

PRE BUDGET 2009 REPORT SUMMARY

The Chancellor, Alistair Darling, announced his Pre Budget Report on 9 December 2009. The key points coming out of the report were as follows.

Tax Rates and Thresholds

For the tax year 2010/11 all tax allowances and thresholds will be the same as for the current year.

For the tax year 2012/13, the higher rate threshold (the point at which someone starts to pay higher rate tax) will be frozen at the 2011-12 amount. The personal allowance will be increased and the basic rate limit will be reduced by the same amount.

For the tax year 2010/11, with just 2 small exceptions, all NICs rates and thresholds are unchanged from the current year 2009/10.

For the tax year 2011/12, in addition to the 0.5% increases to rates already announced at PBR 2008, the Chancellor has announced that there will be a further 0.5% increase to those rates, making a 1% increase in total from 6 April 2011. The primary threshold and lower profits limit will be increased by £570 to compensate the lowest earners.

The inheritance tax threshold will be frozen at the current level of £325,000 for chargeable transfers of value made on or after 6 April 2010 (it was to have been increased to £350,000).

The Small Companies' Rate will remain at 21% for the Financial Year commencing 1 April 2010 and will not be increased to 22% as previously announced.

Bank Payroll Tax

Legislation in Finance Bill 2010 will introduce a new bank payroll tax. This will be set at 50%.

It will be payable by a bank, on the amount of a bonus to which a banking employee is entitled, to the extent that the bonus exceeds £25,000.

A bank will also be liable to the bank payroll tax where the bonus entitlement arises in respect of services performed for the bank regardless of who awards the bonus.

The bank payroll tax will have effect from the time of the announcement on 9 December 2009 until 5 April 2010 for all discretionary and contractual bonus awards.

There is an exception for contractual bonus entitlements where the payer has no discretion as to the amount of the bonus because of a contractual obligation existing at the time of the Chancellor's announcement.

Pensions

The special rules introduced at Budget 2009 to prevent people from making large additional contributions to their pensions before 6 April 2011, have been extended to those with incomes of £130,000 or over from 9 December 2009.

The restriction of higher rate tax relief being introduced from 6 April 2011 which the Government is consulting on, will affect individuals with a 'gross income' of £150,000 or over who save in a registered pension scheme. 'Gross income' includes both the value of the individual's pension contributions and any pension benefit funded by the employer on their behalf.

It is also calculated before any deductions for charitable donations are made. However, there will also be a 'floor', so it will only apply where the individual's income (excluding employer pension contributions) is £130,000 or over. So people who have an income of less than £130,000 are not affected.

The Government has also published a consultation document on how the restriction of higher rate tax relief for pension contributions for high-income individuals will be implemented from 6 April 2011.

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Corporation Tax

R&D Changes

The condition requiring that any intellectual property deriving from the R&D to which the expenditure is attributable be owned by the company making the claim will be abolished. The change will have effect for any expenditure incurred by a SME company on R&D in an accounting period ending on or after 9 December 2009.

Company Car Tax

From 6 April 2012 the current graduated table of company car tax bands will be extended down to a new 10 % band, and all CO2 emissions thresholds moved down by 5g/km. This will mean that the 10 % band will apply to company cars with CO2 emissions up to 99g/km. Qualifying Low Emissions Cars (QUALECs) will therefore no longer exist as a separate category.

The appropriate percentage for electric cars for the purposes of company car tax will be reduced from 9% to 0% for 5 years from April 2010. This will reduce the employee car benefit charge to nil and remove the Class1A NICs charge on employers.

Cars and Vans Fuel Benefit Tax Changes

The figure used as the basis for calculating the benefit of private fuel received for a company car which is chargeable to tax and Class 1A NICs will be increased from £16900 to £18000 from 6 April 2010.

The figure used as the basis for calculating the benefit of private fuel received for a company van which is chargeable to tax and Class 1A NICs is increased from £500 to £550 from 6 April 2010.

As from 6 April 2010, the current flat rate for all vans of £3000 will be reduced to nil for electric vans with effect for a period of 5 years. This will reduce the employee van

benefit charge to nil and remove the Class1A NICs charge on employers.

Patent Box

In order to strengthen the incentives to invest in innovative industries and ensure the UK remains an attractive location for innovation, the Government will introduce a Patent Box, a reduced rate of Corporation Tax (10%) applying to income from patents, from April 2013. There will be consultation with business in time for Finance Bill 2011 on the detailed design of the patent box, which will apply to patents granted after the legislation is passed.

