



Pre-Budget Report 2009



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Introduction

On Wednesday 9 December 2009, the Chancellor of the Exchequer, the Rt Hon Alistair Darling MP, delivered his Pre-Budget Report (PBR) to the House of Commons. Each year the PBR provides a progress report on what has been achieved so far by the Government, gives an update of the state of the economy and public finances, and sets out the direction of Government policy in the run up to the spring Budget. This, of course, will be the last Pre-Budget Report before a general election.

Summary

- Increase of 1% in NIC rates from April 2011
- Freezing of personal allowances
- Deferral of planned increase in small companies corporation tax rate
- VAT rate to revert to 17.5%
- Bank payroll tax

Individuals

Income tax

The main rates for income tax for 2010/11 will remain at 20% for basic rate taxpayers and 40% for higher rate taxpayers. As announced in the 2009 Budget an additional rate of tax of 50% will apply on incomes over £150,000.

As announced in the PBR 2008, the Chancellor confirmed that income tax allowances will be frozen in 2010/11 at a time when RPI is negative. This will result in taxpayers receiving a benefit in real terms.

Set out below are the personal and age-related allowances for 2010/11, together with the comparative figures for 2009/10.

	2010/11	2009/10	Change
Personal allowance (age under 65)	£6,475	£6,475	£0
Personal allowance (age 65-74) ⁽¹⁾	£9,490	£9,490	£0
Personal allowance (age 75 and over) ⁽¹⁾	£9,640	£9,640	£0
Married couple's allowance (age 75 and over) ^{(1) (2)}	£6,965	£6,965	£0
Married couple's allowance – minimum amount ⁽²⁾	£2,670	£2,670	£0
Income limit for age-related allowances	£22,900	£22,900	£0
Blind person's allowance	£1,890	£1,890	£0

- These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic personal allowance or minimum amount of married couple's allowance.
- Tax relief for the married couple's allowance is given at the rate of 10 per cent.

The taxable bands for income tax are set out below.

	2010/11	2009/10
Starting savings rate 10% *	£0 - £2,440	£0 - £2,440
Basic rate: 20%	£0 - £37,400	£0 - £37,400
Higher rate: 40%	£37,401 - £150,000	Over £37,400
Additional rate: 50%	Over £150,000	Not applicable

* There is a 10p starting rate for savings only. If an individual's non-savings taxable income exceeds the starting rate limit, the 10p starting rate for savings will not be available for savings income

National Insurance contributions

In a similar approach to that adopted for income tax rates and allowances, the Chancellor froze all but two figures for National Insurance contributions. The increases are £2 per week on the lower earnings limit and 10p on the special Class 2 rate for volunteer development workers. Set out below are the rates for National Insurance contributions for 2010/11 and 2009/10.

	2010/11	2009/10
Lower earnings limit, primary Class 1	£97 per week	£95 per week
Upper earnings limit, primary Class 1	£844 per week	£844 per week
Upper Accruals Point	£770 per week	£770 per week
Primary threshold	£110 per week	£110 per week
Secondary threshold	£110 per week	£110 per week
Employees' primary Class 1 rate	11% of £110.01 to £844 per week	11% of £110.01 to £844 per week
	1% above £844	1% above £844
Employees' contracted-out rebate	1.6%	1.6%
Married women's reduced rate	4.85% of £110.01 to £844 per week	4.85% of £110.01 to £844 per week
	1% above £844	1% above £844
Employers' secondary Class 1 rate	12.8% above £110 per week	12.8% above £110 per week
Employers' contracted-out rebate, salary-related schemes	3.7%	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%	1.4%
Class 2 rate	£2.40 per week	£2.40 per week
Class 2 small earnings exception	£5,075 per year	£5,075 per year
Special Class 2 rate for share fishermen	£3.05 per week	£3.05 per week
Special Class 2 rate for volunteer development workers	£4.85 per week	£4.75 per week
Class 3 rate	£12.05 per week	£12.05 per week
Class 4 lower profits limit	£5,715 per year	£5,715 per year
Class 4 upper profits limit	£43,875 per year	£43,875 per year
Class 4 rate	8% of £5,715 to £43,875 per year	8% of £5,715 to £43,875 per year
	1% above £43,875	1% above £43,875

Employee, employer and self-employed rates of NICs will increase by 0.5% in April 2011 in addition to the 0.5% increase announced in the 2008 PBR. To protect the lowest earners the level at which people start to pay NICs will increase in April 2011 by £570 above the level previously announced.

Inheritance tax

The Chancellor reversed his earlier decision to increase the inheritance tax threshold and announced a freezing of the threshold at £325,000 for individuals and at £650,000 for married couples and civil partners.

Tax Credits and Child Benefit

As announced in the 2009 Budget, the Chancellor confirmed that the child element of the Child Tax Credit will rise by £20 above indexation in April 2010. This represents an increase of £65 in cash terms.

An increase by 1.5% in April 2010 will be made in relation to the following benefits:

- Child Benefit
- Guardian's Allowance
- The disability elements of the Child Tax Credit
- All elements of the Working Tax Credit (apart from the childcare element)
- The disregard for Working Tax Credit in Housing Benefit

The threshold for the receipt of the maximum Child Tax Credit award will be increased to £16,190. All other rates and thresholds in tax credits are unchanged.

