

As you will be aware, Alistair Darling presented his second Budget on Wednesday 22 April 2009.

Our summary focuses on the issues likely to affect you, your family and your business.

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

Main Budget proposals

- Introduction of a 50% top rate of tax for those with income over £150,000 from 2010 and phased reduction of personal allowances for those with income over £100,000.
- Increases in ISA limits from October this year for those aged over 50 and for everyone from April 2010.
- Enhanced relief for trading losses extended by a further year.
- Short term increase in capital allowances on most plant and machinery.
- Changes to the furnished holiday lettings scheme.

Previous announcements

Many of the changes detailed in this summary have been the subject of earlier announcements. Here is a reminder of some of the more important ones:

- removal of the £12,000 'expensive car' limit for capital allowance purposes
- extension of HMRC compliance powers across all the taxes dealt with by HMRC.

PERSONAL TAX

Tax rates

As previously announced the government proposes significant changes to the system of personal allowances and tax rates. These changes which were announced last year mainly impact on those with higher levels of income. Significant changes have now been made to the original proposals.

Allowances and rates 2009/10

The 2009/10 personal allowance will be £6,475. The basic rate limit will be £37,400. Therefore an individual will pay 40% tax rather than the basic rate of 20% when their total income exceeds £43,875.

The 10% starting rate for savings income band (£2,440) is only available where an individual's non savings income (broadly earnings, pensions, trading profits and property income) does not exceed the starting rate limit.

National Insurance Contributions (NICs)

The NIC thresholds have been increased but the rates of Class 1 and 4 contributions have been held at their 2008/09 levels.

- Class 1 – employers 12.8%
- Class 1 – employees 11% (plus 1% above UEL)
- Class 4 – self-employed 8% on profits above £5,715

Class 2 contributions increase from £2.30 to £2.40 per week for all self-employed with profits above £5,075 p.a.

Removal of higher rate relief on pension contributions

The government has announced its intention to restrict tax relief on pension savings with effect from 6 April 2011 for people with taxable income of £150,000 or more. The relief will be tapered down until it is 20%.

Legislation will be introduced to prevent those potentially affected from seeking to forestall this change by increasing their pension savings in excess of their normal regular pattern, prior to that restriction taking effect.

Individual Savings Accounts (ISAs)

In 2009/10 the ISA limits for people aged 50 and over will be raised to £10,200, of which £5,100 can be held in cash. This change will be made from 6 October 2009. The current ISA limits (£7,200 of which a maximum of £3,600 can be held in cash) will be increased for all investors to the same amount from 6 April 2010.

CORPORATE AND BUSINESS TAX

Corporation tax rates

The main rate of corporation tax which applies to companies with profits of more than £1.5 million remains at 28%.

The small companies corporation tax rate which applies to companies with up to £300,000 of profits remains at 21%.

The effective marginal corporation tax rate for profits between £300,000 and £1.5 million is 29.75%.

Trading loss carry back

Under current rules businesses already have a number of mechanisms to relieve trading losses against other income including past trading profits.

The main relief for companies is a carry back of unlimited trading losses against profits made in the previous year.

The amount of losses that can be carried back to the preceding year remains unlimited. After carry back to the preceding year, a maximum of £50,000 of the balance of unused losses is then available for carry back to the earlier two years.

The measure will have effect for company accounting periods ending in the period 24 November 2008 to 23 November 2010. For unincorporated businesses, the measure will have effect in relation to trading losses for tax years 2008/09 and 2009/10.

Capital allowances on plant and machinery

Additional capital allowances are to be available for expenditure incurred by a qualifying activity in the 12 month period commencing 1 April 2009 for companies and 6 April 2009 for individuals and partnerships. Most businesses have since 1 April 2008 (corporation tax) or 6 April 2008 (income tax) been able to claim the new Annual Investment Allowance (AIA) on the first £50,000 spent on most plant and machinery. Expenditure on qualifying plant and machinery not covered by the AIA will be eligible for a temporary first year allowance (FYA) of 40% instead of 20% Writing Down Allowance (WDA). The FYA will not apply for expenditure on integral features, cars, long life assets and assets for leasing.

Taxation of business travel

Changes are being made to the capital allowance treatment of cars. The changes will have effect from 1 April 2009 for corporation tax purposes and 6 April 2009 for income tax. The special rules that restrict the amount of capital allowances for cars costing more than £12,000 will be abolished.

From April 2009 the special rules that restrict the amount of lease rental payments that can be deducted for tax purposes for a car with a retail price exceeding £12,000 will be reformed. The restriction will be changed to a flat rate disallowance of 15% of relevant payments and apply only in respect of cars with CO2 emissions above 160g/km.

Groups and chargeable gains

A capital gains group is able to relieve a chargeable gain in one group company with an allowable loss in another group company provided the disposal was to a third party. Changes are proposed to the legislation.

EMPLOYMENT ISSUES

Company cars

Where a company car is provided for an employee's private use, a taxable benefit arises which is based on the list price of the car and its CO2 emissions. The percentages range from 15% to 35% for most cars. There are currently discounts available for environmentally friendly cars.

Various changes are proposed for future tax years.

CAPITAL TAXES

Stamp duty land tax (SDLT)

The Chancellor announced a 'holiday' from SDLT in September 2008 which exempted from SDLT any acquisitions of residential property of not more than £175,000. The measure applied to acquisitions between 3 September 2008 and 2 September 2009 inclusive.

Legislation will be introduced to extend the increased threshold to land transactions where the effective date for SDLT is before 1 January 2010.

After that date the SDLT threshold for residential property will revert to £125,000.

VAT

VAT thresholds

The VAT registration limits increase with effect from 1 May 2009 as follows:

- the threshold for compulsory registration is £68,000
- the threshold for voluntary deregistration is £66,000.

Change of the standard rate of VAT

The standard rate of VAT was reduced from 17.5% to 15% for the 13 month period 1 December 2008 to 31 December 2009. HMRC have confirmed their intention that the standard rate of VAT will revert to 17.5% from 1 January 2010.

Opting to tax land and buildings

Simplifications will be made to the procedures for opting to tax land and buildings, in respect of which the tax payer has made previous exempt supplies. The simplification will be made by the replacement of an automatic permission condition (APC) for tax payers who would otherwise have to seek permission from HMRC before opting to tax.

The new APC will have effect from 1 May 2009. Two related extra statutory concessions will also be withdrawn but not until 30 April 2010.

VAT system for cross-border trading

A package of measures is being introduced to simplify and modernise the VAT system for cross-border trading and to counter fraud with effect from 1 January 2010 across the EU. The measures include:

- changes to the basic place of supply of services rules
- changes to the time of supply rules
- European Sales List (ESL) reporting for supplies of cross-border services
- a new electronic refund procedure for VAT incurred in other EU Member States.

HMRC POWERS

Tax debts

Various changes to the current law will be introduced in Finance Bill 2009 to including the introduction of a third party information power requiring companies and businesses to supply HMRC with contact details for people who are in debt to HMRC with whom they have lost contact.

The third party information power to trace missing debtors will have effect on and after the date that Finance Bill 2009 receives Royal Assent.

Compliance checks

Legislation will be introduced to apply the compliance checking framework that has recently been introduced for the main taxes to all other taxes which HMRC administers.