

# Budget Briefing

April 2009

## Introduction

As has become the norm the 2009 Budget provided little of immediate consequence with most of the significant changes impacting from April 2010 or later. The Chancellor's speech set the scene for a period of fiscal tightening beginning in 2010 and some of the future tax increases were outlined.

Although not exhaustive the following sections detail some of the pertinent points that businesses and individuals should be aware of following this year's Budget and also include some points not covered in Mr Darling's speech.

## Income Tax rates and allowances

With effect from 6 April 2010 a 50 percent additional rate of tax will apply to taxable income over £150,000; however, dividends otherwise taxable at the new 50 percent additional rate will be taxable at a new 42.5 percent dividend rate.

From the same date the trust rate will be increased from 40 percent to 50 percent and the dividend trust rate will be increased from 32.5 percent to 42.5 percent.

From 6 April 2010, where an individual's adjusted net income is above the income limit of £100,000 the amount of the personal allowance will be reduced by £1 for every £2 above the income limit.

## Individual Savings Accounts (ISA's) : Increased Limits

From 6 October 2009 the ISA limit will increase to £10,200, up to £5,100 of which can be saved in cash, for people aged 50 or over. From 6 April 2010 the ISA limit will be raised to £10,200, up to £5,100 of which can be saved in cash, for all ISA investors.

## Pensions : Limiting Relief for High Income Individuals

The Government intends from 6 April 2011 to restrict tax relief on pensions savings for individuals with an annual income of £150,000 or more. Relief will be tapered away so that for those earning over £180,000 relief will be worth 20 percent, the same as to a basic rate taxpayer.

In anticipation of that new restriction, the Government is introducing new rules to apply from 22 April 2009 to restrict higher rate tax relief on pension contributions for individuals. The restrictions will apply to people

- whose income is £150,000 or higher
- who change their normal ongoing regular pensions savings, and
- whose total pension savings exceed £20,000 per annum.

This will remove the advantage to those individuals of increasing their pension contributions in excess of their normal pattern on the period prior to 6 April 2011.

## Corporation Tax

As previously announced the small companies' rate of corporation tax has been retained at 21 percent until 1<sup>st</sup> April 2010 when it will increase to 22 percent. The full rate remains at 28 percent with no changes currently proposed.

An extension to the loss carry back scheme was announced and this will now apply for company accounting periods ending in the period 24 November 2008 to 23 November 2010 and for tax years 2008/09 and 2009/10 for unincorporated businesses.

This scheme extends the period for which losses can be carried back from one year to three years. Losses are carried back against later years first and generate payable tax repayments. The amount of losses that can be carried back against the preceding year is unlimited but a maximum of £50,000 in total can be carried back against the earlier two years.

## Stamp Duty Land Tax

The temporary increase in the stamp duty land tax threshold for residential properties has been extended through to 31<sup>st</sup> December 2009. This means that residential property acquisitions worth not more than £175,000 will be exempt from stamp duty land tax until 1<sup>st</sup> January 2010.

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## Capital Allowances : Plant and Machinery : Temporary First Year

Businesses incurring expenditure on plant and machinery in excess of the Annual Investment Allowance cap of £50,000, that would normally be allocated to the main pool and qualify for a 20 percent writing down allowance (WDA) in the 12 month period beginning on 1 April 2009 (corporation tax) or 6 April 2009 (income tax), will now be able to claim a 40 percent first year allowance instead.

These temporary first year allowances will not apply to long-life assets, integral features, expenditure on cars and assets for leasing.

## Modernising tax relief for business expenditure on cars

Budget 2008 announced the abolition of the current capital allowances rules for "expensive cars", replacing them with an environmentally based pooling system. The rate of WDA will be based on the CO<sub>2</sub> emissions of the car.

The restriction on allowable lease rentals for businesses that lease or hire cars will also be based on the CO<sub>2</sub> emissions of the car.

The new rules will generally have effect on and after 1 April 2009 for businesses in the charge to corporation tax, and on and after 6 April 2009 for businesses in the charge to income tax.