State Pension and Pension Credit

In April 2010 the basic State Pension will increase by 2.5%. A full basic State Pension will then be worth £97.65 a week. A full couples' rate will increase to £156.15 a week.

There will be an increase in the Pensions Credit's minimum income guarantee to £132.60 for single pensioners and £202.40 for couples.

Pensions tax relief

The Chancellor announced changes to the tax relief on pension contributions which had previously been announced in the 2009 Budget. At that time the Chancellor announced that tax relief on pension contributions would be restricted from April 2011 for individuals with incomes of £150,000 or more. The Government has now announced that the restriction will apply to those with gross incomes of £150,000 or more, where gross income incorporates all pension contributions, including the value of any pension benefit funded by, or eventually funded, by an individual's employer. There will be an income 'floor' of £130,000 so individuals with income below this will not be affected.

The special Annual Allowance (SAA) charge of 20% will be triggered at a lower threshold of £130,000 rather than £150,000. The SAA charge will also be up to 30% from 2010/11 when the top rate of tax is 50%.

Employment

The Chancellor announced that a guaranteed offer of a job, work placement or work-related skills training will be made to all young people aged 18 to 24 who have been unemployed for six months. (This time period has been reduced from the previously announced period of twelve months.)

The Chancellor also announced a contribution of £8 million for undergraduates undertaking short unpaid internships in professions with historically low access. The support will commence in summer 2010 and is expected to assist some 10,000 internships.

Stamp taxes and duties

The Chancellor confirmed that the stamp duty “holiday” for residential properties up to a value of £175,000 would end after 31 December 2009.

Furnished Holiday Lettings (FHL)

The favourable tax treatment of FHL ceases from April 2010. Owners of FHL will be able to claim a 10% wear and tear allowance.

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Businesses

Value added tax

As previously announced, the Chancellor confirmed that the current 15% rate for VAT would revert to 17.5% on 1 January 2010.

Sectorial rates for the VAT Flat Rate Scheme will be updated. This will affect those businesses with turnover up to £150,000 who use this scheme.

Corporation tax

No changes were announced to corporation tax on profits. The rates are set out below:

Profits (£ per year)	2010/11	2009/10
£0 - £300,000	21%	21%
£300,001 - £1,500,000	Marginal Relief	Marginal Relief
£1,500,001 or more	28%	28%

The planned small companies' rate increase to 22% is deferred until 2011/12.

In order to strengthen the incentives to invest in innovative industries, from April 2013 the Government will introduce a reduced rate of corporation tax applying to income from patents

Company car tax

The Chancellor confirmed that from 2012 the CO₂ emissions thresholds for company car tax bands will be shifted down by 5g CO₂ per km. In addition, the graduated table of CCT bands will be extended downwards to a new 10% band for cars emitting up to 99g CO₂ per km, in place of the existing 10% band.

Bank payroll tax

The Chancellor acknowledged that the Government "attached great importance to tackling the remuneration practices that contributed to excessive risk taking by the banking industry". Where bank or building society employees are awarded discretionary bonuses above £25,000 in the period from 9 December 2009 to 5 April 2010, employers paying these bonuses will pay an additional bank payroll tax of 50% on the excess over this threshold. This one-off tax will not be deductible in computing the taxable profits of affected companies.

Fuel duties

In the 2008 Budget the Chancellor announced that the duty differential for biofuels will cease from 1 April 2010. In this year's PBR the Chancellor announced that the duty differential will continue for a further two years for biofuels made from used cooking oils.

Fuel Benefit Charge

In order to support public finances and encourage fuel-efficient travel, the fuel benefit charge multiplier for the private use of a company car will increase from £16,900 to £18,000 from 6 April 2010.

First year allowance on electric vans

Legislation will be introduced to provide a 100% first-year allowance for business expenditure on new, unused electric vans for expenditure incurred on or after 1 April 2010 for corporation tax and 6 April 2010 for income tax.

Business Payment Support Service (BPSS)

This service was announced in the 2008 PBR. BPSS allows businesses facing temporary financial difficulties more time to pay their tax bills. The Chancellor announced that HMRC will continue to offer this service to businesses as part of its time to pay arrangements.

Empty Property Relief on Business Rates

The 2008 PBR announced that empty properties with rateable values of up to £15,000 would be exempt from business rates for 2009/10. The Chancellor announced that the Government will extend the temporary increase in the threshold for empty property relief for a further year. For 2010/11, empty commercial properties with rateable values up to £18,000 will be exempt from business rates.

Enterprise Finance Guarantee

The Chancellor stated that the Government recognised the continuing challenges that small businesses (SMEs) face in accessing finance. He therefore announced that the Enterprise Finance Guarantee scheme will be continued for a further twelve months, providing an additional £500 million of bank lending available to SMEs.

Growth Capital Fund

The Chancellor announced the creation of the Growth Capital Fund to invest in small and medium size businesses. The Fund would target growing companies seeking amounts of between £2 million and £10 million.