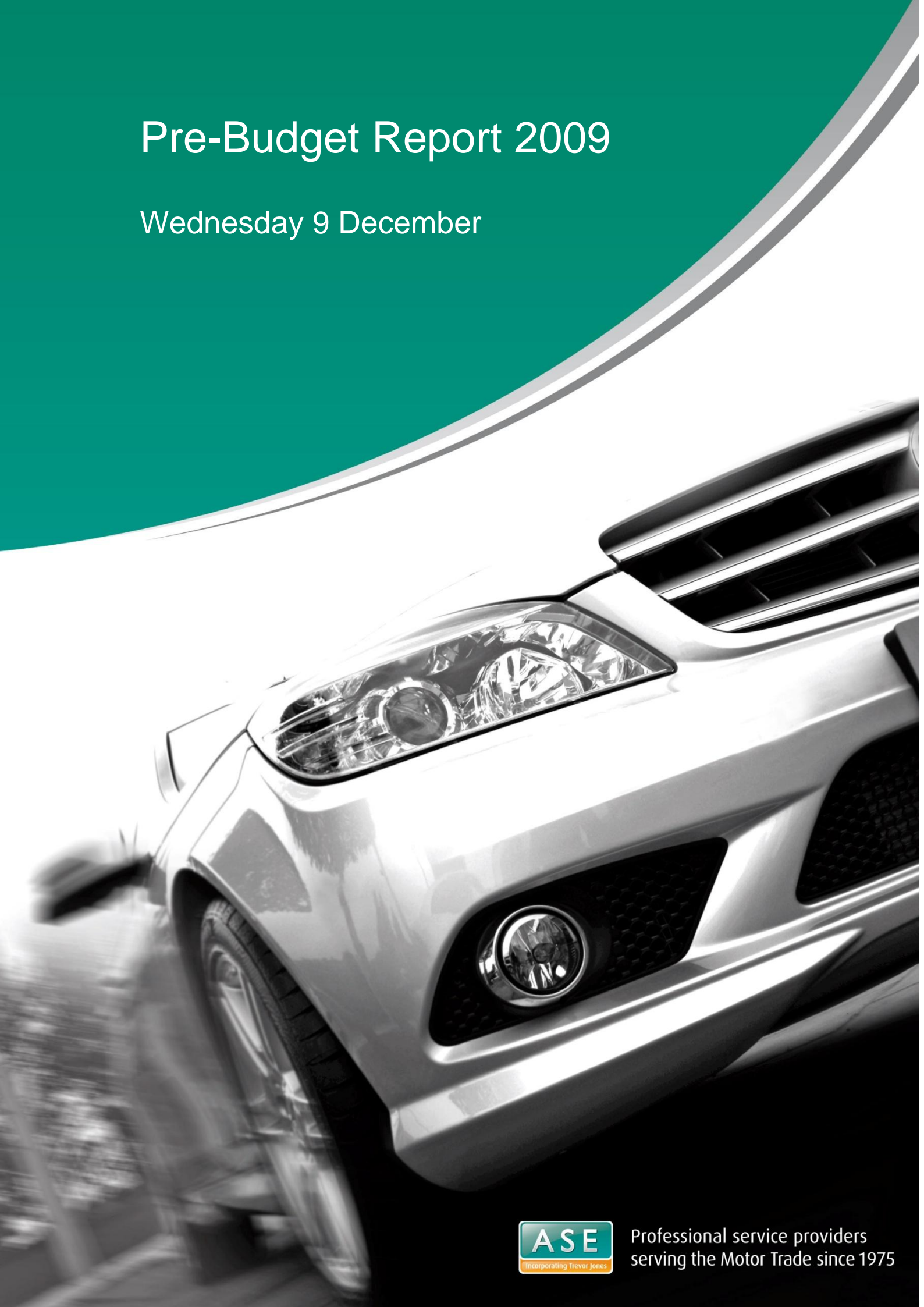


Pre-Budget Report 2009

Wednesday 9 December



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Overview

Darling unveils measures to 'secure recovery'

Chancellor Alistair Darling has presented the 2009 Pre-Budget Report, to a politically charged House of Commons. In the context of the global recession, and with a General Election looming, this year's statement has particular significance.

