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Pre-Budget Report 2008

The highlights of the Chancellor's statement

Monday 24 November 2008

Personal Tax

The government has announced significant changes to the system of personal allowances and tax rates for the next few years. These mainly impact on those with higher levels of income. These changes are set out below.

Allowances and rates

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 (increased to £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.

Changes for 2010/11

From 2010/11 the personal allowance will be subject to an income limit of £100,000. An individual's personal allowance will be reduced by £1 for every £2 of gross income they have above the income limit up to a maximum reduction of half of the personal allowance.

For those with income of above a second income limit of £140,000, the amount of their allowance

will be further reduced by £1 for every £2 above this income limit up to a maximum of the full amount of the personal allowance.

Gross income for these purposes is broadly all income after adjustment for pension payments, charitable giving and relief for losses.

Changes for 2011/12

A new rate of income tax will be introduced of 45%. This will apply to taxable non savings income and savings income above £150,000.

Dividend income is currently taxed at 10% where it falls within the basic rate band and 32.5% where liable at the higher rate of tax. A new rate of 37.5% will be introduced for dividends which fall into the income band of above £150,000.



Trust rate

The trust rate will be increased from the 40% to 45% and the trust dividend rate from 32.5% to 37.5%. These changes will take effect from 2011/12.

National Insurance Contributions (NICs)

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

An increase in the rates of national insurance is proposed from April 2011. The increase of 0.5% applies to the rates applicable to employers', employees' and the self employed.

Tax Credits

There are two types of Tax Credits; Working Tax Credit and Child Tax Credit (CTC). The CTC is potentially available to families who have responsibility for one or more child. There are several elements to the credit but broadly the maximum is an annual amount for 2009/10 of £2,235 per child together with a family element (generally one per family) of £545 per annum. The amount per child has been increased but the family element has been frozen since the introduction of the credit.

Business Tax

Corporation tax rates

The main rate of corporation tax which applies to companies with profits of more than £1.5 million fell to 28% from 30% from 1 April 2008.

The small companies corporation tax rate which applies to companies with up to £300,000 of profits increased from 20% to 21% from 1 April 2008. The intention was to increase this rate to 22% in 2009 but this has been deferred until 1 April 2010.

'Income shifting'

The government intended that legislation would take effect from 6 April 2008 to address 'income shifting'. The government has consulted on this issue but, given the current economic challenges, is deferring action and will not bring forward legislation in Finance Bill 2009. The issue will be kept under review.

Pensions

The annual amount (AA) of pension contributions on which an individual is entitled to tax relief had previously been set for all tax years up until 2010/11, with the amount for 2010/11 being £255,000. The AA will be frozen from 2011/12 to 2015/16 at £255,000 pa.

Pension scheme members, not having existing transitional protection, who take pension and lump sum benefits are subject to a lifetime allowance (LA). The amount of the LA had previously been set for tax years to 2010/11, with the amount for 2010/11 being £1.8 million. The LA will be frozen from 2011/12 to 2015/16 at £1.8 million.



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.

A proposed revision will apply for one year and will extend the period that current trading losses from businesses can be carried back against previous profits to a period of three years with losses being carried back against later years first.

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 2009. For unincorporated businesses,

the measure will have effect in relation to trading losses for tax year 2008/09.

HMRC will make repayments arising from loss relief claims received under the new rules on or after Budget Day 2009.

Comment

A technical note provides further details of this provision but not draft legislation. For unincorporated businesses the carry back to the earlier two years will be restricted to profits from the same trade. It would appear that corporate losses can be carried back against all profits of the earlier two years.

Taxation of business travel

Further details have been provided on the changes 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.

- Expenditure on cars with CO₂ emissions of 160gm/km or below will be allocated to the plant and machinery 'pool' (ie will obtain 20% writing down allowances (WDA)).
- Expenditure on cars with CO₂ emissions above 160gm/km will be allocated to the 'special rate pool' (ie will obtain 10% WDA).
- Cars that have an element of non-business use will continue to be dealt with in a single asset pool to enable the private use adjustment to be made, but for expenditure incurred from April 2009 onwards the rate of WDA will be determined by the car's CO₂ emissions.

Expenditure incurred before April 2009 will in general continue to be subject to the existing 'expensive' car rules for a transitional period of around five years. Any expenditure remaining in a single asset pool (unless there is any non-business use of the car) will be transferred to the main capital allowances pool.

Comment

The changes announced have had a long gestation period and full details have not been provided with the Pre-Budget Report. A technical note will be published shortly.

The 100% first year allowance regime for low emission cars was extended to 31 March 2013 in Budget 2008 and therefore will still apply. The current threshold for CO₂ emissions is 110gm/km (so not many cars qualify).

Taxation of foreign profits

The government will bring forward reforms to the taxation of foreign profits in Finance Bill 2009 that exempt from tax most foreign dividends received by large and medium-sized groups, regardless of the level of shareholding.

Comment

The government is attempting to enhance the competitiveness of the corporate tax system to make the UK a more attractive location for multinational business. There have been a number of high profile plans by some UK businesses to relocate outside the UK.



Other Business Measures

In addition to the tax measures introduced, there are a range of other proposals designed to help businesses through the current economic difficulties as follows:

- access to £1bn of funding from the European Investment Bank available to SMEs by the end of 2008
- the launch in early 2009 of a Small Business Finance Scheme with up to £1bn of lending by banks backed by government guarantee
- a temporary boost to export credits aimed at giving small exporters better access to working capital
- a capital fund of £50m providing help to SMEs who are overleveraged
- funding of up to £25m over the next six months via Regional Development Agencies
- a new Business Payment Support Service from HMRC to enable businesses to negotiate more flexible payment arrangements to meet business tax liabilities including PAYE
- the threshold for rate relief for empty business properties will rise to a rateable value of up to £15,000 for 2009/10
- more time will be available to pay backdated business rate bills that arise when a property is first rated as a business property.

VAT

The standard rate of VAT will be reduced from 17.5% to 15% for the period 1 December 2008 to 31 December 2009. The rate will then revert to 17.5%. No changes have been made to the 5% reduced or the 0% rate.

The government will introduce 'anti-forestalling legislation' to prevent abuse of the reduction in the standard rate of VAT.

The percentages applicable to the flat rate scheme will be reduced with effect from 1 December 2008 to reflect the reduction in the standard rate of VAT.



Miscellaneous

Air Passenger Duty

The proposed replacement of Air Passenger Duty (APD) by an aircraft based tax is scrapped. Instead APD will be revised to cover four bands based on distance from London. Within each band there will be one rate for standard class of travel and one rate for other classes. The bands range from £11 to £110 in 2009/10. The new rates will apply for travel on or after 1 November 2009 irrespective of when the ticket was purchased.

Comment

Band A now covers some countries which were not previously in the lower band and passengers travelling to these countries will see a reduction in the rate from the current £40/£80 – these include Russia (west of Urals), Algeria, Morocco and Tunisia.

HMRC compliance powers – further consultation

Further consultation documents have been issued as part of the review of the compliance powers of HMRC. These focus on:

- extending the record keeping and information powers introduced in Finance Act 2008 for the main direct taxes and VAT across all of the taxes administered by HMRC
- amending the penalties for late payment of tax
- interest rates on tax charged and tax repaid
- schemes to improve the payment of tax.