9 December 2009

Pre-Budget Report

Contents:

"...while I am confident that the UK economy is on the road to recovery, we can't be complacent."

Alistair Darling

The Chancellor's balancing act

In his last Pre-Budget Report before the general election, Alistair Darling tried to balance two competing requirements:

- The need to demonstrate his financial prudence to the investment markets; and
- The continuation of the fiscal stimulus that he believes is necessary for UK economic growth.

If there is a change of Government after the election, some of the announcements in the PBR may be revised or dropped. However, given the Conservative Party's forceful views on the urgency of reducing the Government deficit, many of the tax raising measures might well survive.

The main announcements were as follows:

- The increase in the small companies' rate of corporation tax to 22% will be deferred for another year until 1 April 2011.
- All NIC rates will rise by a further 0.5% from April 2011 for employers, employees and the self-employed.
- The basic state pension will be increased by 2.5% in April 2010, despite the 1.4% fall in the RPI in the 12 months to September 2009. Certain other benefits and tax credits will rise by 1.5%.
- The draft rules for limiting higher rate pension contributions tax relief from April 2011 have been published. There are several important changes, including a cut in the income threshold to £130,000.
- The rules that currently limit pension contributions tax relief ('anti-forestalling') have been changed with immediate effect; the revisions include a new income threshold of £130,000.
- The personal tax allowance and the threshold at which 40% tax is charged will remain unchanged for 2010/11.
- Taxpayers who open offshore bank accounts in certain jurisdictions will be required to report them to HMRC. A range of anti-tax avoidance measures have been announced with immediate effect.
- There is to be a temporary bank payroll tax of 50% where banks, building societies and certain other financial businesses provide a bonus of over £25,000 to an employee. This will take effect from 9 December 2009.

Personal tax

Income tax rates 2010/11	£
Starting rate 10%*	0-2,440
Basic rate 20% (dividends 10%)	0-37,400
Higher rate 40% (dividends 32.5%)	37,401-150,000
Additional rate 50% (dividends 42.5%)	Over 150,000

Income tax allowances 2010/11	£
Personal allowance (basic)	6,475
Personal allowance reduced by 50% of income over	100,000
Personal allowance (age 65-74)	9,490
Personal allowance (age 75 and over)	9,640
Married/civil partners' allowance (75 and over)**	6,965
Married/civil partners' allowance** (minimum amount)	2,670
Age-related relief reduced by 50% of income over	22,900
Blind person's allowance	1,890

* There is a starting rate for savings income only. If an individual's non-savings taxable income exceeds the starting rate limit, the 10% rate will not be available for savings income.

** Tax relief for the married/civil partners' allowance is given at the rate of 10%, and is only available where at least one spouse/partner was born before 6 April 1935.

Rates and allowances

Income tax rates and allowances will not change for the tax year 2010/11 with the personal allowance remaining at £6,475. Other income tax allowances and the income tax bands will also be frozen.

Offshore tax evasion

There will be a new notification requirement for offshore accounts in certain jurisdictions and it will be backed up by a separate penalty regime. The combined penalties for evading tax by using offshore accounts will be up to 200% of unpaid tax.

Clean energy cash-back

The Chancellor confirmed that households that use renewable technology to generate electricity mainly for their own use will not be subject to income tax on feed-in tariffs.

Salary sacrifice: tax exemption for workplace canteens

The Finance Bill 2010 will include legislation to prevent employees using salary sacrifice or flexible benefit arrangements to meet the cost of free or subsidised meals provided by their employers. The legislation will take effect from 6 April 2011.

£ saver Remember, if you were born before 6 April 1960, you could invest up to £10,200 this tax year in an ISA. That includes up to £5,100 in a cash ISA. If you are younger, your ISA limit this year is £7,200 and will increase to £10,200 after 5 April 2010.

Pensions

Restrictions on higher rate tax relief from April 2011

A consultation paper was issued alongside the Pre-Budget Report setting out how the restrictions on higher rate tax relief for pension contributions are to operate from 6 April 2011, when the anti-forestalling measures announced in this year's Budget end. The details of the proposals differ from what was previously suggested:

- Where the individual has a total 'pre-tax income' of less than £130,000, the new restrictions will not apply. In calculating the 'pre-tax income', there is no deduction for the individual's own pension contributions or any charitable donations.
- The restriction then only applies if the individual's 'pre-tax income' together with any employer's contributions exceeds £150,000.
- Tax relief on all pension contributions will effectively be tapered down from higher rate tax at an income of £150,000 to basic rate tax (20%) at an income of £180,000.

