

BARR ETTE

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISORS

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Registered office:
144 Thatto Heath Road
Thatto Heath
St Helens
WA9 5PE

Telephone: 01744-818 111
Fax : 0560-115 0650
Website: www.barretteaccounts.com
Email: office@barretteaccounts.com

Partners

Barry Lau
Yvette Lau

The 2009 Pre Budget Report recently announced by the Chancellor came with few surprises and included the expected windfall tax on bank bonuses. The Chancellor announced spending cuts and tax increases to fund the recent bail out of the banking sector and reflate the economy.

This newsletter aims to give an overall summary of Alastair Darling's announcements that may affect you, your family and your business.

Key announcements and highlights in the 2009 Pre Budget Report:

- Income tax threshold and allowance frozen for 2010/11
- With two exceptions, the National Insurance Contributions' (NIC) rates remain largely unchanged in 2010/11
- The main rates of NIC will increase by another 0.5% in 2011/12 on top of that announced in the Pre Budget Report 2008
- A new 50% windfall tax on banks paying bonuses in excess of £25,000 to employees
- The standard VAT rate will increase to 17.5% from 1 January 2010
- Corporation tax for small companies remains unchanged at 21 per cent in 2010

Personal tax

Tax rate and allowances

The much awaited 50% tax rate will apply to income over £150,000 on 6 April 2010. There are no other changes apart from this new rate coming into force. Personal allowances, rates and bands are to be frozen at the 2009/10 levels in 2010/11.

National Insurance

The lower earnings limit will increase by £2 to £97 per week. There are no other changes to the NIC rates and thresholds for 2010/11. However, from 2011/12, the 0.5% increase in all the rates announced in the 2008 Pre Budget report will be doubled. This means that Class 1 NICs for employees will increase to 12% and to 13.8% for employers. Class 4 NIC will be increased to 9%. This increase will also apply to Class 1A and Class 1B Contributions.

Comment: The increase in Class 1 NICs mean that salary sacrifice arrangements may become even more important to achieve tax savings for both the employees and employers. Please contact us immediately if you wish to find out more about salary sacrifice schemes.

Pensions: anti-forestalling

In the 2009 Budget, the government announced that tax relief on pensions will be restricted for those with incomes of £150,000 or more with effect from 6 April 2011. In addition, there will be anti-forestalling measures to prevent individuals from making significant contributions and claiming large amounts of tax relief prior to the new legislation coming into force. The government has now given more details of the anti-forestalling rules.

First, the income definition for the £150,000 threshold includes the value of employer pension contributions.

Second, with effect from 9 December 2009, the rules also apply to those whose incomes exceed £130,000 in this tax year or either of the two preceding tax years. This legislation will not affect those with incomes below £130,000 before the inclusion of employer pension contributions.

Furnished holiday lettings (FHLs)

The government confirmed the abolition of the advantageous tax rules for FHLs from 6 April 2010 (1 April 2010 for companies). This means that the broader reliefs for trading loss, capital allowances and capital gains tax will be lost.

Comment: If you currently own properties benefitting from the favourable FHL rules, there is a short window of opportunity to make use of the existing rules. Please contact us for further details.

Corporate and business tax

Small Companies' Corporation Tax

The planned increase in the small companies' rate of corporation tax from 21% to 22% has been deferred for a year until 1 April 2011 to ease the burden on smaller businesses.

Business Support

The Business Payment Support Service, which allows businesses to apply to the HMRC to defer tax payments based on an agreed payment schedule, is to be extended 'as long as it is needed'. There are special application procedures for large businesses applying to defer tax in excess of £1m. The Enterprise Finance Guarantee (EFG) which consists of government guarantees on bank loans will also be extended for a further 12 months.

Bank bonuses

The windfall tax on bonuses paid directly or via an intermediary by banks or building societies exceeding £25,000 to employees comes into effect for all discretionary and contractual awards between 9 December 2009 and 5 April 2010.

The banks or building societies will suffer a 50% tax charge. The legislation will include anti-avoidance provisions to counter potential avoidance of the tax charge. The windfall tax will be payable on 31 August 2010, and it will not be tax deductible when computing the banks' taxable profits.

Comment: If you work in a regulated financial services company, consider arranging with your employer to delay your bonus until the 2010/11 tax year or ask for a pay rise in lieu of a bonus. If you wish to discuss these ideas in more details, please contact us.

Capital allowances

The 40% First Year Allowance (FYA) will come to an end on 1 April 2010 for companies and 6 April 2010 for individuals and partnerships, as previously announced. The £50,000 Annual Investment Allowance (AIA) will still be available. Subject to the confirmation that this measure is allowable under the EU State Aid rules, a new 100% FYA is to be introduced for new and unused electrical vans from 1 April 2010 for corporation tax and 6 April 2010 for income tax.

Comment: If your business is likely to fully utilise the AIA in the 2010/11 tax year and you are planning to get a company vehicle, consider getting a new and unused electrical van to get a full tax deduction. Please contact us if you wish to discuss this option in more details.

Company car tax

From 2012/13, the company car tax bands are to be changed. The lowest emissions threshold will be reduced to 99g/km such that a scale rate of 10% will be applied to company car with CO₂ emissions of up to 99g/km. The other thresholds are to be moved down by 5g/km.

A new measure will come into force from 6 April 2010 for five years reducing car benefit charge for electrical cars to zero. A similar exemption will be introduced to electrical vans.

From 6 April 2010, the figures used as the basis for calculating the benefit of fuel provided for private use of a company car or van will be increased to £18,000 and £550, respectively.

Research and development (R&D) tax relief

For small and medium-sized enterprises (SMEs) claiming the R&D tax relief, the intellectual property associated with the R&D has to be owned by the company making the claim. This condition will cease to

apply on R&D expenditure incurred in an accounting period ending on or after 9 December 2009.

Workplace canteens

With effect from 6 April 2011, the income tax exemption for providing employees with free or subsidized meals in a canteen or business premise will be restricted where it is part of a salary sacrifice or flexible benefits arrangement. The exemption will continue to apply to general subsidies to canteens provided by the employer made available to all employees.

Inheritance tax

Nil rate band

The inheritance tax nil rate band will remain frozen at its 2009/10 level of £325,000 in April 2010 rather than increase to £350,000, as planned. There are however no plans to change the provisions allowing the transfer of unused nil rate band amounts between spouses and civil partners.

VAT

Changes to VAT rates

As previously announced, the standard rate of VAT will return to 17.5% from 1 January 2010. The flat rate scheme percentages will also change and a list of appropriate percentages for each sector will be available soon on the HMRC website.

Comment: We highlighted a number of strategies in our last newsletter to help you achieve some VAT savings before 1 January 2010. If you wish to discuss those strategies or need more detailed VAT planning advice, please contact us.

What does the above mean to you, your family and your business? For instance, given the increase in NICs in 2011/12, would it be worthwhile to set up a salary sacrifice scheme in your business? Given the imminent change to VAT rates, would joining or leaving the flat rate scheme be beneficial to your business?

If you would like to discuss the implications of the 2009 Pre Budget Report to you, your family and your business further, please feel free to contact us.

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