

INVESTING IN THE UK: WHAT THE BUDGET MEANS FOR YOU?

The UK 2010 Budget was not expected to raise any eyebrows and was intended to be effectively a handshake with the City designed to quieten the world markets and steady sterling. Whether or not it achieved its goal still remains to be seen with many commentators betting on an emergency budget in June following a May general election. The important question for foreign investors in the UK is what does the Budget do for them?

Crucially Corporation Tax rates have been frozen for the coming 2010-2011 tax year, with the main rate of corporation tax remaining at 28% and the small companies rate (applicable where profits are less than £300,000) at 21%. This helps to keep the UK competitive especially when compared to tax rates in some of our European Union neighbour states.

The main rate of VAT was also frozen at 17.5% despite expectations that it would be increased to try and raise much needed funds to plug the black hole deficit. The City analysts are still betting that the main VAT rate will rise by the end of the year. What will this mean? Well, even if the rate were to rise by 0.5 a percent to 18% this would still be below equivalent taxes in France (19.6%), Germany (19%) and Italy (20%); therefore a small raise or even a 1% rise would still keep the UK competitive.

Good news came for those entitled to claim Entrepreneur's Relief. The limit will be doubled from £1million to £2million. This is one of the most underused reliefs available to small business owners and therefore one that all prudent investors in the UK should look at. Any qualifying gains will be charged at an effective capital gains tax rate of 10%, a saving of 8% on the current standard Capital Gains Tax rate of 18%.

Also deserving of a mention are certain measures included in the Pre-Budget Review, for example, that under the Enterprise Investment Scheme the requirement that the EIS or at least one of its subsidiaries must carry on a trade wholly or mainly in the UK is to be removed. This requirement will be replaced with the new condition that the EIS company must have a permanent establishment in the UK. The legislation governing Enterprise Management Incentives (EMIs) will also be amended in 2010 to allow companies with a permanent establishment in the UK to grant tax-efficient EMI share options to qualifying staff.

However, you should be aware that where an overseas holding company owns a UK trading subsidiary, the set-up may no longer qualify for EIS relief once the legislation is in place. Check with your accountant or solicitor before relying on this relief.

Great news for capital allowances! Previously where businesses were allowed to claim 100% tax relief on investment in plant and machinery, this was subject to an annual investment allowance of £50,000. The annual limit remains but the annual investment allowance has been doubled to £100,000 from April 2010.

Finally let's look at the property market, which has seen an influx of foreign investors since the fall in the value of sterling against the US dollar and the Euro. Good news for first time buyers, as the Stamp Duty Land Tax threshold is increased to £250,000 for them. The downside is the lack of a clear definition of a first time buyer. Would this

include for instance, a foreign investor buying a property in the UK while owning other property elsewhere in the EU but not in the UK? We await guidance from HMRC.

As we started so we finish, the Budget did not promise any major surprises but nevertheless the UK remains a solid investment opportunity for foreign investors looking for a good return. The City of London still holds the No.1 spot on the list of world financial centres, albeit jointly with New York. The property market is showing good signs of recovery in certain areas though there are still plenty of bargains left to snap up.

The final word has to be on the forthcoming general election. The date that the UK will go to the polls is not yet certain but the smart money is betting on May 6th. The mood is shifting and no one can guess the outcome, however what is certain is that the UK is determined to remain competitive, determined to lead rather than follow and if you want to be part of this then it is better to invest now rather than later when the markets take off and the cost of breaking in will be greater.

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***Note:** These articles are not intended to be a complete guide to the law to which they refer. Specific problems should be referred to a member of the firm before any action is taken.*