

## Budget 2014 briefing

### Introduction

Chancellor George Osborne has delivered his Budget Statement to Parliament, setting out how the government will take further action to secure the recovery and build a resilient economy.

A core focus for the budget was to “support businesses to invest, export, and create jobs – laying the foundations for sustainable economic growth.”

This briefing provides an overview of the key announcements in the Budget and their implications on the sector.

### ukactive’s reaction

#### **ukactive CEO, David Stalker gives his initial reaction to the Budget 2014.**

“Our sector wanted a budget that would ease the burden on businesses and increase investment opportunities. I’m very pleased to see that, on the surface, it appears to do both.

“Today’s budget is a signal that the government recognises the unique importance of sectors like ours in leading a full economic recovery.

“The doubling of the Annual Investment Allowance to £500,000 means that small and medium sized enterprises will be given the opportunity to grow and provide improved services over the coming years.

“The lowering of corporation tax to 20 per cent in 2015 will also allow business to provide more, and better, services to customers in an increasingly competitive marketplace.

“Many of these measures will impact on us now, and in the future. This is a budget that will allow leisure operators to continue unabated in their day-to-day operations, with helpful nudges in the direction of progress in the form of tax-free investment and more access to investment.

“The health and leisure sector not only brings a substantial amount of money into the economy, it also has a hugely positive impact on the health and wellbeing of the nation.

“Although there are many positive points to this Budget, it is also clear that there are still many hard yards in front of us. In the long term we will need to continue to develop a stronger skills base, improve access to finance for growing companies and support new research and data.”

David Prestwich, London Head of Tax at Mazars said “Against the backdrop of positive economic news for the UK, the chancellor delivered a good budget for business, reinforcing the fiscal competitiveness of the UK with our falling corporation tax rates (20% from April next year). The increase in the Annual Investment Allowance will be a welcome incentive for UK leisure companies investing for growth”

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## Economic Forecasts

The economy is now growing faster than predicted and expectations for growth this year and next have also been revised up by the Office for Budget Responsibility (OBR) – to 2.7% in 2014 and 2.3% in 2015. The government expects quarterly growth rates to ease through 2014 as consumer spending growth slows to rates more aligned with household income growth. The outlook for productivity growth, which underpins income growth and the sustainability of the recovery, remains the key uncertainty. They expect inflation to remain close to target and unemployment to continue falling in the coming years, though at a slower pace than in recent months

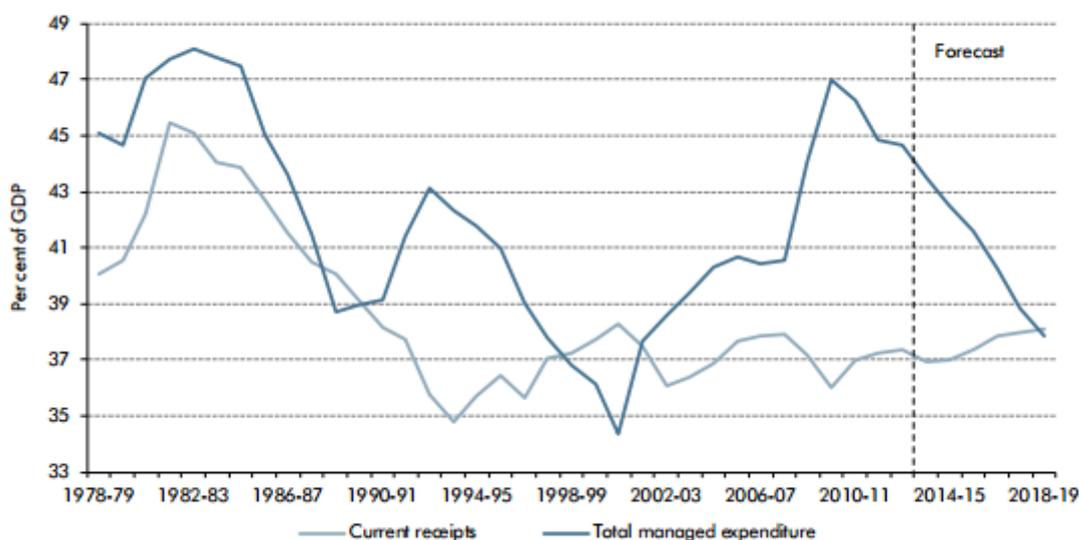
A record number of people are in work and the OBR now expects employment to reach 31.4 million by 2018. A deficit that reached 11% of GDP in 2009-10 is now forecast to fall by half to 5.5% in the coming year and will be eradicated by 2018-19.

Revised data published since the Office of Budgetary Responsibility's (OBR) last forecast suggest the economy grew slightly faster over 2013 as a whole than we expected in December, with GDP up 1.8 per cent on the previous year. Consumer spending, supported by a falling saving ratio, has been the biggest driver of recent growth, while the latest data suggest business investment is recovering. Housing market indicators have picked up sharply, but export performance remains disappointing.