VAT

VAT Rate Reversion to 17.5% 1 Jan 2010

The standard rate of VAT returns to 17.5% from midnight on 31 December 2009. There will be a period of grace for certain businesses trading across the midnight deadline to charge the lower rate until either when they close, or if earlier, 6.00am.

VAT Flat Rate Scheme Changes 1 Jan 2010

The flat rate scheme provides an optional simplified VAT arrangement for businesses with a turnover up to £150,000. The percentages were re-calculated in December 2008 to reflect the temporary reduction in the standard rate of VAT. The flat rate percentages have now been re-calculated to reflect the reversion of the standard rate of VAT to 17.5%. The new rates will be implemented on 1 January 2010.

They also include technical adjustments to reflect more up to date business patterns. This means that, for some sectors, the rates will not simply return to the level set prior to the December 08 changes. Virtually all sectors will face an increase (as a result of the increase in the standard rate) but some sectors' increases will be bigger than others'. This is consistent with the approach adopted last year when the standard rate went down.

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Venture Capital Schemes

A new definition of a “small” enterprise is being proposed in order to focus the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) schemes at smaller, high risk businesses.

Four final changes to the Enterprise Investment Scheme (EIS), Venture Capital Trusts Scheme (VCT) and Enterprise Management Incentives (EMI) are proposed, as agreed with the European Commission, to ensure that the Commission approves the schemes as authorised State Aids. Legislation is being published in draft for comment by stakeholders.

Property

Disclosure of tax avoidance schemes – Stamp Duty Land Tax

With effect from no later than 6 April 2010, the obligation to disclose SDLT avoidance schemes (which already applies to commercial property) is to be extended to residential properties worth at least £1 million. In addition there will be a new reporting requirement for users of such schemes, as well as promoters (as is currently the case).

Furnished holiday lettings

As announced in the Budget earlier this year, from 6 April 2010, the furnished holiday lettings rules will be withdrawn.

Stamp duty land tax: exemption on residential property

The holiday from stamp duty land tax (SDLT) for residential property where consideration is less than £175,000 will end on 31 December 2009. After 31 December the SDLT threshold for residential property will revert to £125,000.

International Tax

Relief for Interest – Worldwide Debt Cap

The “worldwide debt cap” forms part of the reforms to the taxation of the foreign profits of companies, which the Government introduced this year. The legislation guards against excessive debt funding of UK resident companies by restricting relief for UK financing costs where these exceed the financing costs of the worldwide group but Finance Bill 2010 will introduce some amendments to ensure that the provisions work as intended. The debt cap legislation as a whole has effect for periods of account of the worldwide group beginning on or after 1 January 2010. The FB10 changes will apply from the same date.

Controlled Foreign Company Reform

Details on the proposed shape of the new CFC Regime will be published in the New Year.

Taxation of Foreign Branches

There will be preliminary discussions concerning the possibility of a move to exemption for foreign branch profits. No decision has been taken about whether such a change will be implemented and the purpose of the announcement is to provide for debate with business about the merits of such a change and to identify important technical and policy issues related to it.

Other Tax Announcements

Salary Sacrifice Workplace Canteens

From 6 April 2011 the exemption for the benefit of free or subsidised meals will be restricted where an employee has an entitlement to employer-provided free or subsidised meals in conjunction with salary sacrifice or flexible benefits arrangements.

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Business Payment Support Service

Cashflow support for businesses through the HMRC Business Payment Support Service will continue for as long as is necessary. The service allows businesses to agree more time to pay certain tax bills to HMRC, and has already helped over 160,000 businesses defer payment of £4bn of tax.

Offshore evasion

The Pre-Budget Report announces robust measures to tackle offshore tax evasion. Legislation will be brought forward to ensure that those who fail to declare offshore tax liabilities will face the tough penalties attracted by deliberate tax evasion. There will also be a new requirement to notify HMRC when opening offshore bank accounts in certain jurisdictions, supported by a separate penalty regime. Evading tax offshore could therefore result in combined penalties of up to 200% of the unpaid tax.

Other announcements

The Enterprise Finance Guarantee Scheme

The Enterprise Finance Guarantee (EFG) provides participating lenders with a 75% Government guarantee on individual loans to viable businesses with turnover of less than £25m, that are at the margins of commercial lending. Since its launch in January 2009, nearly £1 billion of eligible applications from almost 9,000 SMEs have been granted, are being processed or are being assessed.

The EFG will be continued for a further 12 months.