

BUDGET 2009 – COMMENTARY

With public finances in a state of disarray, increasing pressures on the domestic economy and the impact of a global recession as the back drop for the 2009 Budget, it was clear the Chancellor was going to have a hard days work ahead of him. True to form, he appeared with the infamous briefcase and provided a budget with plenty of headlines but no real substance for the wider population and the indigenous businesses which drive the Northern Ireland economy.

Sadly this means some, but modest, tax breaks or incentives to assist the business owner through these challenging times, an assault from all angles for the high rate tax payer and the entrepreneurial spirit, a catalogue of missed opportunities for the residential property sector and a less than comfortable level of national debt in the future. Overall we believe his Budget will fail to have the required impact to get us spending again or go any way in the short term to increase confidence in the stability of the economy or evidently tackle the issues of rising unemployment and if this is the level of creativity from our Government we wouldn't be holding our breath for a recovery any time soon.

His economic growth forecast of -3.5 % in 2009 has changed dramatically from his forecast in the Pre-budget report last November of -0.75% and doesn't provide a good basis for 2009 activity levels. This suggests belt tightening will be the dish of the day for the rest of the year. However he does predict growth of 1.25% forecast for 2010 with an overall recovery by 2017-18 so all in all there is some light at the end of the tunnel albeit it's a very very long tunnel.

And the winners and losers of 2009 are.....

For businesses a welcome move is the extension of the three year loss carry back scheme however there's always a sting in the tail given it's still capped at £50,000 of unused losses. This means its worth around £10,000 in cash tax for most businesses so all in all doesn't go nearly far enough to provide a much needed boost for loss making businesses.

Confirmation of the continuance of the Business Payment Support scheme and the extension beyond six months provides relief to many businesses struggling to meet the taxes of yester-years and is welcomed. It is estimated over 100,000 taxpayers in financial difficulties have used this scheme to defer £1.8m in tax bills.

First year Capital allowances on general plant and machinery have been increased to a temporary rate of 40% for the twelve month period from 1 April 2009 (5 April for unincorporated). This shall be a useful incentive to many SME's and should provide some tax planning mechanisms during this period.

Going green again, capital allowances on cars have been reformed as promised in the Pre Budget report. In summary this allows cars emitting no more than 160g/km to be included in the main pool but will only attract a 20% allowance (and no AIA) and cars emitting more than that to be included in the special rate pool. So it's time to crunch the numbers when purchasing with leasing or HP to ensure the best tax advantage.

Capital Gains tax rates remain in place on a blanket structure of 18% and more importantly we have maintained the entrepreneurial reliefs available, sadly no extension to the £1m lifetime limit for those of you of an optimistic disposition. It still does provide a clear incentive for investment of a capital nature rather than income

especially for the high rate tax payers and this may go some way to help increase transactions and no doubt more tax avoidance schemes around turning income to gains will develop.

For the corporate entities a stay of execution on the small company rate of 21% until April 2010. A much needed move to help our competitiveness against the rest of the Emerald Isle.

On the downside we have a clear loser - the announcement of an increase in the top rate of tax to 50% comes in the form of a body punch for the high rate tax payer, still reeling from the pre budget announcement of 45%. This shall apply to those earning above £150k. This new rate will also apply to Trusts, again a more common tool for high wealth individuals. NIC is also to increase by 0.5p for high earners (as previously announced) representing an overall tax/NIC increase of 10.5p in the pound.

Not satisfied with these crushing blows to the high rate tax payer the chancellor has gone for a Knock Out with the loss of personal allowance and a restriction on pensions relief at 20%. Not to put too fine a point on his strategy but it's clear to see he's not interested in votes.

In addition this approach may discourage many serial entrepreneurs from locating themselves in the UK as it will make it much more costly and limited companies may be in vogue again for their tax rates.

