

## Hobsons : Pre Budget Report November 2008

### Budget Changes

#### Personal tax changes

#### Business tax changes

There was a great deal of press speculation, prior to the announcements made yesterday, that Mr Darling was to unleash a number of tax cuts.

The major, predicted cut to VAT was confirmed, as was the introduction of a 45% income tax rate for high earners to help pay for it!

We have listed below a number of the various tax changes and how they affect individuals and businesses.

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### Personal tax changes

#### VAT

The standard rate of VAT is reduced from 17.5% to 15% on 1 December 2008. This is a temporary reduction until 1 January 2010 when the rate will revert to 17.5%.

This should reduce the price of VATable goods and services that you buy. However this will only happen if the businesses who sell these goods and services pass on the 2.5% saving.

If the savings are passed on, it will reduce the cash cost (inc VAT) of a £50 VATable purchase to £48.94.

#### Personal Allowance 2009-10

From the 6 April 2009 the income tax personal and age related allowances are increased to:

- Age under 65 - £6,475
- Age 65 to 74 - £9,490
- Age 75 and over - £9,640

The income limit for aged related allowances (over 65's) is increased to £22,900.

Blind person's allowance increased to £1,890.

#### Personal Allowance 2010-11

The personal allowance will be reduced for individuals with gross incomes, before personal allowances, above £100,000 and further reduced for gross income above £140,000. This measure will progressively reduce the personal allowance available to these high income groups. It will also produce a marginal rate of tax of 60%.

#### Income Tax Rates 2009-10, taxable bands

- Starting savings rate 10%\* - £0 to £2,440
- Basic rate 20% - £0 to £37,400
- Higher rate 40% - Over £37,400

\* There is a 10p starting rate for savings only. If an individual's non savings taxable income exceeds

the starting rate limit, the 10p starting rate for savings will not be available for savings income.

### **Income Tax Rates 2011-12**

A new tax rate of 45% is to be introduced on income over £150,000.

A new 37.5% rate of tax will apply to taxable dividend income above £150,000

### **National Insurance changes 2009-2010**

- Class 1 contributions: Lower earnings limit increased to £95 per week, the primary threshold increased to £110 per week, and the upper earnings limit increased to £844 per week. No change to NIC rates.
- Class 2 contributions: Increase in weekly rate to £2.40; small earnings income exemption increased to £5,075
- Class 3 rate: Increased to £12.05 per week.
- Class 4 rates: Rates unchanged; lower profits limit increased to £5,715 per year; upper profits limit increased to £43,875 per year.

Note: The number of qualifying years required to receive a full State Pension falls from 44 for a man and 39 for a woman to 30 for both men and women from 6 April 2010.

### **National Insurance changes 2011-2012**

Class 1 and Class 4 NIC's to be increased by 0.5%. Both employers and employees rates will be affected.

### **Child Benefits**

Increases due from April 2009 have been brought forward to 5th January 2009. The new rates are:

- Eldest or only child £20 per week
- Other children £13.20 per week

### **Pensions tax relief 2009-10**

Annual allowance increased to £245,000

Lifetime Allowance increased to £1.75m

### **Fuel Duty**

From 1 December 2008 the main fuel duty will increase by 2 pence per litre. The reduction in the standard rate of VAT to 15% should compensate for this increase.

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## **Business tax changes**

### **VAT**

We have set out below a few of the advantages and disadvantages for businesses as a direct result of the reduction in the standard rate of VAT to 15% on 1 December 2008.

- If you have not yet registered your business for VAT the reduction today should marginally improve your profitability; as long as your suppliers pass on the VAT decrease.
- If you are registered for VAT you will not see any improvement in your profitability unless you decide to retain part or all of the VAT rate reduction, by minimising any price reduction to your customers.
- For many years now the VAT fraction, the amount you would multiply a VAT inclusive figure by to calculate the 17.5% VAT amount was 7/47. The new fraction to calculate the 15% VAT included in a VAT inclusive figure is 3/23.

\* Don't forget to change the standard rate of VAT in your accounts software to 15% for transactions dated after 1 December 2008!

## **Other VAT issues - effective from 1 April 2009**

1. Businesses with annual retail sales of up to £130m will be able to apply to use one of the five retail schemes. Presently these schemes are limited to businesses with retail sales up to £100m.
2. The entry and exit rules for the flat rate scheme are simplified. The rates applied to the scheme are revised from 1 December 2008 to reflect the change in the standard rate on the same date.

## **Corporation Tax**

The planned increase in the small companies' rate of corporation tax from 21% to 22 % from 1 April 2009 has been deferred until 1 April 2010.

## **Income Shifting**

The unpopular proposal to introduce legislation on 6 April 2009 to counter income shifting, has been deferred.

## **Extension of carry back of loss relief**

This extension to loss relief's already available will enable both incorporated and unincorporated to carry back current losses, that were previously restricted to set off against the preceding year's profits only, to the previous 3 years profits. The following bullet points summarise the main points:

- The relief is available for one year only. For limited companies, trading losses in an accounting period ending between 24 November 2008 to 23 November 2009. For unincorporated business losses agreed for a trading period that forms the basis period for 2008-09.
- HMRC will make repayments occasioned by claims for the new relief on or after Budget Day 2009.
- The amount of the loss that can be carried back is limited to £50,000.
- Losses will be applied to the latest of the three years first.
- As this is an extension to existing loss relief legislation, the current relief's are still available.

## **Capital Allowances and Cars**

The Government is pressing ahead with changes to the way in which businesses can claim tax relief for the purchase of cars.

The new rules will have effect from 1 April 2009 for companies and 6 April 2009 for unincorporated businesses.

Essentially allowances will be given from the April 2009 dates according to the CO2 rating of the vehicle. Cars with emissions over 160g/km will be limited to a 10% writing down allowance. All other vehicles will attract higher tax allowances depending on their CO2 emissions. It will still be necessary to adjust claims where there is an element of private use.

## **Business Payment Support Service**

From 24 November 2008 HMRC are introducing a new Business Payment Support Service. The telephone number is 0845 302 1435.

The declared aim of the new service is to "... meet the needs of businesses affected by the current economic conditions."

On the face of it this would seem to be a step in the right direction. So if you have genuine cash flow problems and are going to find it difficult to meet any payment due to HM Revenue & Customs, PAYE/NIC, or other business taxes, give them a call.

Apparently if you reach agreement for extended payment terms you will not be charged late

payment surcharges, but you will be charged interest.

This new service should not be contacted if you have an existing arrangement in place that you wish to change - call the department that you originally contacted.

Don't wait for court action to be taken - the sooner you get in touch the more likely you are to achieving an agreement to pay your dues by instalments.

**DISCLAIMER - PLEASE NOTE:** The ideas shared with you in this newsletter are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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