From April 2009 the special rules that restrict the amount of capital allowances for cars costing more than £12,000 will be abolished and replaced by new rules. Qualifying expenditure incurred on or after 1 or 6 April 2009 on cars will be allocated to one of the two general plant and machinery pools. The pool that is appropriate will depend on the car's CO<sub>2</sub> emissions. Expenditure on cars with CO<sub>2</sub> emissions over 160g/km will be dealt with in the special rate pool and will attract WDAs at 10%. Cars with an element of non-business use will continue not to be pooled but will attract only the 10 percent special rate of WDA's if their CO<sub>2</sub> emissions exceed 160g/km.

From April 2009, the special rules that restrict the amount of lease rental payments that can be deducted for tax purposes for a car costing more than £12,000 will be reformed.

The restriction will be changed to a flat rate disallowance of 15% of the deduction that would otherwise be allowed and apply in respect of cars with CO<sub>2</sub> emissions above 160g/km.

## Vehicle Scrappage Scheme

A temporary vehicle scrappage scheme, which allows for a discount of £2,000, is to be offered to purchasers of new vehicles when they replace a vehicle which is more than 10 years old and they have owned for more than 12 months.

## Business Payment Support Service

An extension to the Business Payment Support Service, which was launched in November 2008 to assist businesses having difficulty in meeting payments due to HMRC, has been announced. Specifically, where a business has made a taxable profit in the previous year but anticipates a loss in the current year, HMRC will take this into account when agreeing a payment schedule in respect of the earlier year's liability.

## Statutory Redundancy

The rate at which statutory redundancy pay is calculated is to be increased to £380 per week.

## Anti-Avoidance & Compliance

The Budget introduced a further raft of anti-avoidance legislation to counter specific tax schemes. In addition legislation is proposed which will allow HMRC to "name and shame" individuals, businesses and companies who are penalised for deliberately misstating their tax liabilities where the amount of tax involved exceeds £25,000.

A new late filing and late payment penalty regime is to be introduced over an extended period. Significant changes will include penalties for late payment of in month PAYE/NIC liabilities and penalties for the late filing of tax returns whether or not the liability has been settled.

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## Value Added Tax

### Temporary reduction of VAT rate.

As announced at the 2008 Pre-Budget Report, on 1 December 2008 the standard rate of VAT was reduced temporarily to 15 percent. The rate will return to 17.5 percent on 1 January 2010.

Targeted legislation will be introduced in Finance Act 2009 to counter schemes that purport to apply the 15 percent VAT rate to goods or services to be supplied on or after the date that the rate returns to 17.5 percent.

### VAT registration and deregistration thresholds

From 1 May 2009 the VAT registration threshold will be increased from £67,000 to £68,000. The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £65,000 to £66,000.

### Fuel scale charges

Revised VAT Fuel Scale charges have been announced to reflect updated fuel prices. Businesses must use the new scale charges from the start of their next prescribed VAT accounting period beginning on or after 1 May 2009.

### Cross-Border VAT

From 1<sup>st</sup> January 2010, the VAT treatment of cross-border trade will be changed by introducing:

- New place and time of supply rules for certain cross-border supplies of services. This will affect businesses receiving cross-border supplies of services in the UK, who are required to account for VAT on those supplies as a reverse charge.
- New reporting requirements for cross-border supplies of both goods and services. The measure introduces a requirement for UK businesses that supply services where the place of supply is the customers' country to complete EC Sales Lists for each calendar quarter. It will relate only to services on which the customer is required to account for a reverse charge in their country.
- New rules to make it easier for businesses to reclaim VAT paid in other EU countries. A new electronic VAT refund procedure is being introduced from 1 January 2010 to replace the current paper-based system. UK businesses will submit claims for overseas VAT electronically on a standardised form to HMRC rather than direct to the Member State of Refund.

## What can I do now?

If you require further information in relation to any of the above matters, or indeed would like to discuss your tax exposure please do not hesitate to contact us.

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