



## Budget Lunch 2009

Riz Akhtar & Gordon Fox  
23<sup>rd</sup> April 2009

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## The Loan (Ar)Ranger



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## Rob(b)in(g) the Rich



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### The good?

- Extension of the 15% VAT period;
- Improved first year capital allowances;
- Extension of the SDLT holiday;
- Improvement to temporary loss relief carry back rules;
- ISA limits improved.

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### The bad?

- Fuel duty increase of 2p from September and commitment to above inflation increases;
- Alcohol duties increased;
- Tobacco duties increased.

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### The ugly?

- Higher rate of income tax – increase to 50% rather than 45%;
- Loss of personal tax-free allowances for higher earners;
- Restriction of tax relief on pension scheme contributions for higher earners.

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## Income tax allowances

£ per year (unless stated)	2008-09	Change	2009-10
Personal allowance (age under 65)	6,035	+440	6,475
Personal allowance (age 65-74)	9,030	+460	9,490
Personal allowance (age 75 and over)	9,180	+460	9,640
Married couple's allowance (aged 73-75)	6,535	-	N/A
Married couple's allowance (age 75+)	6,625	+340	6,965
Married couple's allowance - minimum	2,540	+130	2,670
Income limit for age-related allowances	21,800	+1100	22,900
Blind person's allowance	1,800	+90	1,890
<b>Pension scheme allowances</b>			
Annual Allowance	235,000	+10,000	245,000
Lifetime allowance	1,650,000	+100,000	1,750,000

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## Income Tax Thresholds (2009/10)

£	
2,440	If savings - at 10%
next 34,960 or 37,400	At 20%
37,400+	At 40%

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## National Insurance Contributions

£ per week	2008-9	Change	2009-10
<b>Class 1</b>			
Lower earnings limit	90	+£5	95
Upper earnings limit (UEL)	770	+£74	844
Upper accruals point	N/A	-	770
Primary threshold	105	+£5	110
Employees' rate between threshold and UEL	11%	-	11%
Employees' rate above UEL	1%	-	1%
Married women's rate between threshold and UEL	4.85%	-	4.85%
Employers' secondary rate above threshold	12.8%	-	12.8%
Class 2 rate (per week)	2.30	+£0.10	2.40
Class 2 small earnings exception per year	4,825	+£250	5,075
Class 3 rate (per week)	8.10	+£3.95	12.05
Class 4 lower profits limit per year	5,435	+£280	5,715
Class 4 upper profits limit per year	40,040	+£3,835	43,875
Class 4 rate between limits	8%	-	8%
Class 4 rate above upper profits limit	1%	-	1%

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## High earners from 2010-11

- Personal allowance income limit £100,000
- Higher rate tax 50% over £150,000
- Change in dividend rate 32.5% to 42.5%
- Restriction of tax relief for pension contribution where income over £150,000
- The impact on Trusts

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## Reduction of the personal allowance

Income	2009/10	2010/11
£100,000	£29,930	£29,930
£112,950	£35,110	£37,700
Marginal rate	40%	60%

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## Increase in the top rate of Income Tax

Income	2009/10	2010/11
£150,000	£49,930	£52,520
£170,000	£57,930	£62,520
Marginal rate	40%	62.25%

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## Limit of Pensions Tax Relief

- For payments to money purchase schemes on or after 22 April 2009 where individuals have income of > £150,000
- Tax relief restricted to basic rate
- Does not apply to normal, regular pension savings in place at 22 April 2009
- Pension contributions of < £20,000 unaffected

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## Rates Applicable to Trusts

	2009/10	2010/11
Trust Rate	40%	50%
Dividend Rate	32.5%	42.5%

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## The Remittance Basis (Non-UK domiciled & UK resident)

- Amendments made to new remittance rules that were effective from 6 April 2008
- Obligation to file tax return and make formal claim removed in certain circumstances
- Gift Aid tax relief now available on £30,000 charge
- Exempt Assets scope extended to include property purchased out of foreign employment income and foreign gains
- Anti-avoidance provisions – to catch areas such as the remittance of one item of a full set or series

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## Corporation Tax

	2006/07	2007/08	2008/09	2009/10	2010/11
Small co rate (profits to £300,000)	19%	20%	21%	21%	22%
Marginal rate (£300k to £1.5m)	32.75%	32.50%	29.75%	29.75%	29.50%
Large company rate (profits >£1.5m)	30%	30%	28%	28%	28%

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## Profit extraction

	Small (21%)	Marginal (29.75%)	Large (28%)
Salary	47.7%	47.7%	47.7%
Dividend	40.75%	47.31%	46.00%

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## Loan Relationships: Connected Companies

- Legislation to be introduced in Finance Bill 2009 to amend the loan relationship rules affecting connected companies.
- Change will have effect for company accounting periods beginning on or after 1 April 2009.
- Hoped to facilitate company reconstructions and sales.

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### Loan Relationships: Connected Companies

- First change – debtor company will no longer be taxable on a release if a loan is written off on or after 22 April 2009
- Second change – for a.p's beginning on or after 1 April 2009 - will disapply (in most circumstances) the rule that allows the debtor company a deduction for interest only on a paid basis, rather than on the accruals basis that usually applies.

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### Company Taxation of Foreign Profits

Finance Bill 2009 will introduce a foreign profits package consisting of 4 elements:

- Dividends received from foreign companies will largely be exempt from tax (currently taxable with tax credit given)
- Tax deduction for finance expense payable by UK members of a group is restricted to consolidated gross finance expense of group
- Changes to Controlled Foreign Companies regime to remove non-local holding company exemption and Acceptable Distribution Policy exemption
- Treasury Consents rules (requiring pre-transaction approval) to be repealed and replaced by post-transaction report (within 6 months)

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### Groups – Matching of Gains and Losses

Improvements to be made to way chargeable gains and losses arising are offset within groups.

