

the bottom line

This Special edition deals with the 2009 Budget

THE BUDGET 2009

Alistair Darling presented his second Budget on Wednesday 22 April 2009. Having acknowledged the depth of the recession, he hinted that the Budget measures would enable the UK economy to begin to grow 'by the end of the year'.

As always the timing of the changes need to be carefully watched – some are immediate but some are delayed to 2010 and beyond. Our summary focuses on the issues likely to affect you, your family and your business. If you have any questions please do not hesitate to contact us for advice.

Personal Tax

As previously announced the government proposes significant changes to the system of personal allowances and tax rates. These changes which were announced last year mainly impact on those with higher levels of income. Significant changes have now been made to the original proposals.

The Chancellor has not only brought forward proposals which were to take place in 2011, he has also made changes to his original announcements. The changes will now apply from 6 April 2010. The personal allowance will be subject to an income limit of £100,000. An individual's personal allowance will be reduced by £1 for every £2 of net income above this limit. The personal allowance will be reduced to nil from this income limit instead of the proposed two stage reduction announced in 2008.

Instead of introducing a 45% top rate of tax in 2011, a new rate of income tax will be introduced of 50% from 6 April 2010. This will apply to taxable income above £150,000. Dividend income is currently taxed at 10% where it falls within the basic rate band and 32.5% where liable at the higher rate of tax. A new rate of 42.5% will be introduced for dividends which fall into the income band above £150,000.

The trust rate of income tax will be increased from 40% to 50% and the trust dividend rate from 32.5% to 42.5% from 6 April 2010. Trusts will still be subject to capital gains tax at only 18%, meaning they remain an attractive vehicle for capital growth.

Allowances and rates 2009/10

The 2009/10 personal allowance will be £6,475. The basic rate limit will be £37,400. Therefore an individual will pay 40% tax rather than the basic rate of 20% when their total income exceeds £43,875.

The 10% starting rate for savings income band (£2,440) is only available where an individual's non savings income does not exceed the starting rate limit.

The NIC thresholds have been increased but the rates of Class 1 and 4 contributions have been held at their 2008/09 levels. An increase in the rates of national insurance is proposed from April 2011. An increase of 0.5% will apply to the rates applicable to employers, employees and the self-employed.

From Budget Day all individuals will be eligible for the non-repayable 10% tax credit on the receipt of foreign dividends, whatever their holding. Previously this was only possible where the holding was less than 10% of the company. The tax credit will not be available where the source country is not a qualifying territory. A qualifying territory is one which has a double taxation agreement with the UK, with a non-discrimination article. Anti-avoidance measures will be introduced to ensure these new rules are not subject to abuse.

Removal of higher rate relief on pension contributions

Pension contributions made by higher rate taxpayers within statutory limits currently attract 40% tax relief, which significantly reduces the cost of the premium. The government has announced its intention to restrict tax relief on pension savings with effect from 6 April 2011 for people with taxable income of £150,000 or more. The relief will be tapered down until it reaches 20%.

Legislation will be introduced to prevent those potentially affected from seeking to forestall this change by increasing their pension savings in excess of their normal regular pattern, prior to that restriction taking effect.

The annual allowance (AA) which restricts the amount of tax-relievable pension contributions will be frozen from 2011/12 to 2015/16 at £255,000 per annum. Pension scheme members not having existing transitional protection who take pension and lump sum benefits are also subject to a lifetime allowance (LA). The LA will be frozen from 2011/12 to 2015/16 at £1.8 million.

Other Personal Tax Changes

• **Venture Capital Schemes.** Legislation will be introduced to make improvements to VCT and EIS schemes to relax the time limits concerning the employment of money by companies receiving investment. Generally this will be increased to two years rather than one. Significantly, the period for carry back of EIS investments to the previous year has been increased, and the limit removed, meaning up to £500,000 can now be carried back.

• **ISAs.** In 2009/10 the ISA limits for people aged 50 and over will be raised to £10,200, of which £5,100 can be held in cash. This change will be made from 6 October 2009. The current ISA limits (£7,200 of which a maximum of £3,600 can be held in cash) will be increased for all investors to the same amount from 6 April 2010.

