



CHARTERED ACCOUNTANTS

## **Pre-Budget Report 24 November 2008 Summary of the Main Taxation Provisions**

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### **Tax cuts to boost economy**

If a week is a long time in politics, the eight-month gap between last March's Budget and the November Pre-Budget Report seems an eternity.

When Alistair Darling presented his first Budget on 12 March 2008, the FTSE 100 Index was at 5,690, the base rate was 5.25% and annual Consumer Price Inflation was 2.5%, comfortably within the Bank of England's target range. Back then, the Chancellor predicted that net government borrowing would peak at £43bn in 2008/09. This allowed the Treasury to just remain within the 'sustainable investment rule' that borrowing should never exceed 40% of GDP.

Today's picture is very different, thanks mainly to the financial turmoil that has engulfed the global economy since last spring. The Chancellor now expects borrowing to reach £77.6bn this year and £118bn in 2009, before falling gradually to £54bn in 2013. By then, total net government borrowing will have climbed to £1,084bn.

The scale of the borrowings reflects both Mr Darling's fiscal stimulus, worth £20bn between now and April 2010, and also the recession-induced drop in tax revenues. The measures announced in the Pre-Budget Report are thus a mix of short term tax reductions and longer term tax increases. The main tax proposals include the following:

- The standard rate of VAT will fall to 15% for 13 months from 1 December 2008.
- The planned increase in the small companies' corporation tax rate will be deferred for one year.
- There will be a temporary extension of the ability of companies and unincorporated businesses to carry back their trading losses against the profits of earlier years.
- A temporary exemption from business rates will be available for certain empty properties.
- From 2011/12, the top rate of income tax will be 45% for taxable income over £150,000. Those with gross income of over £100,000 will see their personal allowance reduced or removed completely.
- From the same tax year, all the main national insurance contribution rates will rise by 0.5%.

## Income tax

The Chancellor announced several future changes to income tax:

- For the tax year 2009/10, the personal allowance will be increased by more than the rate of inflation to £6,475. The Chancellor decided not to claw back any of the increase announced in May that was intended to compensate for the abolition of the 10% rate band on non-savings income.
- From 2010/11, the basic personal allowance will be reduced by £1 for every £2 of gross income over £100,000, up to a maximum reduction of half the basic allowance. For example, if a person's gross income is £104,000, their personal allowance will be reduced by £2,000.
- For gross income over £140,000, the amount of the allowance will be further reduced at the same rate until the allowance is extinguished.
- From 2011/12, taxable income (other than dividends) above £150,000 will be liable to tax at 45%. The corresponding rate for dividends will be 37.5%.
- From 2011/12, the tax rate for trusts will rise to 45%, with the dividend tax rate rising to 37.5%.

### Income tax rates 2009/10

	£
Starting rate 10%*	0-2,440
Basic rate 20% (dividends 10%)	0-37,400
Higher rate 40% (dividends 32.5%)	Over 37,400

\*There is a starting rate for savings only. If an individual's non-savings taxable income exceeds the starting rate limit, the 10% starting rate for savings will not be available for savings income.

### Income tax allowances 2009/10

	£
Personal allowance (age under 65)	6,475
Personal allowance (age 65-74)	9,490
Personal allowance (age 75 and over)	9,640
Married/civil partners' allowance* (under 75)	6,865
Married/civil partners' allowance* (75 and over)	6,965
Married/civil partners' allowance* minimum amount	2,670
Age-related relief reduced by 50% of income over	22,900
Blind person's allowance	1,890

\*Tax relief for the married/civil partners' allowance is given at the rate of 10%, and is only available where at least one spouse/partner was born before 6 April 1935.

## Pensions

### The lifetime allowance and the annual allowance

For the five years from 6 April 2011, the standard lifetime allowance and annual allowance will be frozen at their 2010/11 levels of £1.8m and £255,000 respectively.

### Basic state pension

From April 2009, the basic state pension will rise by 5% to £95.25 for a single person and to £152.30 for a married couple. A £60 one-off payment will also be made in January 2009 to every individual entitled to the £10 annual Christmas bonus for pensioners.