Current rules deem assets transferred intra-group only where there is a third party disposal – no relief for some types of gains and losses, e.g negligible value claims.

New rules transfer gain or loss of group company to other specified group company (with joint election)

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### Capital Allowances

- Temporary First Year Allowances to 5 April 2010 (31 March for companies)
- 40% can be claimed on expenditure above the Annual Investment Allowance (£50,000)
- No FYA's on long-life assets, integral features, cars or leasing
- Written Down Allowance on bought forward general pool remains at 20%
- Enhanced capital allowances - energy efficient scheme list revised to include new technology and remove some existing sub-technologies

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### VAT

From 1 May 2009

- Registration threshold up £1,000 to £68,000
- De-registration now £66,000
- VAT standard rate back to 17.5% from 1 January 2010
- Zero-rated supplies and those subject to VAT at 5% unaffected

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### VAT – Cross-Border Supply

Changes being phased in from 1 January 2010 relating to cross border supplies of services:

Rules will ensure that (subject to specific exceptions) VAT is due in country in which service is consumed (e.g. where customer established) rather than where supplier established.

Accordingly, UK business customers will be liable to account for UK VAT on most services provided by overseas suppliers under the reverse charge provisions

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## VAT – Cross-Border Supply

From 1 January 2010, time of supply:

- Single supplies – tax point earlier of when service completed or when paid for
- Continuous supplies – tax point end of each billing or payment period (or when payment made if earlier)
- Continuous supplies – where no billing or payment periods, tax point is 31 December each year (or when payment made if earlier)

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## VAT – Cross-Border Supply

From 1 January 2010, UK businesses that supply services, where the place of supply is the customer's country, will be required to complete EC Sales Lists (ESLs) for each calendar quarter. ESLs will include the following:

- The VAT registration number of the business to which the services were supplied; and
- The total value (excluding VAT) of those supplies to each of these businesses.

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## VAT – Cross-Border Supply

From 1 January 2010, a new electronic VAT Refund procedure being introduced across the EU to replace the current paper-based system.

UK businesses will submit claims for overseas VAT electronically to HMRC rather than to the Member State of Refund

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## VAT

'Anti-forestalling' legislation is to be introduced to counter schemes or arrangements designed to avoid the effect of the standard rate of VAT reverting to 17.5%.

A supplementary charge of 2.5% will be made where invoices are raised or payment received at 15% relating to goods to be delivered or services performed on or after the rate reverts to 17.5%.

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## VAT

- Opting to tax on land and buildings – procedure simplified from 1 May 2009 onwards
- Fuel scale charges – new rates from 1 May 2009 onwards

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## Trading Loss Carry Back

- Not as good as one might think?
- £50,000 loss limitation
- Set-back extended from one year to three
- Latest year first
- Losses in CTAP ending between 24/11/08 & 23/11/10
- Unincorporated losses in 2008/09 & 2009/10

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### Stamp Duty Land Tax (SDLT)

- SDLT "Holiday" on residential property worth up to £175,000 extended to 31 December 2009
- Right to leasehold enfranchisement relief – rules changed from today to extend the relief for leaseholders who wish to acquire the freehold

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### Anti-Avoidance

- Payment of lease premiums after 22 April 2009 to avoid living accommodation benefit
- Changes to REIT regime – to make existing legislation clearer and more consistent. Restructuring to be restricted and exclusion of owner occupied properties from the regime.

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### Anti-Avoidance

- Schemes to exploit income tax loss relief rules using offshore life insurance policies to be countered from 6 April 2009
- Individuals will be prevented from abusing reliefs for deductions & losses connected to employment to avoid tax
- From 22 April 2009 receipts derived from a right to receive income will be taxed even though no underlying asset is sold

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### Agricultural Property and Woodlands

- Inheritance tax Agricultural Property Relief (of up to 100%) and Woodlands Relief extended to include property in the European Economic Area
- Retrospective change and applies to any IHT paid in relation to such property from 23 April 2003 onwards
- Such property will also qualify for Capital Gains Tax hold over relief to defer the gain
- CGT changes is also retrospective and applies from 2003/04 onwards
- Time limits apply for all claims

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### Other Points of Interest

- Dividends from Overseas companies- individuals with > 10% now entitled to 10% tax credit
- From 1 April 2010 time limit for repayment claims reduced to four years
- Ability to spread payments to be introduced into legislation and allow voluntary managed payment plans
- SAYE – setting of bonus rates now dealt with by HMRC rather than HM Treasury

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### Other

**Personal tax accountability of senior accounting officers of large companies:**

- officers to be identified to HMRC
- must take reasonable and adequate steps to establish and monitor adequate accounting systems
- will be responsible for certifying to HMRC that the accounting systems in place are adequate for accurate tax reporting or will need to identify any inadequacies to HMRC and auditors

**Penalties can be personally charged on officer for careless or deliberate failure to meet these obligations!**

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### Other

Named and shamed!

- HMRC intend to publish on their website the names and details of individuals and companies who are penalised for deliberate defaults leading to a loss of tax of more than £25,000 (but not where full unprompted disclosure made)

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### Notable quotes

- Kier Hardie (1909) *"The Labour Party will seize the commanding heights of the economy including the banks .."*
- Jacqui Smith (2009) "88p for the bathplug please ...."
- Monty Python: "Always look on the bright side of life ..."

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