Despite revising down his economic growth forecast from -3.5% to -4.75% for 2009, and increasing his public sector net borrowing forecast from £175 billion to £178 billion for 2009/10, the Chancellor insisted that global confidence is returning, and predicted that the UK economy will return to growth by the turn of the year.

Describing this as a 'critical time' for the economy, the Chancellor outlined a number of measures aimed at securing economic recovery and promoting growth.

Key measures for businesses include a deferral of the planned 1% increase in corporation tax for small firms and an indefinite extension of the 'time to pay' scheme. Empty property relief will be extended from 2010/11 for business properties with a rateable value below £18,000, and the Enterprise Finance Guarantee Scheme will also be extended for one year.

Citing the need for 'difficult choices', the Chancellor confirmed that national insurance contributions will rise by a further 0.5% from April 2011, although the starting point will be raised so that those earning less than £20,000 will not be affected. The negative RPI to September 2009 meant that many allowances and thresholds were unchanged.

The temporary cut in VAT will end on 1 January 2010 as planned, with the standard rate reverting to 17.5%. The so-called stamp duty 'holiday' will come to an end at the same time, while the individual inheritance tax allowance will be frozen at £325,000 until 2011.

A much-anticipated announcement regarding bankers' bonuses sees the introduction of a new one-off 50% 'super tax' on bonuses exceeding £25,000, payable by the bank. Plans to reduce pension tax relief for those earning in excess of £150,000 were also confirmed.

Meanwhile, 'green' measures include the introduction of a new 'boiler scrappage scheme', together with plans to exempt electric cars from company car tax for five years, and a 100% first year capital allowance for electric vans.

The Chancellor also confirmed a new 50p a month tax on telephone landlines, which will be used to fund next generation broadband services.

Please contact us for specific advice about how these announcements might affect you or your business.

Measures for Business

A wide range of tax and other measures affecting businesses were announced by the Chancellor.

Business payment support service

The 2008 Pre-Budget Report introduced HM Revenue and Customs' (HMRC) Business Payment Support Service, designed to help viable businesses facing temporary financial difficulties to spread tax payments over an agreed timetable. According to the Government, over 160,000 businesses have taken advantage of the service, collectively employing more than 1.2 million people, spreading over £4 billion of tax. Of this, more than £3 billion has already been repaid.

HMRC will continue to offer this service as part of its time to pay arrangements. All requests will continue to be assessed on the same basis as when the service was introduced.

Business rates

In March 2009, the Government announced that businesses could spread payment of the April 2009 inflation up-rating to business rates over three years, helping ratepayers for an estimated 1.8 million properties in Britain. The Government also temporarily increased the threshold at which empty properties are liable for business rates to £15,000, exempting an estimated 70% of empty properties. On 18 September 2009, the Government removed the requirement for businesses receiving small business rate relief to reapply for relief at revaluation.

The Government is maintaining for a further year the temporary increase in the threshold at which an empty property becomes liable for business rates. For the financial year 2010/11, empty properties with a rateable value of less than £18,000 will be exempt from business rates. This higher threshold reflects the effects of business rates revaluation and is still expected to apply to 70% of empty properties.

Small Companies' rate of corporation tax

The Government is deferring, for an extra year, the planned increase in the Small Companies' Rate of corporation tax. The rate will remain at 21% during 2010/11.

Patent box

The Pre-Budget Report announced the intention to introduce a 'Patent Box', a reduced rate of corporation tax applying to income from patents from April 2013, designed to strengthen the incentives to invest in innovative industries.

The Chancellor announced that, following consultation, this will be a 10% corporation tax rate on income which stems from patents in the UK.

Research & Development (R&D) tax credits

Since the introduction of the R&D tax credit schemes, according to the Government, over 36,000 claims have been made for R&D tax credits with over £3 billion of relief claimed, supporting over £32 billion of research and development activity by companies.

The Chancellor has now announced the removal of the condition that any intellectual property (IP) deriving from the research and development must be owned by the company making the claim. This measure is designed to allow companies to benefit from the R&D tax credit for SMEs without distorting their commercial arrangements in relation to IP. It will have effect for any qualifying expenditure incurred in an accounting period ending on or after 9 December 2009.