For defined benefit (final salary) schemes, the consultation document favours the use of age-related factors to place a contribution value on the annual increase in benefits, rather than the flat 10:1 multiple that currently applies.

Restrictions on higher rate tax relief from 9 December 2009

The proposed restrictions from 2011/12 have prompted changes to the current anti-forestalling rules. The income definition for the £150,000 threshold will include the value of employer pension contributions. Tax relief for those with incomes below £130,000 before the inclusion of employer pension contributions will not be restricted.

These changes apply to contributions paid under defined contribution schemes or increases in rights accrued under defined benefit schemes on or after 9 December 2009.

Pension tax charges from 6 April 2010

- Short service lump sum refunds to employees of contributions to registered pension schemes will be subject to 20% tax on the first £20,000 and 50% on the excess.
- The tax charge payable on certain lump sums from Employer Financed Retirement Benefits Schemes (EFRBS) to an entity that is not an individual will increase to 50%.
- The rate for the special annual allowance charge on excess pension contributions where the pension scheme member has an income of at least £130,000 will rise from 20% to 'the appropriate rate'. This is the rate necessary to reduce the effective amount of pension contribution tax relief to 20%.

State pension increases

From April 2010, the basic state pension will increase by 2.5% to £97.65 a week for a single person and £156.15 a week for a married couple.

Business tax

Corporation tax

The small companies' corporation tax rate will remain at 21% for a further year, with the increase to 22% now due from 1 April 2011.

Income from patents will be taxed at a new 10% corporation tax rate from April 2013. This 'patent box' will apply only to income from patents granted after the passing of the legislation, which is planned to be in Finance Bill 2011 following consultation with business.

Bank payroll tax

From 9 December 2009, a new payroll tax will apply to banks, financial institutions and other financial businesses. The tax is set at a rate of 50% and is payable by the employer on the amount by which a banking employee's bonus exceeds £25,000. Contractual bonuses agreed before 9 December 2009 are excluded where the employer has no discretion over the amount. The tax will apply until 5 April 2010, but the Government will consider extending it until the Financial Services Bill comes into force.

Research and development (R&D)

It will no longer be a condition that a small or medium sized (SME) company making a claim for R&D relief must own the intellectual property that derives from the R&D project. This change will have effect for R&D expenditure incurred in accounting periods ending after 8 December 2009. A company broadly qualifies as an SME if it meets two of the following thresholds: no more than 500 employees, annual turnover of no more than €100 million; and a balance sheet total of no more than €86 million.

Furnished holiday lettings

The withdrawal of the tax reliefs for furnished holiday lettings (FHL) from April 2010 has been confirmed. There will be transitional rules to cover businesses' unrelieved FHL losses, capital allowances and capital gains tax reliefs.

Enterprise finance guarantee (EFG)

The EFG, launched in January 2009, provides a 75% guarantee for qualifying loans to viable businesses with a turnover of up to £25 million that cannot provide enough security. The scheme will continue for a further 12 months to March 2011.

Risk-transfer schemes

Legislation will restrict relief to the real economic loss to the group for losses from overhedging and underhedging structures. It will have effect for accounting periods beginning after 31 March 2010 and affects large multinational groups of companies.

Value added tax (VAT)

The reversion of the standard rate of VAT to 17.5% from midnight on 31 December 2009 has been confirmed. There will be a period of grace for certain businesses trading across the midnight deadline to charge the lower rate until they close or 6.00 am on 1 January 2010, whichever is earlier.

The rates under the optional flat rate scheme for small businesses are amended from 1 January 2010 to reflect the increase in the standard rate, as well as the latest data on VAT payments by the various sectors.

Company cars and vans

Electric cars and vans: benefit in kind

Employees and directors who are provided with a company car or van that is propelled solely by electricity will not have to pay tax on the benefit. The relief will apply for five years from 6 April 2010. Employers will not have to pay Class 1A national insurance contributions on such vehicles.

