

# Pre Budget Report 2009

## National Insurance

The Chancellor has announced that for 2011/12 the main rate of Class 1 and Class 4 National Insurance Contributions will be increased by a further 0.5% in addition to the 0.5% increase which he announced in the 2008 Pre Budget Report. This will mean that the main rate of Class 1 and Class 4 NICs will actually increase by 1% from April 2011 to 12% and 9% respectively.

The Class 1 employer rate will also increase by a further 0.5% on top of the increase announced in the 2008 Pre Budget Report, meaning the 2011/12 rate will move from 12.8% to 13.8%. The increased rate will apply to Class 1A and 1B contributions as well. The additional rate of Class 1 and 4 NICs will be increased by a further 0.5% too, the additional rate will therefore become 2% from 2011/12.

## Personal Taxation

In accordance with previous practice the new personal tax allowances to be used from 6 April 2010 were announced, unfortunately they were frozen and remained as £6,475 for the under 65's; £9,490 for those aged 65-74; and £9,640 for those aged 75 and over.

The main rates of income tax for 2010/11 will remain at 20% for basic rate tax payers and 40% for higher rate taxpayers. The basic rate limit for 2010/11 will be £37,400. The point at which people start to pay higher rate tax for 2010/11 will therefore still be at £43,875.

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. This withdrawal gives an effective tax rate of 60%.

From April 2011 taxable income above £150,000 will be liable to income tax at 50%. Also from April 2011, the rate of income tax for trusts will increase to 45%.

## Inheritance Tax

### Nil Rate Band

The nil rate band has been frozen for 2010/11 at £325,000. It had been announced this would increase to £350,000.

### Anti-Avoidance

Legislation will be introduced to restrict individuals who transfer property into trusts or purchase interests in trusts so that normal IHT changes do not apply. Detailed advice should be sought as this is complex anti avoidance legislation.

## VAT

As predicted the standard rate of VAT is reinstated to 17.5% from 15%, with effect 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 are also consequential changes to the fuel scale adjustment, again details can be found on our website.

## Pensions – Special Annual Allowance Charge

As mentioned in previous newsletters the 2009 Budget restricted tax relief on pension contributions with effect from 6 April 2011 for people with income of £150,000 and over.

The Chancellor has now changed the rules that anybody with 'relevant income' of £150,000 will face a 20% tax penalty on pension contributions over £20,000 in total, whether paid personally or by their employer. The tax charge is payable as part of the individual's Self Assessment. This will affect individuals with income of £130,000 or over who on or after 9 December 2009 change their normal pattern of paying pension contributions and exceed the special annual allowance of £20,000 a year.

## Business Taxation

### Corporation Tax

The planned increase in the Small Companies Rate of corporation tax from 21% to 22% has been deferred another year from 1 April 2010 to 1 April 2011. No changes were made to the full rate.

### Research and Development

Small and medium enterprises claiming enhanced tax relief for R&D expenditure will now not need to be the owner of any intellectual property derived from such expenditure. This is a small change and is applicable for R&D incurred in any accounting period ending on or after 9 December 2009.

### Furnished Holiday Lettings

The Furnished Holiday Lettings provisions will be withdrawn from 5 April 2010. This means that any income or capital gains arising from the commercial letting of furnished holiday accommodation will be taxed in the same way as any other property business.

### Cars

Company Car tax is set to increase again from 6 April 2012. The Chancellor had already announced a movement in the benefit bandings in 2010/11 and 2011/12 by moving the thresholds down by 5g/km of CO<sub>2</sub>. This will be repeated in 2012/13. This means a typical petrol car with emissions of 185 CO<sub>2</sub> will be taxed at 25% of its list price in 2009/10 increasing to 28% by 2012/13.

Employers and directors who have their company cars solely propelled by electricity will have a nil per cent rate applied meaning no car benefit arises. Similar provisions will be introduced for electric vans.

Fuel benefits for employees receiving free private fuel from their employers will increase from 6 April 2010. Currently the figure used in calculating the tax charge which is multiplied by the 'cars tax percentage' is £16,900. This will increase to £18,000. For van drivers receiving private fuel their benefit will increase from £500 to £550.

Rules will be introduced for 100% Capital Allowances on electric vans.

### Bank Payroll Tax

Bankers bonuses have been a 'hot issue' for the government but not for the majority of our clients. Legislation will be included in the 2010 Finance Bill to introduce a new bank payroll tax. The rate has been set at 50% and is payable by the bank on the amount of a bonus to which a banking employee is entitled, to the extent that the bonus exceeds £25,000. This bank payroll tax does not apply to regular salary, wages or benefits.

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