

Autumn Statement 2011

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The economy

The Chancellor's Autumn Statement on 29th November was delivered against a grim economic backdrop. The UK's borrowings now stand at around £1000 billion and the borrowings will continue to rise by a further £137 billion in the current year, £127 billion in 2012, £120 billion in 2013, £100 billion in 2014, £79 billion in 2015 and 53 billion in 2016. UK growth for the current year has been revised downwards from 1.7% to 0.9% and for next year from 2.5% down to 0.7%. Inflation stands at 5.2%. We are at least not in recession, although the Chancellor warned that *"if the rest of Europe heads into recession, it may be hard to avoid one here"*.

The good economic news was limited, but the UK still has its coveted AAA debt rating and as a consequence can at least still borrow at acceptable rates. The Chancellor noted that Italy's current cost of borrowing was 7.2% - almost three times the rate at which the UK is currently borrowing.

Businesses

Mr Osborne was clear on the way forward: a revival of the economy has to be driven by business and the government *"must help businesses to grow and succeed"*. The important thing, he said, is *"to get credit flowing to Britain's small businesses"*. To that end he announced a number of measures.

Firstly, he unveiled a £6.3 billion national infrastructure plan with over 500 projects, which should provide a much needed boost to the construction sector. Secondly he announced the introduction of a National Loan Guarantee Scheme with up to £20 billion of government guarantees to enable banks to offer loans at a (slightly) reduced rate to smaller businesses with turnover up to £50 million. Thirdly the Business Finance Partnership will make available a further £1 billion for investment in smaller and mid-sized businesses in the UK through non-bank channels. The Enterprise Finance Guarantee will also be extended from January 2012 to

businesses with annual turnover of up to £44 million.

There will be relaxations to the Enterprise Investment Scheme and a new Seed Enterprise Investment Scheme (SEIS) will be launched, allowing small companies to raise up to £150,000 from private investors. The individual investors will be able to subscribe up to £100,000 for shares in these companies in the 2012/13 tax year and claim exemption from capital gains realised in 2012/13 and invested that year into a SEIS company.

The Chancellor confirmed the planned reduction in the main corporation tax rate to 25% from 1 April 2012, ultimately falling to 23%. The small companies' rate will remain at 20%.

Individuals

The only direct tax measure affecting individuals was the freezing of the annual capital gains tax exemption (in order to pay for the CGT relief on SEIS investments).

There was good news in the form of the deferral of the 3 pence per litre road fuel duty increase planned for January, the uprating of the State pension next year by 5.2% and the £50 reduction in water rates bills for customers of Wessex Water.

Last words

Perhaps the last words in this summary of the 2011 Autumn Statement should go to the Chancellor himself: *"we are showing a world sceptical that democratic western governments can take tough decisions that Britain will pay its way in the world"*. Our economic credibility, our AAA debt rating and our prospects depend on that. The stakes could hardly be higher.

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