

As you will be aware, Alistair Darling presented his Pre-Budget Report (PBR) on Wednesday 9 December 2009.

Each year the PBR provides a progress report on what has been achieved so far by the Government, gives an update of the state of the economy and public finances, and sets out the direction of Government policy in the run up to the spring Budget. Our summary focuses on the issues likely to affect you, your family and your business. While the final 2010 Budget proposals will not be fixed until next March, they are indicative of what will happen.

If you have any questions, please do not hesitate to contact Ian, Steve or Melvin for advice

Individuals

Income tax

- The main rates for income tax for 2010/11 will remain at 20% for basic rate taxpayers and 40% for higher rate taxpayers. As announced in the 2009 Budget an additional rate of tax of 50% will apply on incomes over £150,000.
- As announced in the PBR 2008, the Chancellor confirmed that income tax allowances will be frozen in 2010/11 at a time when RPI is negative. This will result in taxpayers receiving a benefit in real terms.

Set out below are the personal and age-related allowances for 2010/11, together with the comparative figures for 2009/10.

	2010/11	2009/10
Personal allowance (age under 65)	£6,475	£6,475
Personal allowance (age 65-74) ⁽¹⁾	£9,490	£9,490
Personal allowance (age 75 and over) ⁽¹⁾	£9,640	£9,640
Married couple's allowance (age 75 and over) ^{(1) (2)}	£6,965	£6,965
Married couple's allowance – minimum amount ⁽²⁾	£2,670	£2,670
Income limit for age-related allowances	£22,900	£22,900
Blind person's allowance	£1,890	£1,890

(1) These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic personal allowance or minimum amount of married couple's allowance.

(2) Tax relief for the married couple's allowance is given at the rate of 10 per cent.

The taxable bands for income tax are set out below.

	2010/11	2009/10
Starting savings rate 10% *	£0 - £2,440	£0 - £2,440
Basic rate: 20%	£0 - £37,400	£0 - £37,400
Higher rate: 40%	£37,401 - £150,000	Over £37,400
Additional rate: 50%	Over £150,000	Not applicable

* 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.

Therefore, an individual will start to pay higher rate tax when their total gross income exceeds £43,875

National Insurance contributions

In a similar approach to that adopted for income tax rates and allowances, the Chancellor froze all but two figures for National Insurance contributions. The increases are £2 per week on the lower earnings limit and 10p on the special Class 2 rate for volunteer development workers.

Employee, employer and self-employed rates of NICs will increase by 0.5% in April 2011 in addition to the 0.5% increase announced in the 2008 PBR.

Inheritance tax

The Chancellor reversed his earlier decision to increase the inheritance tax threshold and announced a freezing of the threshold at £325,000 for individuals and at £650,000 for married couples and civil partners.

Tax Credits and Child Benefit

As announced in the 2009 Budget, the Chancellor confirmed that the child element of the Child Tax Credit will rise by £20 above indexation in April 2010. This represents an increase of £65 in cash terms.

An increase by 1.5% in April 2010 will be made in relation to the following benefits:

- Child Benefit
- Guardian's Allowance
- The disability elements of the Child Tax Credit
- All elements of the Working Tax Credit (apart from the childcare element)
- The disregard for Working Tax Credit in Housing Benefit

The threshold for the receipt of the maximum Child Tax Credit award will be increased to £16,190. All other rates and thresholds in tax credits are unchanged.

State Pension and Pension Credit

In April 2010 the basic State Pension will increase by 2.5%. A full basic State Pension will then be worth £97.65 a week. A full couples' rate will increase to £156.15 a week.

There will be an increase in the Pensions Credit's minimum income guarantee to £132.60 for single pensioners and £202.40 for couples.

Pensions tax relief

The Chancellor announced changes to the tax relief on pension contributions which had previously been announced in the 2009 Budget. At that time the Chancellor announced that tax relief on pension contributions would be restricted from April 2011 for individuals with incomes of £150,000 or more. The Government has now announced that the restriction will apply to those with gross incomes of £150,000 or more, where gross income incorporates all pension contributions, including the value of any pension benefit funded by, or eventually funded, by an individual's employer.

Stamp taxes and duties

The Chancellor confirmed that the stamp duty "holiday" for residential properties up to a value of £175,000 would end after 31 December 2009.

Businesses

Value added tax

As previously announced, the Chancellor confirmed that the current 15% rate for VAT would revert to 17.5% on and after 1 January 2010.

A "period of grace" will be given for businesses trading across the midnight deadline. These businesses will be able to charge the lower 15% rate until they close (or until 6.00am, whichever is earlier). There are also plans to allow shops to add the extra VAT to prices at the tills for up to 28 days, giving them extra time to complete the re-pricing of their stock.

