



## The Budget's impact on Business

**The Chancellor, George Osborne, has outlined the government's plans to "balance the books" by 2016. The government planned to cut the structural budget deficit to zero in the next six years. The structural deficit is the hole in the public purse that is not expected to be repaired by the economic recovery. He said the tough measures announced were "unavoidable" because he had to deal with the country's debts, but everyone would be "in it together".**



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Although confirming that the government's target for deficit reduction was achievable, the Office for Budget Recovery warned that the economy would suffer as a result. It is now forecasting that the UK economy will grow by 1.2% this year and 2.3% in 2011, lower than the previous government's forecasts. The economy is predicted to grow by 1.2% this year, 2.3% next year, 2.8% in 2012, 2.9% in 2013 and 2.7% in both 2014 and in 2015.

One of the major changes will be that the standard rate of VAT will rise from 17.5% to 20% from 4 January next year. Many have criticised the Government for raising VAT saying that the poorest will be the ones effected the most by the rise. Chancellor George Osborne promised that those items classed as "essential", including food, children's clothing, newspapers and magazines, would remain free from VAT.

The effect of the rise in VAT will not only affect the individual but will also affect small businesses. A third of small businesses asked have expressed concern that the tax rise would lead to a drop-off in trade. The implementation of the changes also carries costs to businesses everywhere. Many small businesses are still trying desperately to recover from the recession. The VAT increase will cost businesses to implement and also make trying even harder. The Government has also planned to increase insurance premium tax by 1% to 6%. The federation of small businesses is calling for this plan to be reversed.

George Osbourne has defended the VAT rise by saying the move would raise more than £13bn a year by the end of the parliament. "That is £13bn we don't have to find from extra spending cuts or income tax rises," Mr Osborne said.

The UK has at present one of the lowest VAT rates throughout the whole of Europe, the increase will bring the UK into line with the rest of Europe whose VAT rate range from 15% in Cyprus to 25% in Denmark, Hungary and Sweden.

Another direct effect on all businesses is that from April 2011, the threshold at which employers start to pay National Insurance will rise by the rate of inflation plus £21 per week.

Positively the small companies' tax rate will be cut from 21p to 20p. This will help in excess of 850,000 businesses. Also the main rate of corporation tax will be cut from 28 per cent to 24 per cent over the next four years. Mr Osborne said the cut in corporation tax would mean Britain would have "the lowest rate of any major Western economy, one of the lowest rates in the G20, and the lowest rate this country has ever known." It is hoped that the lowering of Corporation tax will send positive signals to the world economy, that the UK has a competitive tax system, which makes it a good place to do business.

Overall the budget seems to have been well received and the Sunday Times reported recently that 3 in 4 firms believed the Budget would be good for business. The truth as to whether the objectives set out in the budget will achieve the aims will remain to be seen and will only be realised in the next 3 - 4 years. In the meantime it is for all to be vigilant and make concerted effort to ensure that the accounts are in order and that credit control is a key part of every day.

