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Budget 2011 – The impact on the Technology Sector

Introduction

The 2011 Budget was highlighted by the Chancellor as being a Budget for Growth and it is apparent that the Government has continued with its strategy of focussing on technology as a key driver for growth in the UK economy. The details have revealed that there are many proposals that will impact upon Technology Businesses and their stakeholders.

You should also note that these comments are subject to any changes that may be made to the draft legislation before the Finance Act is passed.

Enterprise Investment Scheme

EIS has been a valuable scheme for technology businesses seeking funding, particularly at an early stage as it provides tax relief for individual investors. In an unexpected but welcome announcement, for shares issued after 6 April 2011, the income tax relief will increase from 20% to 30%.

Further changes are proposed from 6 April 2012 including a doubling of the amount an individual can invest in any one tax year to £1 million and increasing the annual limit of investment in a company from £2 million to £10 million.

All changes are subject to EU State Aid Approval.

Research and Development Tax Credits

R&D tax credits have had a growing popularity in take up and the Budget includes proposals for them to increase:

Under the SME scheme the relief will increase from 175% to 200% from 1 April 2011 and go up to 225% from 1 April 2012. This is excellent news for taxpaying companies, although it is currently not expected that companies yet to achieve profitability will be able to claim a greater percentage back in cash.

Importantly for earlier stage companies – from 2012 and again subject to EU State Aid Approval, the PAYE/NIC cap for cash back will be removed as will the £10,000 lower limit on expenditure.



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Patent Box

There are proposals for a 10% corporation tax rate to apply on profits generated as a result of patents from 1 April 2013. This has been talked about for some time and is potentially, an extremely valuable measure for technology businesses whose entire business is predicated upon patented technology.

Entrepreneurs relief

The doubling of the lifetime limit of entrepreneurs' relief to £10 million from 6 April 2011 which reduces the rate of capital gains tax paid by taxpayers on qualifying disposals to 10% (from a maximum rate of 28%) for certain disposals of business assets or shareholdings, is significant. It means the maximum relief will then be worth £1.8 million compared to the current £900,000.

Governmental investment

The Budget announces a number of investment plans that will impact directly on the technology sector:

- Increase in capital available for Green Investment bank from £1 billion to £3 billion
- Launch of a Technology Innovation Centre for High Value Manufacturing
- Significant funding for International Space Innovation Centre
- Setting up of 21 Enterprise Investment Zones

For more information on the implications of the budget please follow the link below or contact us.