

2009 PRE-BUDGET REPORT NEWSLETTER



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In a speech to the House of Commons on 9 December, the Chancellor presented his pre-budget report and announced a number of proposed changes to the tax and National Insurance rules. The most significant personal tax rise was a proposed increase in National Insurance from April 2011, and probably the most politically driven point was his announcement that he is to introduce a temporary bank payroll tax of 50% for bonuses above £25,000. This will apply to “discretionary” bonuses (but not, apparently, contractual bonuses) paid by banks and building societies in the period from 9 December until 5 April 2010. The tax will be paid by the banks, rather than employees. The following paragraphs set out the main personal tax proposals, although it is significant that this report is presented in advance of an impending General Election and we expect to see further tax announcements shortly after the election.

Value Added Tax (VAT)

The Chancellor confirmed that the temporary reduction in standard rate VAT to 15% will end on 31 December 2009. VAT will increase to 17.5% from midnight on that day, but there are special measures for businesses that trade across the midnight deadline. He is also allowing retail businesses 28 days to re-price stock and they can charge the increased VAT at the till in the meantime.

National Insurance

All National Insurance rates will be increased by an additional 0.5% from April 2011. This is on top of the increase that the Chancellor announced in last year’s pre-budget report.

This means that the main rate for employees will increase to 12% (from 11%) and for employers to 13.8% (from 12.8%). The self employed main rate increases to 9%. Employees and the self employed (including partners) with earnings above the upper limit (not yet announced) will pay 2% (previously 1%) on the excess.

The primary and lower profit threshold will increase by £570 for 2011/12 to compensate lower earners for the increase in the above rates.

Pension Contributions

In his budget report in April, the Chancellor announced that from April 2011 tax relief on pension contributions will gradually be tapered down to 20% for individuals with income over £150,000. He also announced that, in order to prevent individuals paying large contributions before 6 April 2011, there would be a restriction on tax relief for contributions in excess of £20,000 (later increased to £30,000 for certain individuals) paid on or after 22 April 2009 by those with income above £150,000 (in the current or the previous two years). The exception to this is where individuals were already paying regular contributions at a rate in excess of £20,000 (or £30,000) per year.

The Chancellor has now reduced the income limit from £150,000 to £130,000 and this limit will apply for the period from 9 December 2009 to 5 April 2011 to those individuals who change their normal pattern of regular pension contributions and whose total pension ‘inputs’ exceed the special annual allowance of £20,000 (or £30,000). The amount of income is calculated as before (including looking at previous years) and is net of pension contributions (limited to £20,000), losses and charitable donations.

The Chancellor also announced proposed changes to the rules from April 2011, but these may change again.



Personal Tax

There will be no increase in personal tax allowances for 2010/11. This means that the basic personal allowance remains at £6,475.

Personal tax rates for 2010/11 are as previously announced with a 50% tax rate for taxable income above £150,000.

Capital Gains Tax

There were no major announcements regarding capital gains tax and the rate of tax on gains in excess of the capital gains tax allowance remains at 18%. Whether this rate will survive a post election budget remains to be seen.

Income Shifting

The Government had previously announced that it would introduce legislation to stop individuals arranging their affairs (typically through company share ownership) so as to shift income from one individual to another (usually a lower taxed spouse). There were no new proposals regarding this.

Offshore Accounts

The Chancellor has warned that there will be increased penalties (of up to 200% of tax lost) for individuals evading tax by using offshore accounts.

He also announced a new requirement to notify HM Revenue & Customs when opening an offshore bank account in certain jurisdictions. Further details will be announced later.

Employment Taxes

There are a number of proposed changes to the benefits in kind system for employees, including changes to the levels of CO2 emissions that apply in working out the taxable benefit for company cars. In addition, the Chancellor announced that electric cars and electric vans will be exempt from the benefit charge for five years from 6 April 2010.

The Chancellor also announced small changes in other taxable benefits and in particular, with effect from 6 April 2011, the income tax exemption for free and subsidised meals in a canteen will be removed where this benefit is provided in exchange for a salary sacrifice.

Companies

The Chancellor announced that the Government is deferring for a further year the planned increase in the small companies' rate of corporation tax. The rate will remain at 21% during 2010/11 and will increase to 22% from 1 April 2011.

The Chancellor has proposed that with effect from April 2013, a reduced rate of corporation tax (ie 10%) will apply to profits derived from new patents.

Inheritance Tax

The inheritance tax allowance is to be frozen at its current level of £325,000 per individual for the tax year 2010/11. This changes the allowance announced in the 2007 budget speech.

There is no change to the rule allowing a surviving spouse to claim any unused allowance and the rate of tax on death remains at 40%.

Stamp Duty Land Tax (SDLT)

The SDLT holiday for residential properties up to the value of £175,000 will end as planned on 31 December 2009.

Furnished Holiday Lettings

The pre-budget report includes further information regarding the withdrawal of the tax advantages currently enjoyed by the owners of furnished holiday properties. The withdrawal will have effect for profits, losses and capital gains arising after 5 April 2010.

After the FHL rules are withdrawn, those who let furnished holiday accommodation will not normally be treated as trading for certain tax purposes. Instead they will be taxed for all purposes under the normal rules for property rental businesses. The only exception is where the FHL business is carried on at such a scale as would amount to a trade in its own right.

Please note that this is only a brief summary of the proposals outlined in the report and these are subject to change. The information given is of a generic nature and is not intended to constitute advice.

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