Editorial

Budget Gains and Losses

Tax law and its constant changes are business law par excellence.

This year the Chancellor of the Exchequer revealed his Budget unusually early, on March 13. First reactions focussed euphorically on the increased allowances against income tax (which did no more than redeem a previously shamefully betrayed pledge on indexing), the abolition of investment income surcharge and the plan for progressive reductions in the rates of corporation tax from the present 52 per cent to 35 per cent (38 to 30 per cent for small companies) by 1986. Mr Lawson seems to have been generally applauded in his self-proclaimed rôle as a "reforming Chancellor" and expressions of misgivings were concerned mainly with regret over the discontinuance of life assurance premium relief, which was claimed to be justified in the interest of having all forms of investment "competing" on an equal footing.

There is now time to reflect upon other, perhaps less noticed, proposals before they pass into law in the Finance Act in the dog days of the summer.

The business community which was pleased with proposals to reduce corporation tax (even though some of its members may entertain a cynical thought that much may happen by 1986 to prevent the implementation of a politician's promise) will by now have woken up to the much less welcome proposal to reduce – and rapidly – the rates of capital allowance for plant and machinery, which was 100 per cent up to Budget Day: on March 14 last it was reduced to 75 per cent, falling to 50 per cent on April 1, 1985 and disappearing altogether on April Fools' Day 1986. By the same date, allowances for industrial buildings will also have been phased down to extinction (except in development and certain special areas). In both cases, however, expenditure incurred before April 1, 1987 under a binding contract made before March 14, 1984 will qualify for the rates of allowance then prevailing (ie 10 per cent and 75 per cent respectively).

Initial allowances for agricultural buildings, for hotels and for dredging will also disappear in 1986 and be replaced with a writing down allowance of 4 per cent; and allowances for the acquisition of patent rights and know-how are to be replaced by 25 per cent writing down allowances on a reducing balance basis. The Chancellor has given notice that he intends to "examine the scope for restructuring and simplifying" capital allowances legislation following these changes.

In the last resort, however, it is the things in the Budget which directly affect the pound in one's pocket which are noticed most – hence the juggling of pennies here and there on beer, wines, spirits, tobacco and petrol, and the imposition of VAT on hot takeaway food.