## Pension credit

From April 2009, the pension credit standard minimum income guarantee will rise by £5.95 to £130 a week for a single pensioner and by £9.10 to £198.45 a week for pensioner couples.

## Value added tax

The standard rate of value added tax (VAT) will be 15% from 1 December 2008 until 31 December 2009, reverting to 17.5% from 1 January 2010. The zero rate and 5% rate are unaffected, but there are changes to the percentages set for the flat rate scheme for small businesses, also from 1 December 2008.

Suppliers will be able to apply the 15% VAT rate to invoices originally issued at 17.5% for goods and services they supplied after 30 November 2008. At the end of the temporary reduction period, measures will be introduced to ensure businesses cannot use artificial arrangements to reduce the VAT rate on goods or services to be provided after 31 December 2009.

## Other VAT measures

- The entry and leaving tests for the flat rate scheme for small businesses will be simplified from 1 April 2009.
- The annual turnover threshold up to which businesses can use one of the five standard retail schemes will increase from £100m to £130m from 1 April 2009.

## Company cars

Further details have been announced about the changes to the capital allowances rules for cars bought by companies and businesses. They take effect from 1 April 2009 for corporation tax and from 6 April 2009 for income tax.

The special rules that restrict allowances for cars costing more than £12,000 will be abolished. All expenditure on cars wholly for business use will be allocated to one of the two general plant and machinery pools:

- The general pool (20% allowance) for cars with CO<sub>2</sub> emissions of up to 160g/km.
- The special rate (10%) pool for cars with CO<sub>2</sub> emissions above 160g/km.

A proprietor's or partner's car with an element of non-business use will remain outside the pools.

For leased cars with CO<sub>2</sub> emissions above 160g/km, there will be a flat rate disallowance of 15% of lease rental payments.

Disabled employees (blue badge holders) who drive automatic cars will be able to calculate the taxable benefit using the lower list price of the equivalent manual car. They can already base the benefit on the CO<sub>2</sub> emissions of an equivalent manual car. The change will also apply to the calculation of Class 1A NICs on the taxable benefit.

## **Business taxation**

### **Corporation tax**

The planned increase of the small companies' rate from 21% to 22% will be deferred until 1 April 2010.

There will be a change to the tax treatment under the loan relationship rules where a creditor company releases a connected debtor company from a trade debt. For accounting periods beginning after 31 March 2009, the debtor will no longer be taxable on the release of the debt. The rules on late payment of interest between connected companies will be amended to provide certainty of treatment from the same date.

### **Trading losses**

Companies and unincorporated businesses will be able to carry back trading losses to set against their profits of up to three years earlier, subject to limitations.

- Losses carried back must first be set against profits of the preceding year. Then a maximum of £50,000 of the balance of unused losses will be available for carry-back to the earlier two years, taking the more recent year first.
- The £50,000 cap is reduced proportionately if the loss-making period is less than 12 months.
- For companies, the measure will have effect only for accounting periods ending in the period 24 November 2008 to 23 November 2009.
- For unincorporated businesses, it will apply to trading losses for the tax year 2008/09.

### **Income shifting**

The government has decided not to introduce rules in 2009 to prevent individuals in business saving income tax by transferring part of their income to someone else who is subject to a lower rate of tax – known as income shifting.

### **Payment of tax**

A new HMRC business payment support service will allow any business in temporary financial difficulty to pay any of their tax bills on a timetable tailored to their need. The taxes covered by this provision include VAT, PAYE, NIC, income tax and corporation tax.

### **Taxation of foreign dividends**

Foreign dividends received by large and medium groups on ordinary shares and most other shares will be exempt from UK tax.

There will also be a cap on tax deductions for interest claimed by UK members of worldwide groups, changes to the unallowable purpose rules for loan relationships and consequential changes to the controlled foreign companies provisions.

These changes will be made in the Finance Bill 2009.