Borrowing estimates have also been cut to £108 billion from the £111 billion that was outlined in December's autumn statement.

Overall, this improvement in forecasts means the economy will be £16 billion bigger than previously thought.

Chart A: Total public spending and receipts



Source: ONS, OBR. Excludes Royal Mail and APF transfers.

## Support to businesses

The Chancellor made a step to improve Britain's low productivity levels by reducing the taxes on business investment. Chancellor George Osborne has extended the Annual Investment Allowance by another year

The Annual Investment Allowance (AIA), which allows businesses to invest in new plant and machinery for maximum tax benefits, was initially cut from £100,000 to £25,000 by the coalition.

However, in an effort to provide more tax aid to businesses, chancellor George Osborne has improved on its increase to £250,000 in 2012 by doubling it. Going forward, the AIA has been extended to 2015 and will now be worth £500,000.

Under-investment by firms is seen as a chronic weakness of the UK economy. Last year The Economist magazine produced a table showing that the UK ranked below Mali, Paraguay and Guatemala.

The AIA is a capital allowance, which offers tax relief at 100 per cent on qualifying expenditure in the year of purchase. The maximum businesses can deduct from your taxable profits is now set to be £500,000. This pro-rates for short or long periods, and also for periods that span the operative dates and rates of allowance.

This extension of the AIA will make it easier for small and medium sized businesses to access funding to maintain the growth in the economy. According to the chancellor, some 99.8 per cent of businesses will pay no tax on investment.

## Cutting business tax rates

From the start of the next financial year (April 2014) corporation tax will stand at 21%. The Chancellor highlighted that every business in the country will get the Employment Allowance – a £2,000 cash-back on jobs.

He went further to announce that from next year, corporation tax will reach 20% and that under 21s are being taken out of the jobs tax altogether.

The aim of this is for businesses to keep more of their money to create jobs and invest in the future.

Small businesses making a loss will also benefit from the Research and Development tax credit being raised from 11% to 14.5%. This is a Corporation Tax relief that may reduce an organisation's tax bill.

Investment into social enterprises is also being supported through a Social Investment Tax relief at a rate of 30%.

## Developing skills

The Chancellor announced the government's drive for businesses to take on more apprenticeships in order to tackle the youth unemployment crisis. He gave a huge boost for apprenticeships, saying "To make sure we give young people the skills they need to get good jobs in this modern world, we've doubled the number of apprenticeships and I will extend the grants for smaller businesses to support over 100,000 more."

He went further to say that "we'll now develop new degree level apprenticeships too."

Measures include The Apprenticeship Grant for Employers scheme (AGE) being increased by £85 million in 2014-15 and 2015-16 to help businesses grow staff numbers.

AGE's framework means that employers which have not had an apprentice in the last 12 months can access a £1,500 grant for each of up to ten apprentices aged between 16 and 24 that are taken on. It is aimed solely at businesses which hire less than 50 staff.

Alongside the bolstering of AGE, Osborne also revealed £20 million of funding, over two years, to support apprenticeships up to postgraduate level. The 'changing nature of the labour market', the government says, is creating a demand for higher-skilled workers.

## New pound coin

The Chancellor revealed that HM Treasury believes there is a strong case for introducing a new £1 coin to help reduce counterfeiting and ensure the integrity of the United Kingdom's currency.

The new £1 coin has been billed by the Royal Mint as the "most secure coin in the world", and is to be introduced in 2017.

The move comes amid concerns about the 30-year old coin's vulnerability to counterfeiting, with an estimated 45 million forgeries in circulation.

In his Budget statement to the Commons, Chancellor George Osborne said: "The prerequisite of sound money is a sound currency."

The government is going to hold a detailed consultation on the impact of the change on businesses. The health and leisure sector will face costs from having to change vending machines and lockers. ukactive will be involved in these consultations.





More people  
More active  
More often

We are helping UK businesses to invest, export and grow

By April 2015 UK's corporation tax will be **20%** – by far the **lowest in the G7** and joint lowest in the G20



In 2014 **business investment** is forecast to rise



**UK goods exports** have increased from 2010



We want to help British businesses go further and **reach fast-growing emerging markets** in Africa, India and China



UK Export Finance is doubling its lending scheme to **£3 billion**...

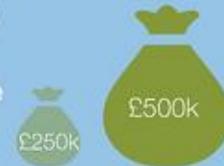
...and cutting



... by **a third**, to the lowest level permitted by international agreements

Our aim is to make UK Export Finance the most competitive in Europe

We will continue to support business investment by **doubling the Annual Investment Allowance (AIA)** from April 2014, until December 2015



6 out of 10 businesses said the 250k allowance had supported their firms' competitiveness

Manufacturing is vital to the UK's economic recovery and the cost of energy has a big impact on manufacturers



To **reduce business energy costs**, we're providing new support worth up to £6bn



Saving an energy intensive business up to £6.25m in 2018-19

