

PRE BUDGET STATEMENT: The Main Changes

The Pre Budget Report

The Pre Budget Report (PBR) always used to pass us by relatively unnoticed, with the Chancellor giving an idea of what was going to happen in the Budget in the following Spring without really making any major announcements.

However, after last year, which brought radical changes to capital gains tax including the abolition of taper relief, we now have this year's "credit crunch" induced range of measures which, as always, will create winners and losers.

Will the reduction in VAT save money overall for those small businesses that will need to spend to make significant changes to their systems?

Will the deferral of the increase of corporation tax help people when the benefit won't be felt until at least January 2010?

We have summarised the main changes here. As usual, there are more questions than answers at this stage so do get in touch with Paul Mustoe or your usual LB Group contact to discuss your own position in more detail.

VAT

Standard rate VAT reduced from 17.5 percent to 15 percent from 1 December 2008 until 31 December 2009. There is no requirement to pass the decrease onto customers where a VAT inclusive price is charged.

The fraction used to calculate the VAT included in a VAT inclusive price is now 3/23rds.

Credit for small businesses

A temporary Small Business Finance Scheme 'worth £1 billion' will offer credit to firms struggling to access loans. A £4 billion deal with the European Investment Bank to provide money to the banks to pass on to businesses was agreed.

Business Payment Support Scheme

A new HMRC business payment support service allows businesses in temporary financial difficulty to pay their tax bills 'on a timetable they can afford'.

It seems that HMRC will only ask for basic information – regarding income and outgoings – in order to make a decision.

Corporation tax

The proposed increase in the small companies' rate from 21 percent to 22 percent, due to take place on 1 April 2009, has been deferred one year.

Trading losses for incorporated and unincorporated businesses

Currently, trading losses can only be carried back and set against profits that arose in the preceding year.

For one year only, any trading losses that are incurred for an accounting period ending between 24 November 2008 and 23 November 2009 can be carried back for a maximum of three years.

The actual amount of the loss that can be utilised in this earlier period is capped at £50,000.

Pension schemes

The lifetime allowance will increase to £1.8m. The annual allowance increases to £255,000 from 2010/11 and remains the same up to and including the 2015/16 tax year.

Individual Savings Accounts (ISAs)

From 16 December 2008 bonds issued by Multilateral Institutions (includes the International Monetary Fund, World Bank, United Nations and regional development banks) become qualifying investments for Stock and Shares ISAs.

Cars

In line with other recent legislation, the capital allowances rates will, from 1 April 2009 (or 6 April 2009 for unincorporated businesses), now be determined by reference to the Co2 emissions.

Those over 160g/km will be dealt with in the special rate pool and will attract a writing down allowance of 10 percent per year. 20 percent writing down allowances will apply to others.

Leased Cars

From April 2009 the rules that restrict the amount of lease rental payments that can be relieved for a car costing more than £12,000 will cease.

The restriction will be changed to a flat rate of 15%, but will only apply to cars with Co2 emissions over 160g/km

Expenditure on leases that commence prior to April 2009 will continue to be subject to the previous rules.

Personal Income Tax

The personal allowance for those aged 65 and under increases from £6,035 in the current year to £6,475 for 2009/10.

The basic rate of tax band increases from £34,800 in the current year to £37,400 for 2009/10.

For 2009/10 the upper earnings limit for primary Class 1 NIC will (again) be aligned with the level at which higher rate tax becomes due. From 2011/12 the NIC primary threshold will be aligned with the basic personal allowance.

Major changes to personal tax rates are planned for 2010/11 and beyond:

- the main – and higher – rates of Class 1 and Class 4 NIC will increase by ½ percent

- the basic personal allowance for income tax will be reduced, in two stages, for those with gross incomes above £100k and £140k

- 45 percent income tax will apply to gross income above £150,000 from 6 April 2011

- there will be three rates of tax for dividends

- the basic rate band will attract no further tax liability

- those that fall into the 40 percent tax bracket will attract tax at an effective rate of 25 percent of the net amount received over this bracket as now

- dividends that exceed the new £150,000 tax bracket will attract an effective rate of tax of 30.56 percent of the net

