

Business Tax and Investment Incentives

Corporation Tax

Financial Year to	31 March 2009	31 March 2008
Taxable profits		
First £300,000	21%	20%
Next £1,200,000	29.75%	32.5%
Over £1,500,000	28%	30%

The small companies' rate of corporation tax will increase from 21% to 22% in 2009/10.

Capital Allowances

Previous proposals, amended after due consultation, were confirmed for 2008/09 as follows:

Annual Investment Allowance (AIA)

Tax relief on the first £50,000 of investment in plant and machinery, except for cars, will be at 100%. This will apply to any size of business, but there will be provisions to prevent multiple claiming. Businesses will be able to allocate their AIA in any way they wish; so it will be quite acceptable for them to allocate their allowance against expenditure otherwise qualifying for a low rate of allowance.

Writing Down Allowance (WDA)

Any additional expenditure over the AIA level will enter either the 10% pool or the 20% pool, attracting WDA at the appropriate rate. The 10% pool will contain longlife assets, thermal insulation added to existing commercial buildings, and 'integral features' of buildings (including replacement expenditure). The 20% pool will apply to most other plant and equipment, including cars costing £12,000 or less. Cars costing more than £12,000 will continue to qualify for a 25% WDA subject to a maximum of £3,000.

A WDA of up to £1,000 can be claimed where the unrelieved expenditure in either the 10% or 20% pool is £1,000 or less.

Enhanced Capital Allowances (ECA)

In addition to AIA, 100% first year allowances are available on energy saving or environmentally beneficial equipment. Where companies (only) have unrelieved losses attributable to ECAs, they may choose to surrender such losses for a cash payment. The company will receive a tax credit of 19%, subject to a maximum of the greater of £250,000 or the company's PAYE and NI liabilities for the period for which the loss is surrendered. This credit will be clawed back where the asset is sold within four years after the end of the period for which the credit was paid. Electric and low CO² emission (up to 110 g/km) cars and natural gas/ hydrogen/ biogas refuelling equipment also qualify for 100% first year allowances, but will not qualify for the payable tax credit.

Buildings

WDAs on industrial and agricultural buildings are gradually being phased out, with final withdrawal by the end of 2010/11. The WDAs (on building cost) for 2008/09 are reduced from 4% to 3% (subject to transitional arrangements). A maximum 100% initial allowance is available for the conversion of parts of business premises into flats. There are also 100% business premises renovation allowances and Enterprise Zone allowances (EZA). EZAs are to be withdrawn from the end of 2010/11.

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Research and development (R&D) tax credits

The enhanced deduction available to small and medium enterprises (SMEs) in respect of qualifying R&D expenditure is to increase from 150% to 175%. For large companies the enhanced deduction is to increase from 125% to 130%. These changes will take effect from a date to be appointed once EC state aid approval has been received. As from the same date, the SME tax relief will no longer be available to those companies whose most recent accounts were not produced on a going concern basis. In addition, the SME relief is to be capped at €7.5 million per R&D project.

Associated companies

The tax bands are reduced where a company has one or more associated companies. As from 1 April 2008, a company will no longer be associated with companies controlled by the business partners of the person controlling that company. The exception to this is where at any time the shareholder or director of the company and the business partner have made arrangements to secure a tax advantage for the company.

Enterprise Investment Scheme (EIS)

From 6 April 2008, subject to EC state aid approval, the limit on which an investor can claim EIS income tax relief will be increased from £400,000 to £500,000.

Enterprise Management Incentives (EMI)

Currently, employees cannot hold qualifying EMI options (taking into account Company Share Option Plan options also granted to them) with a total market value at the date of grant of more than £100,000. For EMI options granted on or after 6 April 2008, this limit will be increased to £120,000. Options granted after the date of Royal Assent will not be qualifying EMI options if the company has 250 or more employees and/or it is involved in shipbuilding or coal and steel production.

Anti-avoidance

A number of measures will be introduced to tackle anti-avoidance. These will affect

- Individuals carrying on a trade in a non-active capacity and sideways loss relief
- Plant or machinery lease schemes
- 'Disguised interest' schemes
- Controlled foreign companies
- The transfer of intangible assets between related parties where one party is subject to insolvency proceedings
- Capital allowance buying and acceleration.

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