• **Personal allowances – non residents.** Legislation will be introduced from 2010 to withdraw the entitlement for individuals to personal allowances and reliefs solely by virtue of being a Commonwealth citizen. It is expected that the majority of individuals affected will still benefit through other means, for example Double Tax Treaties.

Furnished Holiday Lettings (FHL)

Unlike general property rental businesses, FHL are treated as a trade for certain taxation purposes, which is generally more preferential in terms of loss reliefs and CGT reliefs. A key condition for property to qualify as FHL is that it is situated in the UK. Due to the possible incompatibility of the rules with European law, two significant announcements have been made. The current law on FHL is to be repealed with effect from 2010/11 but until then FHL situated in the European Economic Area (EEA) are qualifying FHL provided they meet the other conditions.

Corporate and Business Tax

There have been a number of changes in this area, some of which were announced previously.

- The main rate of corporation tax which applies to companies with profits of more than £1.5 million remains at 28%. The small companies corporation tax rate which applies to companies with up to £300,000 of profits remains at 21%. The effective marginal corporation tax rate for profits between £300,000 and £1.5 million is 29.75%.
- The temporary extension to the carry-back loss regime for businesses has been extended by a year. The measures will



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now have effect for company accounting periods ending in the period 24 November 2008 to 23 November 2010. For unincorporated businesses, the measure will have effect in relation to trading losses for tax years 2008/09 and 2009/10. The relief allows businesses to carry back losses up to three years rather than the normal one year. The carry back of losses to the immediate previous year remains uncapped, but for further carry backs the eligible losses are restricted to £50,000 of loss per year incurred in the temporary period of the relief.

- Additional capital allowances are to be available for expenditure incurred in respect of a qualifying activity in the 12 month period commencing 1 April 2009 for companies and 6 April 2009 for individuals and partnerships. Most businesses have since April 2008 been able to claim the new Annual Investment Allowance (AIA) on the first £50,000 spent on most plant and machinery. Expenditure on qualifying plant and machinery not covered by the AIA will be eligible for a temporary first year allowance (FYA) of 40% instead of 20% Writing Down Allowance (WDA). The FYA will not apply for expenditure on integral features, cars, long life assets and assets for leasing.
- Major changes to the capital allowances regime for cars are to be introduced from April 2009. The £12,000 limit in respect of claims for "expensive" cars will be abolished. The rate of allowances will now be determined by CO2 emissions: cars emitting less than 160g/km will be eligible for the full 20% WDA, whilst cars emitting more than this will attract a reduced 10% WDA. Expenditure incurred prior to April 2009 will be subject to the old rules for a transitional period of around 5 years.
- The Government will bring forward a package of reforms to the taxation of corporate foreign profits in Finance Bill 2009. Foreign dividends received by UK companies will now generally be exempt from tax where received after 1 July 2009. The exemption will be supported by a worldwide debt cap on interest (effective from 1 January 2010) and changes to the Controlled Foreign Company rules.
- Tax charges on employees with the use of company cars are currently calculated on the basis of the list price of the car and its CO2 emissions. From 2011/12 the lower threshold emissions figure will be reduced to 125g/km. The £80,000 cap which currently applies to the list price will be removed, which means there will be a significant increase in the tax charge on very expensive cars. Certain blanket reductions for environmentally-friendly cars will be abolished and the benefit charge will instead be based on the CO2 emissions of these models.
- Legislation is to be introduced to stop attempts to avoid tax on the benefit of living accommodation provided by

employers. The legislation will apply to schemes whereby accommodation is provided through the payment of a lease premium and will ensure that the premium cost is spread over the life of the lease (where 10 years or less) and treated as rent. The legislation will apply to leases entered into on or after Budget Day.

