

Hobsons : Pre Budget Report December 2009

Budget Changes

Tax changes announced today

The Chancellor's speech held few surprises today and included the expected windfall tax on bank bonuses. Spending cuts and tax increases were announced to fund the recent bail out of the banking sector and reflate the economy. A summary of the expected changes to tax, National Insurance and VAT follows. Please call if you would like more information.

Tax changes announced today

Bank Payroll Tax

This tax will only affect bonuses paid directly, or via an intermediary, that exceed £25,000. The report describes the various banking institutions that will be included. All of our High Street banks and Building Societies are going to be affected as are asset managers, hedge funds, private equity and other similar businesses. The various terms published in the PBR are set out below:

- Rate of tax to be applied 50%
- Legislation will include anti-avoidance provisions
- Will apply to all discretionary and contractual bonus awards from 9 December 2009 to 5 April 2010. There will be 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.
- Bonus is defined as including cash, benefits or loans.
- The Bank Payroll Tax will be payable on 31 August 2010.

The PBR also states that Bank Payroll Tax will not be taken into account when calculating the bank's profit or loss for corporation tax or income tax purposes.

Research and Development Relief

Presently, to qualify for R & D relief, intellectual property associated with an R & D claim has to be owned by the company making the claim. This restriction is to be abolished for accounting periods ending on or after 9 December 2009.

National Insurance

Increases from 6 April 2010

The Lower Earnings Limit will increase by £2 a week to £97 per week

The special Class 2 rate for Volunteer Development Workers will increase by 10p to £4.85 per week.

All other NIC rates are unchanged.

Increases from 6 April 2011

The main rates of NIC will be increased by an additional 0.5% over and above the rate increases announced in the Pre Budget Report 2008. The increased rates will be:

Class 1 and Class 4 main rate NICs, 12% and 9% respectively

Class 1 employer rate 13.8%

The additional rate of Class 1 and Class 4 NICs, 2%.

Capital Gains Tax adult placement carers

From 9 December 2009 any person who disposes of a residential property that has been partly set aside for use under a local authority adult placement scheme, will not have their private residence relief restricted for capital gains tax purposes.

Pensions - Restricting tax relief for high income earners

This will affect individuals with incomes of £130,000 or over who, on or after 9 December 2009, change:

- their normal pattern of regular pension contributions; or
- the normal way in which their pension benefits are accrued;

and whose total pension contributions/benefits accrued exceed the special annual allowance of £20,000 a year (or in some circumstances £30,000).

Please call if you would like us to quantify the effects of this change should you be affected.

Inheritance Tax nil rate band freeze

The promised increase in the nil rate band in 2010-11 to £350,000 has been withdrawn. It will remain at current levels, £325,000.

Legislation is also to be introduced to cover the avoidance of IHT using certain trust arrangements involving property. This will only affect transactions entered into after 9 December 2009.

Shared Lives Carers - new tax relief

From 6 April 2010 a new tax relief is to be introduced for Shared Lives Carers who:

- provide accommodation, care and support for up to three individuals who have been placed with them under a local authority Shared Lives placement scheme; and
- share their home and family life with the individuals placed with them under the Shared Lives scheme.

The new relief will be available per household and will consist of:

- £10,000 fixed amount per tax year;
- £200 per week (or part week), per placement aged under 11; and
- £250 per week (or part week), per placement aged 11 or over.

If income from the caring activity does not exceed the tax free allowance for the year carers will be exempt from tax on their earnings from Shared Lives Care.

If income exceeds the tax free allowance carers can choose to pay tax on:

- Their total receipts less the tax free allowance, or
- Their actual profits applying the normal tax rules for businesses.

Furnished Holiday Let (FHL) property

From 6 April 2010 for individuals and 1 April 2010 for companies, the expected withdrawal of the special tax rules, as announced in Budget 2009, for FHL property is confirmed.

From these dates earnings from these properties will be treated the same as other property businesses.

If you own property presently benefiting from the favourable FHL rules there is a short window of opportunity to take advantage of the existing rules. Well worth a visit to discuss your options with us, if you have not already done so.

No car tax for electric vehicles

From 6 April 2010 the company car tax charge for company car users who drive a car propelled solely by electricity will be reduced to 0%.

A similar reduction to 0% will apply to drivers of electric vans.

The measure for cars and vans is introduced for 5 years and may well lead to an increase in interest in electric company cars as tax free perks.

Increase in fuel benefit charges

From 6 April 2010 the figure used as the basis for calculating the benefit of private fuel for the use of a company car is set at £16,900, this is to be increased to £18,000.

The equivalent figure used to set the basis for private fuel in vans increases from £500 to £550.

100% Allowance for electric vans

If you purchase a new electric van after 6 April 2010 (income tax payers), 1 April 2010 (corporation tax payers), you will be able to claim a 100% capital allowance.

The vehicle must be unused, not second hand.

The allowance is subject to the Government confirming that the facility is allowable State Aid.

VAT flat rate scheme changes

The flat rate scheme percentages are to be revised from 1 January 2010 to reflect the reinstatement of the 17.5% VAT rate on 1 January 2010.

Please note the rates will not return to those used prior to the December 2008 change to 15% VAT. A new table of rates should be available soon on HMRC's web site which will take into account the rate change and other data about VAT liabilities in each sector.

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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