Company cars and vans

A new 0% band will apply for company cars propelled solely by electricity, from 6 April 2010 effective for five years. From the same date, and also applying for five years, will be a reduction to nil of the flat rate charge on company vans propelled solely by electricity.

The new bands will apply for both income tax (employees) and national insurance contributions (NICs) (employer contributions).

The fuel benefit multiplier, governing the tax paid by employees and the NICs paid by employers where free private fuel is provided, will be increased from 6 April 2010 to £18,000 (currently £16,900). Where fuel is provided for private travel in company vans the flat rate charge will be increased from the same date to £550.

The Chancellor also announced a 100% first year capital allowance for electric vans. The allowance will be available for business expenditure on new, unused electric vans incurred on or after 1 April 2010 (corporation tax) or 6 April 2010 (income tax).

The graduated table of company car tax bands will be extended down to a new 10% band (for cars with CO₂ emissions up to 99g/km) and all thresholds moved down by 5g/km with effect from 6 April 2012.

Personal Measures

Income tax

The tax thresholds and personal allowances for 2010/11 are as follows:

Income Tax	2009/10	2010/11
Basic rate band	£37,400*	£37,400*
Tax rate	20%	20%
Basic rate for dividend income	10%	10%
Higher rate – income over	£37,400	£37,400
Higher rate	40%	40%
Dividend upper rate	32.5%	32.5%
Additional rate – income over	n/a	£150,000
Additional rate	n/a	50%
Dividend additional rate	n/a	42.5%

* There is a 10% starting rate for savings income up to the starting rate limit within the basic rate band. Where taxable non-savings income does not fully occupy the starting rate band the remainder of the starting rate band is available for savings income.

Personal allowances

Age at end of tax year	2009/10	2010/11
Under 65	£6,475	£6,475
65 – 74	£9,490	£9,490
75 and over	£9,640	£9,640
Higher allowances scaled back if income exceeds Adjusted net income above which personal allowances are tapered	£22,900 n/a	£22,900 £100,000

National insurance contributions (NICs)

The lower earnings limit for 2010/11 will increase by £2 to £97 per week. All other main NIC rates and thresholds are unchanged for 2010/11.

In his 2008 Pre-Budget Report the Chancellor announced that the main NIC rates would be increased by 0.5% for 2011/12. In his 2009 Report he announced a further 0.5% increase effective from 6 April 2011, taking rates to:

Employee Class 1	12%
Employer Class 1 and Class 1 A/B	13.8%
Self-employed Class 4	9%
Class 1/4 additional rate	2%

With effect from 6 April 2011, the primary threshold and lower profit limits were to be broadly aligned with the income tax personal allowance. It has been announced that these thresholds will be increased by a further £570 to compensate the lowest earners (up to £20,000) for the increase in Class 1 and 4 rates.

Inheritance tax

The Chancellor announced that the inheritance tax allowance will be frozen at £325,000 for individuals and therefore a maximum of £650,000 for married couples and civil partners in 2010/11.

Capital gains tax (CGT)

There is no change in the annual exempt amount which remains at £10,100 for individuals and £5,050 for most trustees.

Child benefit

Child benefit will be increased by 30p to £20.30 per week from April 2010.

State pension

The Pre-Budget Report announced that in April 2010 the level of the basic State Pension will increase by 2.5%, meaning a full basic State Pension will be worth £97.65 a week. The full couples' rate for those whose entitlement is based on their spouse or civil partner's pension will increase to £156.15 a week.

These increases are in line with the policy of uprating the basic State Pension by RPI or 2.5%, whichever is higher.

Pension credit

There will be an above-indexation increase in the Pension Credit's minimum income guarantee to £132.60 for single pensioners and £202.40 for couples in 2009/10.

Tax relief on pension contributions

Budget 2009 announced that tax relief on pension contributions would be restricted from April 2011 for individuals with incomes of £150,000 and over.

The Chancellor has now announced that the income definition for the £150,000 threshold will include the value of employer pension contributions.

This will be subject to an income floor so that tax relief for those with incomes below £130,000 (before the inclusion of employer pension contributions) will not be restricted. They will still be subject to the existing annual and lifetime allowances.