The property market has missed out also receiving a few band aids to stop the blood flowing from its severed arm. The Chancellor has been less than creative to use the budget to effect any change in this market, relying on his bail out strategy for the banks and the extension of his stamp duty exemption for a whopping 4 months, regardless of location or relative house prices, he seems to work on the popular motto "every little helps". We had hoped for a little bit more than this. In his defence though he has provided £600million in support packages for homeowners and homebuyers and hopefully this shall bear some fruit in the latter half of the year. We had also hoped for a change perhaps in the residential exemption to pensions which may have helped to encourage this market as a more attractive option, but sadly no change here.

Finally as always the budget has tackled our vices again, 2p on cigarettes, 1p on your beer, 4p on your cider and 4p on your wine.

All in all with expectations at an all time high for regeneration and new thinking, it has been a deflating budget with no immediate or effective relief for the wider economy in these testing times for business. An all together conservative budget for a dishelved labour government. If it's time for a change though don't forget the old banger in the garage as it's probably worth more today than yesterday.

BUDGET SUMMARY

PERSONAL TAX

- From April 2010 there will be a higher rate of tax of 50% for individuals earning over £150,000.
- The personal allowance will also be gradually reduced to nil for individuals with income above £100,000 from April 2010.
- Dividend income from non-resident companies will now be taxed in the same way as those from UK companies from 22 April 2009.
- All rates of National Insurance will increase by 0.5% from April 2011.
- Relief for personal pension contribution will be restricted to the basic rate of tax for those earning in excess of £150,000 from 06 April 2011.
- Minor adjustments have been made to the remittance basis of tax for non-domiciles.
- The restriction for the carry back of income tax relief arising from EIS investment has now been removed.
- Trust income above £1,000 will be taxed at 50% from April 2010.
- Opportunities to name and shame tax defaulters.

BUSINESS TAX

- Rates of corporation remain unchanged.
- Trading losses of up to £50,000 realised between November 2008 and November 2010 can now be carried back for up to 3 years to create tax refunds.
- Capital expenditure in excess of £50,000 will for 1 year until April 2010 attract a 40% writing down allowance
- Provisions in the pre-budget report to enable businesses to spread the payment of tax have been extended and formalised.
- Capital Allowances on motor cars will now be based on CO₂ emissions. Cars with emissions of less than 160g/km will now attract a 20% WDA with those above this limit getting only 10%.
- Tax relief will now be given in respect of the release of a trade debt due to a connected company.
- The penalty regime in relation to late filing of returns and late payment of tax is to be completely reformed from April 2010.
- A number of tax loop holes closed.

INHERITANCE TAX

- Agricultural property relief has been extended to include property situated in other EEA states.
- No other changes in relief's or tax rates announced.

VAT

- Vat registration threshold will increase to £68,000 from 1 May 2009.
- Standard rate of VAT will return to 17.5% on 1 January 2010.
- A package of measures has been introduced in relation to cross border trade.

STAMP DUTY LAND TAX

- The stamp duty land tax "holiday" for purchase of residential property costing less than £175,000 has been extended to 31 December 2009.

CAPITAL GAINS TAX

- No changes were announced.
- CGT for individuals remains at 18%. Entrepreneurial relief remains in place with a lifetime allowance of £1m.

OTHER TAXES

- The standard rate of landfill tax will be increased by £8 per tonne to £48 per tonne on 01 April 2010.
- Supplies of solid fuel valued at no more than £15 per tonne will become subject to climate change levy for supplies made on or after 01 January 2010.
- The Amusement Machine Licence Duty has been increased and will effect any licence applications received by HM Revenue & Customs after 4pm on 22 April 2009.
- From 01 June 2009 a measure will be introduced to withdraw the warehousing for export drawback scheme for alcoholic liquors. This scheme allowed the duty on 'duty paid' consignments of alcoholic liquors that are warehoused for export to claim a repayment. The removal of this forms part of the governments renewed attempts to tackle alcohol fraud.

TAX ADMINISTRATION

- A new penalty regime will be implemented over a number years, starting in April 2010.
- Penalties can be suspended in circumstances where the tax payer enters into an agreed 'time to pay arrangement' with HMRC.

