

Pre Budget Report 2008

There are a number of key points coming out of Alistair Darling's pre budget report on Monday; we review the important areas below:

Income Tax and National Insurance

There were several changes that will affect personal tax liabilities. Those with higher incomes could face much larger tax bills and careful planning is essential to help mitigate these.

From April 2009

- Personal allowance increased to £6,475.
- The upper ceiling at which point an employee pays National Insurance at 11% and the self-employed pay at 8% has increased significantly above inflation to £43,888 and £43,875 respectively. For an employed or self-employed individual earning above these limits, this means increases of £350 and £250 respectively.

From April 2010

- Those with incomes in excess of £100,000 will lose up to half of their personal allowance. At current rates, this means a tax increase of up to £1,295.
- Those with incomes in excess of £140,000 will lose up to the whole of their personal allowance. At current rates this means a tax increase of up to £2,590.

From April 2011

- Those with incomes above £150,000 will be taxed at 45% on income above that limit.
- The threshold at which an employee becomes liable to pay National Insurance will be increased to align it to the personal Income Tax allowance.
- Employer, employee and self employed National Insurance rates will all increase by 0.5%.
- The tax on dividend income received by those with total incomes of over £150,000 will increase to 30.5% of the net dividend.
- The rate of tax for trusts will increase by 5%, to 45% and the dividend trust tax rate to 30.5% of the net dividend.
- The annual allowance and standard lifetime allowance for pension contributions will be frozen at their 2010/2011 levels of £255,000 and £1.8m respectively for five years.

Business taxation

- The planned increase of the small companies rate of Corporation Tax from 21% to 22% will be deferred until 1 April 2010.
- Companies and unincorporated businesses will be able to carry back trading losses to set against profits of up to three years earlier, with certain limits.
- The proposed rules on income shifting due to be introduced in 2009 have now been shelved indefinitely.
- HMRC has introduced a new payment support service which will allow businesses in temporary financial difficulty to pay tax liabilities on an agreed timetable tailored to their need.
- For 2009/10 only, empty properties with a rateable value of £15,000 or less will be exempt from business rates.

Planning ahead

Businesses

It will be essential for businesses to review their structure in view of the proposed changes. The introduction of spouses and other family members as partners or shareholders could help reduce Income Tax and Capital Gains Tax. The government's decision to shelve plans to counter income shifting will encourage such action.

The freezing of the Corporation Tax rate for small companies at 21% could make incorporation or the inclusion of a company as partner attractive, especially if profits are to be reinvested into the business.

Unincorporated businesses should review accounting dates prior to the tax increases to minimise the amount of profit taxable at the new higher rates.

Individuals

The balance of income between spouses should be reviewed. High earners with investments should consider transferring income producing assets to spouses with lower incomes to mitigate the higher tax charges. With the delay before the new rates become effective, and an intervening election, there is no immediate need to rush into action.

The increasing divergence between Income Tax and Capital Gains Tax rates will make capital gains more attractive. There may well be a drive towards investing for capital growth rather than income, and anti-avoidance measures will undoubtedly focus on this area.

Trusts

The proposed increase in the tax rates makes it more important than ever for trustees to consider distributing income to beneficiaries who are non-taxpayers, or are paying tax at a lower rate.

VAT decreased from 17.5% to 15% from Monday 1 December 2008

The standard rate of UK VAT will be reduced from 17.5% to 15%, with effect from 1 December 2008 until 31 December 2009. The rate will revert back to 17.5% on 1 January 2010.

The Government has billed this as a £12.4 billion giveaway but it's tough to see how this will benefit those in the rural sector. The reduced rate will neither impact zero-rated goods (such as basic foodstuffs) nor supplies subject to the 5% reduced rate (such as domestic fuel and power).

From Monday 1 December all invoices in respect of standard rated supplies must show VAT at 15%.

Accounting systems will need to be adjusted to accommodate the rate change, a factsheet from Landmark in respect of Key systems is enclosed and we understand that SAGE will be writing to all of their clients.

If a supply of goods or services was before 1 December a VAT invoice issued after 1 December must show VAT at the old rate. Credit notes issued after 1 December will need to be at the same VAT rate as the invoice to which they relate.

The VAT Fuel Scale charge has been adjusted (see website).