The anti-forestalling measures introduced at Budget 2009 will be extended from 9 December 2009 so that all those with incomes of £130,000 and over will be subject to the special annual allowance.

Furnished holiday lettings

The current furnished holiday lettings provisions (now applying to UK taxpayers with qualifying lettings elsewhere in the EEA) will be withdrawn with effect from 6 April 2010.

From that date, furnished holiday lettings will be dealt with under the normal rules for the letting of property, and hence the following tax reliefs will no longer be available:

- income tax sideways loss relief and capital allowances for new expenditure
- capital gains tax entrepreneurs' relief, business assets roll-over relief, relief for gifts of business assets; and
- exemptions for disposals of shares by companies with a substantial shareholding.

From 6 April 2010 income from furnished holiday lettings will cease to be relevant income for pension relief purposes.

Carers

Two new provisions affecting carers were announced.

Income tax:

A new tax-free allowance will apply for Shared Lives carers, from 6 April 2010, replacing the current simplified income tax arrangements.

The tax-free allowance will be available per household and consists of:

- £10,000 fixed amount per tax year
- £200 per week (or part week) per placement aged under 11; and
- £250 per week (or part week) per placement aged 11 or over.

Qualifying Shared Lives carers whose total receipts from providing care do not exceed the tax-free allowance for the year will be exempt from income tax on their income from providing Shared Lives care. Those whose receipts exceed the tax-free allowance for the year can choose to pay tax on either the amount by which their receipts exceed the allowance or on their profits calculated using the normal tax rules for businesses.

Capital gains tax (CGT):

Strictly, the CGT principal private residence (PPR) relief is not available for any part of the home which is used exclusively for the purpose of a trade, business, profession or vocation. Where a person cares for an adult under a local authority placement scheme, their contract may require them to set aside one or more rooms for the exclusive use of the adult in their care.

Legislation to be introduced in the 2010 Finance Bill will remove the potential restriction on the PPR relief, for disposals on or after 9 December 2009.

Salary sacrifice – workplace canteens

Measures will be introduced from 6 April 2011 to remove the income tax exemption for meals provided in a canteen or on the employer's premises, in cases where the provision is linked to a salary sacrifice arrangement or a flexible benefits remuneration arrangement, where the food and drink provided (or the means of obtaining it) is commensurate with the amount of income given up.

VAT and Duties

Standard rate of VAT

It has been confirmed that the temporary cut in VAT will end on 1 January 2010 as planned, with the standard rate reverting from 15% to 17.5%.

The VAT flat rate scheme percentages have been recalculated accordingly, to ensure they are based on the 17.5% rate effective from 1 January 2010.

Alcohol and tobacco duty rates

As announced in the 2008 Pre-Budget Report, alcohol and tobacco duty rates will remain at current levels when the standard rate of VAT returns to 17.5% in January 2010.

Bingo duty

Bingo duty is to be reduced from 22% to 20% from Budget 2010.

Green Measures

Climate change levy

The reduced rate of climate change levy for facilities in energy intensive sectors, currently 20%, will be increased to 35% from 1 April 2011.

Claimants will be required to give their energy suppliers fresh certificates confirming their new relief entitlement – for existing claimants, this will be by the completion of their first annual review after 1 April 2011.

Green boiler incentive scheme

The Pre-Budget Report announces a £400 incentive to help up to 125,000 households upgrade old inefficient boilers to the latest energy efficient models (available to those who buy a new efficient boiler or renewable heat unit to replace a working G rated boiler).

Other Measures

Bank payroll tax

The Chancellor announced a new tax to be levied on banks (and certain other companies) providing a bonus exceeding £25,000 to a banking employee directly or through an intermediary.

The tax will be charged at 50% of the amount by which the bonus exceeds £25,000 and will have effect from 9 December 2009 to 5 April 2010, and is payable on 31 August 2010. It is in addition to the income tax and NICs the employee will pay, at a combined rate of up to 41%.

Bank payroll tax is not taken into consideration when calculating the bank's profits or loss for corporation tax or income tax purposes.

Detailed provisions, including anti-avoidance provisions, are available on the HMRC website.

