



## PRE BUDGET REPORT 2008

### VAT

As predicted the standard rate of VAT is reduced from 17.5% to 15%, with effect from 1 December 2008.

This will increase back to 17.5% from 1 January 2010.

There is no change to the zero rate of VAT or the reduced 5% rate.

There is a change to some rates for businesses using the flat rate scheme. Details of the new rates are available from our website, [www.georgehay.co.uk](http://www.georgehay.co.uk).

There is also a simplification to the rules concerning the flat rate scheme, as there will now be just one test for eligibility - The turnover of a business for VAT purposes is less than £150,000 p.a.

A business can stay in the scheme until such time as its turnover exceeds £225,000 p.a.

There are also consequential changes to the fuel scale adjustment, again details can be found on our website.

### PERSONAL TAXATION

In accordance with previous practice the new personal tax allowances to be used from 6 April 2009 were announced as follows:

Personal Allowance	2009/10 £	Increase £	2008/09 £
Under 65	6,475	440	6,035
Aged 65-74	9,490	460	9,030
Aged 75 and over	9,640	460	9,180

The main rates of income tax for 2009/10 will remain at 20% for basic rate taxpayers and 40% for higher rate taxpayers. The basic rate limit for 2009/10 will be increased from £34,800 to £37,400. The point at which people start to pay higher rate tax for 2009/10 will therefore be £43,875.

The Chancellor also announced the following measures in connection with higher rate earners.

From 2010/11 if an individual's gross income is above the income limit of £100,000 the basic personal allowance will be reduced by £1 for every £2 above the income limit up to a maximum of one half of the allowance.

At £140,000 the amount of their allowance will be further reduced by £1 for every £2 above the income limit up to a maximum of the full amount of the basic personal allowance.

From April 2011 taxable income above £150,000 will be liable to income tax at 45%.

Also from April 2011, the rate of income tax for trusts will increase to 45%.

### CORPORATION TAX

The planned increase in the Small Companies Rate of corporation tax from 21% to 22% has been deferred from 1 April 2009 to 1 April 2010.

## BUSINESS TAXATION

### Trading Losses

All companies and unincorporated businesses making losses from carrying on trades will be able to carry back losses for up to 3 years.

At present losses can only be carried back to the preceding year and this remains unchanged. Any surplus losses up to a maximum of £50,000 can be carried back to the earlier years.

For companies the above applies where their accounting periods end between 24 November 2008 and 23 November 2009. Unincorporated business can relieve losses incurred in their basis period for the tax year 2008/09.

### Cars

Details of the new rules for Capital Allowances on cars have been announced. For cars bought after March 2009, allowances will be based on CO<sub>2</sub> emissions. Cars with a CO<sub>2</sub> of 160g or under qualify for 20% allowance each year, cars above 160g CO<sub>2</sub> will only have an allowance of 10%. Cars bought before the changes will remain in their pools and qualify for 20%. There will also be a change in the rules for leasing expensive cars. From 1 April 2009 on leased cars above 160g CO<sub>2</sub> 15% of the lease costs will not be allowable for tax. There is no add back for cars under 160g CO<sub>2</sub>.

## NATIONAL INSURANCE

The starting point for employers, employees and self employed NICs in 2009/10 will increase in line with inflation to £110 per week, NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from £770 to £844 per week. For self employed the rate of class 2 contributions will increase to £2.40 per week.

From 2011/12 the main rate of Class 1 and Class 4 NICs will be increased by 0.5 % to 11.5% and 8.5% respectively. The Class 1 employer rate will also increase by 0.5% to 13.3% this will also apply to Class 1A and Class 1B contributions. The additional rate, increases from 1% to 1.5%.

### Comment

The reduction in VAT was matched by increases in duty on fuel, drinks and tobacco to leave "prices" unchanged. However, for a business incurring fuel costs, the VAT could have been reclaimed, the increase in duty cannot.

The claw back in Personal Allowances on income over £100,000 from 6 April 2010, will at certain levels lead to a marginal rate of tax of 60%.

The increase in National Insurance from 6 April 2011 affects all taxpayers and employers whatever their income.

More information will be available on our website and in our next newsletter.

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