

## The 2009 Budget

The Chancellor delivered his 2009 Budget speech on 22<sup>nd</sup> April. With the economy in recession he had little room for manoeuvre. Fewer tax measures than usual were announced, but taken with the announcements in the Pre Budget Report (PBR) there are a number of tax issues to be aware of.

### Business taxes

In the PBR, the Chancellor announced a reduction in the main rate of VAT from 17.5% to 15%. In the Budget he confirmed that the rate will revert to 17.5% again on 1<sup>st</sup> January 2010. The VAT turnover registration threshold increases to £68,000 from 1<sup>st</sup> May 2009 and the deregistration limit increases to £66,000.

The Chancellor also confirmed that the small company rate of corporation tax will remain at 21% for the current year and that the main rate of corporation tax will be 28%.

In addition to the capital allowances annual Investment Allowance (AIA), covering the first £50,000 of expenditure on plant and machinery (including vans), there will be a new first year allowance of 40% in place of the 20% allowance for acquisitions in excess of £50,000 for twelve months from 1<sup>st</sup> April 2009 for companies and from 6<sup>th</sup> April 2009 for the self employed.

A new relief allowing limited business losses to be set back against profits of the previous three years was announced in the PBR and as a result of considerable lobbying by the ICAEW Tax Faculty and other professional bodies the relief is now being extended from the original one year to two years. Companies will now be able to set back losses of accounting periods ending between 24 November 2008 and 23 November 2010 and unincorporated businesses - the self employed - will be able to set back any losses for the 2008/9 and 2009/10 trading years. The relief will permit the full loss to be set back one year and up to £50,000 of the remaining loss – if there are losses in both years then there will be two lots of £50,000 available - to be set back to the two years before that. This is a very welcome extension to the relief previously announced.

HMRC's new Business Payment Support Service was launched after the PBR. The Service has been very successful to date and exists to agree less rigid payment terms in appropriate cases. Full details are on HMRC's website at <http://www.hmrc.gov.uk/pbr2008/business-payment.htm>. In the Budget, the Chancellor announced that current business losses will now be taken into account when agreeing time to pay arrangements.

The proposals to increase national insurance (NI) from 5<sup>th</sup> April 2011 announced in the PBR were confirmed in the Budget. The rate of NI for both employers and employees and the class 1A and 1B NI on benefits will increase by 0.5%. Class 4 NI paid by the self employed will also increase by 0.5% as will the additional rate paid by both the employed and self employed.

### Individuals and trusts

In the PBR last November the Chancellor announced that a 45% tax rate would be introduced from 6<sup>th</sup> April 2011. In the Budget he revised this plan: the new rate will now be 50% rather than 45% and the change will happen one year earlier than planned, from 6<sup>th</sup> April 2010. The 50% rate will apply to income in excess of £150,000. The personal allowance will be clawed back by £1 for every £2 of income in excess of £100,000 so that people with income in excess of £112,950 will not receive any personal allowance. The "marginal" rate of tax on the slice of income between £100,000 and £112,950 will be 60%.

One measure that had been widely rumoured in the press was the restriction of tax relief on pension contributions. Higher rate Tax relief on pension contributions will be withdrawn progressively for those whose income is over £150,000 from 6<sup>th</sup> April 2011. The 40% relief will taper down to 20% between £150,000 and £180,000 and remain at 20% beyond £180,000. Anyone aiming to circumvent the change by increasing their

contributions between now and 6<sup>th</sup> April 2011 may find that they cannot because of “forestalling” rules, designed to prevent this happening. Higher rate taxpayers continuing to make their “normal” pattern of contribution will still obtain 40% relief between now and 6<sup>th</sup> April 2011. The “forestalling” rules apply if income has exceeded £150,000 in the year of the pension payment or in either of the two preceding tax years.

There are some changes to the Enterprise Investment Scheme in terms of the length of time allowed for the investment of money by the company raising the funds and also allowing investors to set back the whole of their investment into the previous tax year (rather than half or a capped amount as is currently the case).

The limits for Individual Savings Accounts (ISAs) will change to a maximum investment of £10,200 each year of which up to half can be in a cash ISA. The change will take effect from 6<sup>th</sup> October for those over 50 and from 6<sup>th</sup> April next year otherwise.

There had been speculation in the run up to the Budget that Agricultural Property Relief (APR) would be restricted or withdrawn. These rumours proved to be unfounded and in fact APR is being extended to agricultural property and woodlands anywhere in the European Economic Area.

The income disregard for pension credit, housing benefit and council tax benefit will increase from £6,000 to £10,000 from November. Pensioners will continue to receive the higher amounts of winter fuel payment (£250 for the over 60s and £400 for the over 80s). Grandparents of working age who care for their grandchildren will in certain circumstances be given a credit on their pension NI record.

The rules favourably treating Furnished Holiday Lettings are to be abolished. This means losses on these lettings will no longer be allowed to be set against other income from the end of the current tax year but it appears that 2009/10 losses on properties in the EU will be available for set off – for the first time – but again only until the end of the current tax year.

The trust rate of tax will also be increased from 40% to 50%. This measure is likely to make many trustees wish to consider whether to make changes to existing trust arrangements.

## **Tax avoidance**

Although HMRC has for a long time published the names of people they prosecute, they will in future publish the names of those who deliberately understate their tax liabilities or overstate claims or losses in excess of £25,000. This represents a further step by HMRC to clamp down on tax evasion by naming and shaming. This can be avoided by making full unprompted disclosures. In another measure designed to encourage honesty and transparency and discourage avoidance, senior accounting officers of large companies will in future have to take personal responsibility for their companies’ tax “transparency” and compliance. There will also be a new “amnesty” for people with undeclared offshore income.

## **Summary**

The Chancellor has taken a huge gamble with this package. Significant government borrowing will be needed to fund it until the economy recovers. If recovery is delayed, further tax measures can be expected.

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