

Spring Budget 2017

Implications for Power & Utilities Sector

March 2017

A number of key energy policy decisions and announcements have been further delayed.

Summary

- Decisions delayed on future of the Carbon Price Floor
- Levy Control Framework (LCF) – further details on a new set of controls ‘later in the year’;
- Consumers and Markets Green Paper, which is likely to cover energy, to be published ‘shortly’;
- Industrial Strategy Challenge Fund provides boost for electric and autonomous vehicles;
- Corporation tax rate cut to 17% by 2020 confirmed, with some small changes to the planned changes to interest deductibility and loss relief.

Detail

Carbon Price Floor

The Government has indicated that it remains committed to carbon pricing, noting the important role that the Carbon Price Floor (CPF) has had in reducing carbon emissions in recent years.

This comes on the back of figures showing the UK’s Greenhouse Gas Emissions at their lowest levels since 1894 according to Carbon Brief.

The Budget again acknowledges the complex interaction that exists between the EU Emissions Trading Scheme and the UK’s own CPF. The Government has said that it will target a ‘total carbon price’ in 2021-22 stemming from these two measures, and that further details on the expected trajectory of carbon prices in the 2020s will be set out in the Autumn Budget.

This leaves investors in different technologies in a state of limbo about the Government’s intentions post-2020.

Decisions on Levy Control Framework in 2020s deferred again

A year ago, the then Chancellor George Osborne promised to clarify the level of the Levy Control Framework (LCF) in the 2020s to provide greater certainty for low carbon investors.

A year on and industry is still waiting for that clarity.

The Budget defers the decision again, saying only that the LCF will be replaced with ‘a new set of controls...later in the year’.

So the £730m of new spending in this Parliament on Contracts for Difference auctions for offshore wind and other less established technologies, remains in place. But there is, as yet, no clarity on whether there will be any funding for other more established technologies, like solar and onshore wind, at some point in the future; or how spending on nuclear or tidal fits into the framework.

Green Paper on Consumers and Markets

Following recent price rises, the Government has said that it “is prepared to act” to tackle markets that, in its view, are not working properly for consumers.

The Chancellor confirmed that a Green Paper on Consumers and Markets would be published ‘shortly’.

Given that Government Ministers have repeatedly singled out the retail energy market as one of those markets which it believes could be made more competitive, we should expect to see some further details on what ‘action’ the Government has in mind in that Green Paper; and how those measures fit with the recently completed inquiry by the Competition and Markets Authority.

Industrial Strategy Challenge Fund

Electric (EV) and autonomous (AV) vehicles were identified as one area of funding for the Government’s new Industrial Strategy Challenge Fund, which is expected to be worth £270m in 2017-18. This comes on the back of the tax breaks announced in the Autumn Statement for ultra low emissions vehicles and will provide a further boost to the deployment of EVs and AVs in the UK.

Clean Growth Plan

The Government’s Emissions Reduction Plan, setting out how the Government plans to meet the 4th and 5th Carbon Budgets, was originally due out in February. The Government has now postponed this until the ‘early summer’.

Corporation tax announcements

On corporation tax, there was confirmation that the headline rate will fall to 17% by 2020. There was little by way of new measures, but there were some comments made on new rules that are coming into force imminently.

Interest deductibility

As announced at Budget 2016, the Government will introduce legislation with effect from 1 April 2017 to limit the tax deductions that companies can claim for their interest expenses.

Following publication of draft legislation at the end of January, the Government today announced that the Finance Bill 2017 (expected to be published on 20 March 2017) will include amendments to ensure the rules don't give rise to 'unintended consequences or impose unnecessary burdens'.

Loss relief

From 1 April 2017, companies will only be able to offset brought forward losses against 50% of their taxable profits, extending the period over which losses are utilised and bringing forward the date on which companies pay corporation tax.

These rules also have some upside as companies will now have some flexibility to surrender brought forward losses that have arisen after 1 April 2017 across their group.

Substantial shareholdings exemption

The substantial shareholdings exemption, which exempts capital gains on the disposal of certain shareholdings, is to be expanded and simplified. Following a period of consultation, amendments to the rule changes will be included in the Finance Bill 2017, to provide clarity and certainty to how the new rules will work in practice.

Research & Development

The Spring Budget 2017 announced that government will make administrative changes to the research and development tax regime to increase the certainty and simplicity of making claims. This will apply to all companies, whether they are in the large or SME regime.



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