

Pre-Budget Report 2009



The Pre-Budget Report 2009

The Chancellor announced his Pre-Budget Report on 9 December 2009. It was an opportunity for the introduction of far-reaching measures to tackle the UK deficit. Instead, there were very few changes of note and Mr Darling's approach certainly appeared to be one of caution, deferring the decisions on future tax rises with an eye on the impending general election in 2010.

Here is an overview of the announcements that are likely to be relevant to our clients.

Little change to rates

Some of the most interesting points arising from the Report were the areas on which the Chancellor remained silent or did not take up the opportunity to make a change. The capital gains tax rate remains unchanged at 18%. The threshold for the 40% rate of income tax

will be frozen until 2012/13. The standard rate of VAT, which will revert back to 17.5% from 15% on 1 January 2010, will not be increased any further. The small companies' rate of corporation tax will remain at 21% rather than increase to 22% as originally proposed. Perhaps surprisingly, no specific measures were introduced to prevent income being accelerated ahead of 6 April 2010 to avoid the 50% tax rate.

The only change of note in relation to rates was to National Insurance. With effect from 6 April 2011 the main rates will each increase by a further 0.5% to 13.8% for employers, 12% for employees and 9% for the self employed (which includes those trading in partnership). This represents an additional increase to the 0.5% increase already announced in the 2009 Budget.

Bankers' bonuses

The Chancellor announced a much anticipated tax on bankers' bonuses. The tax will be levied at 50% on any non-contractual bonus in excess of £25,000 paid by a bank to an employee. The tax will be payable

by the bank itself rather than by the employee. The definition of bank for these purposes includes building societies and any UK-resident investment company in a banking group or financial trading company in a banking group. The definition also extends to UK branches of foreign banks. The definition may catch more institutions than might first appear to be the case and potentially includes any person authorised for the purposes of the Financial Services and Markets Act 2000 (FSMA).

The tax will take effect immediately, and may prevent banks paying bonuses to employees ahead of the introduction on 6 April 2010 of the new 50% higher rate of income tax. Interestingly, the Report indicates that the tax is effective only until 5 April 2010. Beyond that date, the Government will "consider" extending the period of charge.

Restriction of pension relief

In the 2009 Budget the Chancellor announced restrictions in relation to higher rate tax relief available on pension contributions made

before 6 April 2011 by individuals earning in excess of £150,000, and to prevent abuse the Finance Act 2009 introduced anti-forestalling legislation. The Pre-Budget Report effectively extends the anti-forestalling restrictions to those individuals with gross income between £130,000 and £150,000 (excluding employer pension contributions). As detailed in the Budget, relief will only be restricted where the individual makes annual contributions in excess of the Special Annual Allowance of £20,000 (up to £30,000 in certain circumstances) and where the pattern of contributions is irregular.

Furnished Holiday Lettings

As expected, the Chancellor confirmed that the Furnished Holiday Letting legislation will be removed with effect from 6 April 2010.

Inheritance tax

The Chancellor confirmed that the current Nil Rate Band would remain at £325,000 for 2010/11, rather than increase to £350,000 as proposed in the Finance Act 2007. Furthermore,

anti-avoidance legislation will be introduced to counter two specific schemes which have exploited loopholes in the current legislation.

Research & Development tax relief

Previously a company was only eligible to claim full tax relief on its research & development expenditure if the intellectual property vested in the company itself. However, with immediate effect this condition is being relaxed so that it is no longer relevant who owns the intellectual property. This should assist those companies who currently carry out qualifying work but where the intellectual property is held elsewhere, whether it be offshore or in another group company, and have not historically been eligible for the relief, other than as a contractor.

Worldwide debt cap amendments

Further to lengthy consultation with businesses it has been announced that a measure will be introduced to prevent UK companies in a worldwide group from claiming excessive tax relief on UK financing

costs where these exceed the financing costs of the worldwide group. This measure will take place with effect for group accounting periods commencing on, or after, 1 January 2010.

Disclosure of anti-avoidance schemes

It was announced that the requirements to disclose anti-avoidance schemes will be extended to include Stamp Duty Land Tax (SDLT) with effect from 1 April 2010. The new rules will apply to the purchases of residential property from £1 million upwards.

This firm is not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services to clients because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. The services described in this brochure may include investment services of this kind.

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