Landline duty

HM Treasury, HMRC, and the Department for Business, Innovation and Skills will shortly consult on the implementation of the Landline Duty.

The Landline Duty of 50p per month for each line is being introduced to help fund the roll-out of superfast broadband (Next Generation Access) to 90% of the country by 2017. The Digital Britain White Paper committed to introduce the new duty in the financial year 2010/11.

SDLT holiday to end

A stamp duty land tax (SDLT) holiday was announced on 2 September 2008 for all houses costing up to £175,000.

The holiday will end as planned on 31 December 2009 and the threshold for houses will revert to £125,000 (or £150,000 in disadvantaged areas) from 1 January 2010.

Seafarers

Legislation will be introduced in the 2010 Finance Bill to extend, from 6 April 2011, the Seafarers' Earnings Deduction to EU and EEA resident seafarers.

Equitable liability

The current law does not allow HMRC to forgo tax that is legally due. By a concession published in Tax Bulletin 18 in August 1995, HMRC has not pursued amounts when a taxpayer can prove they would not have been due if he or she had filed a return on time. The concessionary treatment applies only where a taxpayer:

- shows that the figure of tax due is excessive
- shows what the correct amount should have been; and
- brings his or her tax affairs up to date, including payment of tax, interest and penalties.

The concessionary treatment can usually only apply to any taxpayer on one occasion although it may cover a number of years. The current concession will continue to apply until legislation is introduced to formalise it.

Anti-Avoidance Measures

Offshore bank accounts – new disclosure opportunity

Following a recent tribunal decision, HMRC is receiving details from over 300 financial institutions in the UK regarding offshore bank accounts. Alongside this, the Government is offering the New Disclosure Opportunity (NDO), giving those with undeclared assets a final chance to come forward to pay tax, interest and a reduced penalty. The notification window for the NDO runs until 4 January 2010, with a final disclosure and full payment required by 12 March 2010.

The Chancellor has also proposed that there will be a requirement to notify HMRC when opening offshore bank accounts in certain jurisdictions, supported by a separate penalty regime.

Inheritance tax avoidance schemes

Draft legislation has been published to close two schemes designed to avoid inheritance tax charges on relevant property trusts. First, where a person transfers property into a trust in which they retain a future interest they will be charged inheritance tax if they become entitled to an actual interest under the trust. Second, where a person purchases an interest in a trust that interest will be treated as part of their estate for inheritance tax purposes.

The Government has announced it is also examining 'wider solutions' regarding the use of trusts to avoid inheritance tax charges.

Disclosure of tax avoidance schemes

Regulations will be introduced to extend the Disclosure of Tax Avoidance Schemes (DOTAS) to require the disclosure of certain stamp duty land tax (SDLT) avoidance schemes that concern residential property with a value of at least £1 million. Users of all SDLT avoidance schemes, for both commercial and residential property, will be required to report the use of the scheme back to HMRC.

Other anti-avoidance measures

Other announcements include measures to:

- counter avoidance through the artificial creation of excess capital allowances
- close a loophole through which fees are 'artificially carved out' of a taxable insurance contract to avoid insurance premium tax
- ensure that the tax exemption for the inflationary return of an index-linked gilt cannot be exploited for avoidance purposes
- prevent leasing schemes that generate artificial tax losses in excess of the value of taxable income taking income out of the charge to tax
- prevent companies using consortium arrangements that attempt to deliberately circumvent the sale of lessors anti-avoidance legislation
- remove the exemption from stamp duty or stamp duty reserve tax where new shares are issued within the EU and subsequently transferred to a depositary receipt system or clearance service outside the EU.

What They Said...

The choice facing the country is between securing recovery or wrecking it.
Chancellor of the Exchequer, Alistair Darling

We were promised a Pre-Budget Report and what we got was a pre-election report.
Shadow Chancellor, George Osborne

This is a good Budget for bingo and boilers.
Vince Cable, Liberal Democrat treasury spokesman

It's clear that the NIC rises mean a brake on employment growth. While everyone understands the importance of restoring the public finances to a sustainable path, a tax on jobs is not the way to do it.
David Frost, Director General of the British Chambers of Commerce

The key theme of this year's PBR is prudence postponed.
Miles Templeman, Director General of the Institute of Directors