Sectorial rates for the VAT Flat Rate Scheme used by businesses with turnover up to £150,000 will be updated and will not necessarily be the same as they were before December 2008. The new rates are applicable from 1 January 2010 and are available on the HMRC website.

M.J. Shapcott & Co Limited, Charter House, Wyvern Court, Stanier Way, Wyvern Business Park, Derby DE21 6BF
T: 01332 680540 ■ F: 01332 662758 ■ admin@shapcotts-accountants.co.uk ■ www.shapcotts-accountants.co.uk

Corporation tax

No changes were announced to corporation tax on profits. The rates are set out below:

Profits (£ per year)	2010/11	2009/10
£0 - £300,000	21%	21%
£300,001 - £1,500,000	Marginal Relief	Marginal Relief
£1,500,001 or more	28%	28%

The Small Companies' Rate will remain at 21% for the Financial Year commencing 1 April 2010 and will not be increased to 22% as previously announced

In order to strengthen the incentives to invest in innovative industries, from April 2013 the Government will introduce a reduced rate of corporation tax applying to income from patents

Company car tax

The Chancellor confirmed that from 2012 the CO₂ emissions thresholds for company car tax bands will be shifted down by 5g CO₂ per km. In addition, the graduated table of CCT bands will be extended downwards to a new 10% band for cars emitting up to 99g CO₂ per km, in place of the existing 10% band.

Fuel duties

In the 2008 Budget the Chancellor announced that the duty differential for biofuels will cease from 1 April 2010. In this year's PBR the Chancellor announced that the duty differential will continue for a further two years for biofuels made from used cooking oils.

Fuel Benefit Charge

In order to support public finances and encourage fuel-efficient travel, the fuel benefit charge multiplier for the private use of a company car will increase from £16,900 to £18,000 from 6 April 2010.

First year allowance on electric vans

Legislation will be introduced to provide a 100% first-year allowance for business expenditure on new, unused electric vans for expenditure incurred on or after 1 April 2010 for corporation tax and 6 April 2010 for income tax.

Business Payment Support Service (BPSS)

This service was announced in the 2008 PBR. BPSS allows businesses facing temporary financial difficulties more time to pay their tax bills. The Chancellor announced that HMRC will continue to offer this service to businesses as part of its time to pay arrangements. If you need to take advantage of this service, we advise you to contact HMRC before the payment is due rather than when it has become overdue. The telephone number is 0845 302 1435.

Empty Property Relief on Business Rates

The 2008 PBR announced that empty properties with rateable values of up to £15,000 would be exempt from business rates for 2009/10. The Chancellor announced that the Government will extend the temporary increase in the threshold for empty property relief for a further year. For 2010/11, empty commercial properties with rateable values up to £18,000 will be exempt from business rates.

Enterprise Finance Guarantee

The Chancellor stated that the Government recognised the continuing challenges that small businesses (SMEs) face in accessing finance. He therefore announced that the Enterprise Finance Guarantee scheme will be continued for a further twelve months, providing an additional £500 million of bank lending available to SMEs.

Growth Capital Fund

The Chancellor announced the creation of the Growth Capital Fund to invest in small and medium size businesses. The Fund would target growing companies seeking amounts of between £2 million and £10 million.

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Additional Measures

Protecting tax revenues

The Chancellor announced a number of measures to protect the UK tax system from abuse and to ensure that all individuals and businesses paid their fair share of tax. These measures include:

- New penalties and powers to combat offshore evasion.
- Enhancements to strengthen the disclosure regime.
- A code of practice on the taxation of banks.
- Closing down inheritance tax avoidance schemes.
- Closing down insurance premium tax avoidance schemes.
- The targeting of tax avoidance using index-linked gilts.
- Countering finance leasing avoidance.
- The prevention of sale of lessor companies avoidance.
- The prevention of the avoidance of stamp taxes on shares.

A penalty of up to 200% could be levied which means that it could cost a 40% taxpayer 120% of the undeclared income.

Supporting low-carbon growth

The Chancellor acknowledged that the UK is playing a leading role on climate change. In relation to low-carbon emission recovery, the Chancellor announced a number of measures to assist in this regard, one of which is:

- Offering up to £400 to householders who upgrade their old boilers to more efficient models.

And finally.....

You may be pleased to hear that the Chancellor acknowledged that the Government “attached great importance to tackling the remuneration practices that contributed to excessive risk taking by the banking industry”. Where bank or building society employees are awarded discretionary bonuses above £25,000 in the period from 9 December 2009 to 5 April 2010, employers paying these bonuses will pay an additional bank payroll tax of 50% on the excess over this threshold. This one-off tax will not be deductible in computing the taxable profits of affected companies.

Further details of the Chancellor’s Pre-Budget Report, including press releases, can be obtained from H M Treasury website at www.hm-treasury.gov.uk and H M Revenue & Customs website at www.hmrc.gov.uk.

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