

# the bottom line

Welcome to the Winter edition of the bottom line, our tax and accountancy newsletter. This edition highlights the main proposals of the Pre Budget Report, Business Rates and News in Brief.

## PRE BUDGET REPORT 2010

December's Pre Budget Report included many interesting measures, many of which are deferred and so we shall not see the benefit or burden of them for some time. As many measures are based upon a forecast for growth which some see as optimistic, the jury is out on whether many of the provisions will have the desired effect on the economy.

### Tax

Whilst the income tax thresholds and allowances are unchanged, we are of course about to see the introduction of the new 50% rate on income in excess of £150,000. Coupled with a 1% increase in national insurance contributions from 6 April 2011 this will result in an effective top rate of tax and NIC of 52% for higher earners, and employer NIC rates of 13.8%.

Surprisingly the capital gains rate remains unchanged at 18%, which has resulted in many tax payers reviewing ways in which to convert their income to capital. It is difficult to envisage that the current disparity between income tax and capital gains tax will exist for much longer, but many practitioners predicted a capital gains tax rise in the PBR and were proved wrong, so we shall see.....

The inheritance tax nil rate band threshold is frozen at £325,000. Whilst this is unsurprising if we look at the current level of inflation, many practitioners feel that a rise commensurate with

the general rise in house prices over the nine or so years to 2007 is long overdue. However, HMRC state that inheritance tax is paid by only 2.5% of estates and 'the number of estates paying Inheritance Tax has never been lower' and so it is unlikely that we shall see any increase in the allowance in the foreseeable future (current policy and a possible change in government aside). VAT returned to 17.5% on 1 January.

The small companies' rate of corporation tax has been frozen at 21% which, coupled with the extension to the Business Payment Support Service which permits businesses in financial difficulty to defer their corporation tax payments, was welcomed. However, we still anticipate an increase of 1% on the small companies' rate next year.

### Pensions

We have already seen restrictions on the tax relief for pension contributions for individuals with income over £150,000, and measures to prevent increases in regular contributions to avoid these restrictions (the 'anti-forestalling' measures). The PBR has reduced the anti-forestalling threshold from £150,000 to £130,000, i.e. pension relief will be restricted for individuals who have income in excess of £130,000 and who increase their regular pattern of pension contributions.

### EIS and VCTs

EIS relief for investment in a company which trades through a partnership is no longer available. In addition a number of changes have been proposed to EIS and VCTs to comply with European Commission conditions imposed when granting approval for such schemes.

### Banker's Bonuses

This measure was the one that really hit the headlines, but the actual detail was arguably rather mild and attracted widespread criticism for being ill considered. For UK employees undertaking 'banking services' (or non UK employees performing UK banking duties) who are awarded a bonus between 9 December 2009 and 5 April 2010 the bank will incur a 50% tax liability on the amount of that bonus that exceeds £25,000. The tax charge will not apply where the bonus is paid under a contractual agreement already in place as at 9 December where there is no scope for any discretion on the part of the employer. The Treasury anticipates raising £550m from this bonus tax which it has said it will use to assist the unemployed to get back into work.

However, to circumvent these rules some employers may



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consider measures to ensure that any bonuses paid are simply deferred until after 5 April, or may attempt to increase an employees' remuneration package in other ways, although the Government has said that it will consider extending this period of charge until the publication of the Finance Act in the summer, and will also take action to curb any avoidance schemes that may be used. It remains to be seen just how much revenue is actually raised from these provisions.

## Tax Avoidance, Disclosure and Offshore Bank Accounts

As anticipated HMRC are continuing to tighten the provisions on offshore tax avoidance. A further opportunity to disclose offshore accounts and funds was available to 4 January 2010, following which any taxpayers who had the opportunity to disclose but are subsequently found to have not

done so could now face harsh penalties of up to 200% of the unpaid tax. Any tax payers who have not made any (or who have made insufficient) disclosure should still take the first step in contacting HMRC to disclose any relevant assets in order to attempt to mitigate the potential penalties.

HMRC consultation is ongoing in respect of further measures to curb offshore tax avoidance. These will include a requirement for all new bank accounts that are opened in certain offshore jurisdictions that do not have an existing information sharing arrangement with the UK to be disclosed to HMRC. This provision will not apply to foreign domiciliaries who are subject to the remittance basis rules.

## Inheritance Tax Anti Avoidance

Historically, legislative anti avoidance provisions relating to inheritance tax tend to fly under the radar. This year there have

been two, and both seek to counter tax planning arrangements which have been used to mitigate IHT. One of the measures applies where an individual transfers assets to a trust in which they retain a future interest; once that future interest comes to an end and the individual then has an actual interest in the trust this will trigger an IHT charge. A charge may also be triggered if the future interest is given away. The second arrangement that has been targeted is one whereby an individual purchases an interest in a trust which is exempt from IHT for full market value – that interest will form part of the individual's estate for IHT purposes and if it comes to an end during his or her lifetime there may be an immediate tax liability.

For further advice on any of the PBR measures or for other tax planning advice please get in touch with your usual contact.

## BUSINESS RATES

If you have not already reviewed and considered challenging your business rate liability, you should do so now. The opportunity to challenge current business rates liabilities will be lost on 1 April 2010 when the new 2010 Rating List will come into force. If a successful challenge is made before then, any reduction can be backdated up to five years. Substantial increases are anticipated next year

particularly in the West End, but increases are being phased in over a period of up to 5 years. The phased charge is calculated by taking the current year's liability and applying a capped percentage increase. It can be seen therefore that any reduction in the current year's liability will have a knock on effect on future liabilities.

Empty properties with a rateable value of less than £18,000 (2009/10: £15,000) continue to be exempt from business rates as announced recently.

## NEWS IN BRIEF Company cars – advisory fuel rates

Advisory fuel rates (the rates below which no tax liability arises on reimbursement of fuel to employees for business miles) are reviewed six monthly with effect from 1 June and 1 December. The rates effective from 1 December 2009 are:

Engine size	Petrol	Diesel	LPG
1,400cc or less	11p	11p	7p
1,401cc to 2,000cc	14p	11p	8p
Over 2,000cc	20p	14p	12p

## Compulsory VAT E-Filing

All existing VAT-registered businesses with an annual VAT-exclusive turnover of £100,000, and any business with an effective date of registration on or after 1 April 2010, are required to submit their VAT returns online and make electronic payments for all VAT return periods starting on or after 1 April 2010. If you have not already registered for

e-filing for VAT and require any assistance please contact us.

## Staff News

We are delighted to welcome Paul Bradley who joins us as a VAT Partner and Sharon Gillies as a Senior VAT Manager. They bring to us enormous VAT experience gained initially from within H M Revenue & Customs and latterly from major international accounting firms.

### 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, Alex Green, Amanda Nelson or Paul Bradley.