: Most taxpayers, including charities, who cannot recover all of the VAT on their costs will continue to benefit from the 15% general rate until 31 December 2009.

Cross Border supplies

Changes to the time of supply rules in respect of cross-border supplies of services will be introduced from 1 January 2010. These changes will be linked to the change to the European Sales Listing (ESL) to be introduced from the same date. A new electronic intra-EU VAT refund procedure for cross-border supplies of services will be introduced from 1 January 2010. Precise details will be introduced in due course.

Comment: Likely to be affected are businesses that supply goods and/or services to business customers in other EU member states where the place of supply of these services will be the customers' country, subject to the reverse charge by the customer in their country. The intention with this measure is to correlate the supplier's ESL with the recipient's reverse charge declaration. It is highly unlikely that all member states will be compliant with these required changes by the due date due to the scale of the proposal.

