

United Kingdom

Taxing Times for the UK



Population: 61.79 million

Labour force: 31.37 million

GDP per capita: \$33,518

Real GDP growth in 2009: -4.9%

Direct investment: 2.1% of GDP

World Competitiveness Ranking 2010:
22nd

Although it has been suffering from recession, the UK continues to be the top destination for foreign direct investment (FDI) in Europe. According to the FDI Intelligence 2010 Global Outlook Report, it maintained its top position, with FDI projects into the UK growing by 19% on 2008 figures, and it accounts for around one third of the FDI projects, capital investment and new jobs created from FDI in Western Europe. The Ernst & Young European Investment Monitor also placed the UK at the top of the FDI rankings for 2009, attracting more than one-fifth of all the FDI projects in Europe. Particularly strong industries for FDI into the UK were business services, software, and financial services.

Fiscal tightening is now high on the agenda for many European countries, and the recent UK Comprehensive Spending Review (Wednesday 20 October) and Emergency Budget (Tuesday 22 June) clearly demonstrate that the UK coalition government is keen to balance the books within the next five years. The Spending Review announced deep cuts in government spending totalling £81 billion by 2014-15. The June Budget brought a mix of tax changes - including a rise in the standard rate of Value Added Tax to 20% from January 2011 (up from the current 17.5%); a balance-sheet levy on banks (applying to UK banks, building societies and UK operations of foreign banks with more than £20 billion in liabilities); and a reduction in the main rate of corporation tax, to be reduced from 28% to 24% through four annual cuts of one percent.

From the perspective of overseas companies looking to enter the UK market, the reduction in corporation tax is a positive element, as the coalition government wants to get across the message that the British Economy is "Open for Business". A 24% rate by 2014/15 will give the UK the lowest business tax rate of any major Western economy. The small companies' tax rate has also been cut to 20% from April 2011.

The coalition government also intends to reach an agreement with business on a long term approach to the taxation of foreign profits, the treatment of intellectual property and to review the benefits of research & development (R&D) tax credits. In the June Budget, the R&D Tax Relief was loosened for small and medium sized companies (those with fewer than 500 employees and either turnover below £100m or a balance sheet of under £86m). They no longer need to own the intellectual property developed, and this now means that SME's undertaking contracted R&D work are able to claim a £175 reduction in their tax bill for every £100 spent on research.

There is good news for companies looking to set up in the UK's regions. For the next three years anyone who sets up a new business outside London, the South East and the Eastern regions, will be exempt from up to £5,000 of employer national insurance payments, for each of their first 10 employees hired.

The drastic shrinking of the public sector spend can be viewed as an opportunity, as it means that there is scope for the private sector to fill the gap, regarding the delivery of services. Indeed the UK market is ripe for companies which can help improve productivity and performance of government services. Great news for the outsourcing industry.

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