### **Tax avoidance**

An anomaly will be corrected in the regulations that deal with the taxation consequences of a change of accounting practice with regard to financial instruments to prevent double taxation or double relief, with effect from 1 January 2009.

Measures are being introduced, effective from 13 November 2008, to counteract two avoidance schemes involving plant and machinery leasing.

Some simplification will be made to the tax rules where an employee acquires employment-related securities or shares for less than market value. The changes will affect transactions occurring from the date of Royal Assent to the Finance Bill 2009.

## National insurance contributions

Several changes will be made to national insurance contributions (NICs) from 2011/12:

- The NICs starting point will be broadly aligned with the income tax personal allowance, as used to be the case before 2008/09.
- The main rates of Class 1 NICs will rise by 0.5% to 13.3% for employers and 11.5% for employees. The employees' additional Class 1 rate (for earnings above the upper earnings limit) will also increase by 0.5% to 1.5%.
- Class 4 self-employed NIC rates will also increase by 0.5% to 8.5% and 1.5%.

## National insurance contributions 2009/10

<b>Employees</b>	
Lower earnings limit, primary Class 1	£95 a week
Upper earnings limit, primary Class 1	£844 a week
Primary threshold	£110 a week
Secondary threshold	£110 a week
Employees' primary Class 1 rate	11% of £110.01 to £844 a week 1% above £844 a week
Employees' contracted-out rebate	1.6%
Married women's reduced rate	4.85%
Employers' secondary Class 1 rate	12.8% on earnings above £110 a week
Employers' contracted-out rebate, salary-related schemes	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%
<b>Self-employed</b>	
Class 2 rate	£2.40 a week
Class 2 small earnings exception	£5,075 a year
Class 3 rate	£12.05 a week
Class 4 rates	8% of £5,715 to £43,875 a year 1% above £43,875 a year

## Other provisions

### Child benefit and child tax credit

Child benefit will increase from £18.80 to £20 a week for the first child, and from £12.55 to £13.20 a week for subsequent children. This will be paid from January 2009. The child element of child tax credit will rise by £150 to £2,235, but the family element and baby addition will both remain frozen at £545.

### Support for mortgage interest

In September, the government announced that from April 2009, support for mortgage interest would be available for new claimants of working age after a waiting period of 13 weeks rather than the current 39 weeks. The maximum loan to which support will apply has been increased from the proposed £175,000 to £200,000. The level of support for existing claimants will be maintained at the current interest rate for the next six months.

## **Individual savings accounts and multilateral institutions**

The list of qualifying investments for a stocks and shares individual savings account (ISA) is to be extended from 16 December 2008 to include bonds issued by multilateral institutions, as defined by the OECD.

## **Business rates**

For 2009/10 only, empty properties with a rateable value of less than £15,000 will be exempt from business rates.

## **Business finance**

Business borrowing will be supported with:

- A new small business finance scheme to support up to £1bn of bank lending.
- A separate £1bn guarantee facility to support bank lending to small exporters.
- A £50m fund to convert businesses' debt into equity.
- A £25m regional loan transition fund.

## **Air passenger duty**

For travel from 1 November 2009, destinations will be categorised into four geographical bands, based on distance from London to the capital city of the destination country or territory. Each band will have two rates, one for standard class and one for other classes, which will be double the standard class rate. Rates will range from £11 to £110 in 2009/10 and from £12 to £170 in 2010/11.

## **Footnote:-**

### **Changes to your computer software settings**

If you use a computerised accounting package such as Sage or QuickBooks you will need to set up the new VAT rates applicable from 1 December 2008 correctly.

Please contact us if you would like advice on what changes you need to make to your software settings.

*This guide is for general information only and is not intended to be advice to any specific person. You are recommended to seek competent professional advice before taking or refraining from taking action on the basis of the contents of this publication. The guide represents our understanding of the law and HM Revenue & Customs practice as at 24 November 2008, which are subject to change. These proposals may be changed in the Spring 2009 Budget and subsequent legislation, or at any other time.*