Fuel benefit tax

Employees who receive free fuel for private mileage in company cars or vans pay tax on a percentage (which depends on the vehicle's CO_2 emissions) of a basis figure currently set at £16,900. This basis figure will rise to £18,000 for 2010/11. The corresponding flat taxable amount for vans will rise by 10% to £550.

Benefit in kind charge for 2012/13

The graduated table of company car tax bands will be restructured from 6 April 2012, when the 15% threshold rate will fall to 120g/km as a result of 5g/km reductions in each of the next three tax years. The 10% rate will apply to company cars with CO_2 emissions below 100g/km. An 11% rate will apply for cars with emissions of 100g/km, rising by 1% for each 5g/km thereafter.

Electric vans: capital allowances

Businesses that buy new, unused electric vans will be able to claim a 100% first-year capital allowance. The measure will apply to expenditure from 1 April 2010 for companies, and 6 April 2010 for sole traders and partnerships. This change is subject to confirmation of compatibility with the EU State aid rules.

! *don't forget* If you are about to choose a new company car, check the CO_2 emissions against the next three years' benefit scales; they are due to change every year and could increase your taxable benefit.

National insurance contributions

The Chancellor announced several future changes to national insurance contributions (NICs):

- From 2011/12, the main and additional rates of employer, employee and self-employed NICs will all increase by 0.5%. This is in addition to the 0.5% increase for 2011/12 announced last year. Thus the main employee rate in 2011/12 will be 12% (currently 11%) and the additional rate will be 2% (currently 1%).
- In 2011/12 the primary threshold and lower profits limit for NICs will rise above the previously announced levels by £570.

Employees	2010/11
Lower earnings limit, primary Class 1	£97 a week
Upper accruals point	£770 a week
Upper earnings limit, primary Class 1	£844 a week
Primary threshold	£110 a week
Secondary threshold	£110 a week
Employees' primary Class 1 rate	11% of £110.01 to £844 a week
	1% above £844 a week
Employees' contracted-out rebate	1.6%
Married women's reduced rate	4.85%
Employers' secondary Class 1 rate	12.8% on earnings above £110 a week
Employers' contracted-out rebate, salary-related schemes	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%

Self-employed	2010/11
Class 2 rate	£2.40 a week
Class 2 small earnings exception	£5,075 a year
Class 3 rate	£12.05 a week
Class 4 rates	8% of £5,715 to £43,875 a year
	1% above £43,875 a year

Other provisions

Inheritance tax (IHT)

The inheritance tax nil rate band will remain at £325,000 for 2010/11, instead of rising to £350,000 as legislated for in the Finance Act 2007.

Anti-avoidance measures were announced that are aimed at certain trust-based schemes which were designed to reduce or eliminate the value on which IHT is charged on transfers. The measures apply from 9 December 2009.

Stamp duty land tax (SDLT)

The Government has confirmed the ending on 31 December 2009 of the temporary increase to £175,000 of the zero rate threshold for residential property.

The Disclosure of Tax Avoidance Schemes provisions will be extended to certain SDLT avoidance schemes that concern residential property with a value of at least £1 million.

Stamp duty and stamp duty reserve tax

From 1 October 2009, transfers of securities to a non-EU clearance service or depositary receipt issuer will no longer be exempt from stamp duty or stamp duty reserve tax if they form part of a scheme to avoid the 1.5% stamp tax charges.

Climate change levy

Climate change agreements give facilities in energy-intensive sectors an entitlement to pay a reduced rate of climate change levy. This reduced rate is to be increased from 20% to 35% of the full rate from 1 April 2011.

Support for internships

The Government will contribute £8 million towards a new financial support scheme for around 10,000 undergraduates a year undertaking short unpaid internships, from summer 2010, in professions with historically low access for such people.

Business rates

Empty properties with a rateable value of up to £18,000 will continue to be exempt from business rates for 2010/11.

! *don't forget* Details of websites where you can find further information:
http://www.hm-treasury.gov.uk/prebud_pbr09_index.htm
http://www.hmrc.gov.uk/pbr2009/index.htm