Value Added Tax (VAT)

From 1 May 2009, the threshold for compulsory registration is £68,000, whilst the threshold for voluntary deregistration is £66,000. HMRC have confirmed their intention that the standard rate of VAT will revert to 17.5% from 1 January 2010. Legislation will be introduced to prevent anti-avoidance which seeks to apply the 15% rate to supplies made after this date.

Simplifications will be made to the procedures for opting to tax land and buildings. HMRC expect that the new procedure will result in more taxpayers being able to opt to tax land and buildings without having to contact them.

A package of measures will be introduced from 1 January 2010 to modernise the VAT system for cross-border trading. The main changes will be to the place of supply rules for services, the time of supply rules, European Sales List reporting and the introduction of a new electronic refund procedure for VAT incurred in other EU member states. We will be covering these changes in more depth in a future newsletter.

Stamp Duty Land Tax (SDLT)

The "holiday" from SDLT for acquisitions of residential property of not more than £175,000 has been extended to cover land transactions where the effective date for SDLT is before 1 January 2010. After that, the threshold will revert to £125,000.

The effective date is normally the date of completion, not the date of exchange of contracts. However, the effective date may be earlier under certain circumstances, such as if the purchaser takes possession or pays a substantial part of the purchase price in advance of completion.

HMRC Powers

Three separate changes to the current law will be introduced in Finance Bill 2009 to:

- introduce voluntary managed payment plans (MPPs) from April 2011. These will allow taxpayers to spread their income tax or corporation tax payments equally over a period straddling the normal due dates. This should help taxpayers with cash-flow, by allowing them to spread their payments over a number of instalments before and after the normal due date.
- allow HMRC to collect small debts they are owed through the Pay As You Earn (PAYE) system, from April 2012.
- provide a third party information power requiring companies and businesses to supply HMRC with contact details for people who are in debt to HMRC with whom they have lost contact. This will

have immediate effect once the bill receives Royal Assent.

Other changes:

- The compliance checking framework recently introduced for the main taxes will be extended across nearly all taxes, including inheritance tax and stamp duty.
- Legislation will be introduced to reform penalty regimes for late filing of tax returns and late payment of tax, replacing the current variety of penalties. Penalties will be applied for the first time to all employers who are late in making monthly PAYE and NICs payments and companies paying corporation tax late. Implementation will be staggered over a number of years, beginning with April 2010 and PAYE penalties.
- New legislation, effective from a date to be announced, will enable HMRC to publish the names and details of individuals who are penalised for deliberate defaults leading to a loss of tax of more than £25,000. Names will not be published of those who make a full unprompted disclosure or a full prompted disclosure within the required time.
- A tax simplification measure will be introduced to permanently align the three-line accounts threshold for income tax self-assessment with the VAT registration threshold. This will enable many businesses to submit shorter tax returns.
- Legislation will be introduced in Finance Bill 2009 requiring HMRC to prepare and maintain a Charter. The Charter will set out standards of behaviour and values to which HMRC will aspire in dealing with taxpayers and others. The Charter must be in place by 31 December 2009.

Other Matters

- The scope of Agricultural Property Relief (APR) has been widened. APR is a relief which reduces the value of agricultural assets for Inheritance Tax (IHT) purposes. Previously, the relief was only available for UK-situate assets but has now been extended to cover all agricultural property in the European Economic Area (EEA). This will apply to IHT paid or due on or after 23 April 2003. Many claims for the relief in respect of prior years will need to be made by 31 January 2010. IHT relief for woodlands has also been extended in scope to include the EEA.
- The Business Payment Support Service (designed to assist businesses which, whilst viable, are currently having difficulties meeting tax liabilities) will continue. In addition, in making an agreement with HMRC, consideration will now be given to factoring in a loss where it is anticipated for the current period.
- Child trust funds. The Government will now make payments of £100 per year into the Child Trust Fund accounts of all disabled children. Severely disabled children will receive £200 per year. The payments will start in April 2010.

Contacts:

For further information about the issues raised in this newsletter or if you would like to find out about the range of services that we can offer, please contact Stephen Dabby, Morisha Christy, Tony Sian, Nick Nicolaou or Alex Green.