budget '09

SUMMARY OF THE FACTS

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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 £6oo million 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 dishevelled 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.

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 contributions 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.

CHANGES TO THE PERSONAL TAX SYSTEM

- The basic rate of income tax will remain at 20% for 2009/10 for income up to £37,400, with the personal allowance increasing to £6,475.
- 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 net adjusted incomes above £100,000.
- From 2011/12 there will be a rise of 0.5% on all rates of national insurance.
- From April 2010, the dividend trust rate will be increased from 32.5% to 42.5% and the trust rate will be increased from 40% to 50%.

LIMITING TAX RELIEF ON PENSION CONTRIBUTIONS

The government have announced their intention to restrict, to the basic rate of income tax, tax relief on pension contributions with effect from 06 April 2011 for those with income of £150,000 or more.

Legislation will also be introduced in Finance Bill 2009 to prevent those potentially affected from seeking to avoid this charge prior to that restriction taking effect. It will be applied where someone increases their pension contributions in excess of their normal regular pattern and the total pension contributions in that year are more than £20,000. These anti-avoidance measures will have effect for contributions paid on or after budget day, 22 April 2009.

TAXATION OF PERSONAL DIVIDENDS

Dividends received by individual shareholders are currently taxed at 10% for basic rate tax payers and 32.5% for higher rate tax payers. Shareholders are entitled to a non-payable tax credit of one ninth of the distribution.

Since 6 April 2008 individuals in receipt of dividends from non-UK resident companies in which they had less than a 10% shareholding also became entitled to receive this non-payable tax credit.

From 22 April 2009 individuals with shareholdings of 10% or **more** in receipt of dividends from non-UK resident companies will be entitled to the non-payable tax credit also.

WITHDRAWAL OF UK PERSONAL ALLOWANCES & RELIEFS FOR NON-RESIDENT INDIVIDUALS

Legislation will be introduced to remove the right to claim personal allowances by individuals purely by being Commonwealth citizens. The allowance can currently be set against UK source income to reduce the liability to tax.

Whilst the removal will increase the tax burden of some non residents, many Commonwealth citizens will still be able to claim UK personal allowances because of the terms of the double taxation agreement between the UK and their country of residence.

EEA nationals are unaffected by the proposed change which will take effect from the 6th April 2010.

THE REMITTANCE BASIS : MINOR AMENDMENTS

Individuals who are resident but not domiciled or not ordinarily resident in the UK have the option of using the remittance basis of taxation. This allows them to pay UK tax on their foreign income only when it is brought into the UK, rather than on the arising basis which taxes their worldwide income as it arises.

Finance Act 2008 introduced significant changes to the remittance basis regime. Following detailed consultations, Finance Act 2009 will introduce further minor changes to the rules. These amendments are designed to make the rules simpler in practice.

Under proposals announced by the chancellor the working spouses of non domiciled individuals will no longer need to submit a UK tax return where they do not have a liability to UK tax. They can still benefit from the exemption if they receive up to £100 interest from a joint UK bank account. This change will be back dated and applies for 2008/09 and subsequent tax years.

In addition no formal claim to use the remittance basis will be required where un-remitted income and gains are less than £2,000; it will be given automatically unless the individual wishes to use the accruals basis.

Tax legislation will be changed to ensure that the £30,000 remittance basis charge (announced last year) is available as a tax credit to cover charitable donations.

IMPROVEMENTS TO VENTURE CAPITAL SCHEMES

Changes have been made to the rules on investments in Enterprise Investment Schemes (EIS), Venture Capital Schemes (VCT) and Corporate Venturing Schemes (CVS):-

- Employment of all of funds raised must now be wholly invested in a qualifying activity within 2 years of the date of issue, or if later, the commencement of a qualifying activity (previously 80% used within 1 year and the balance within 2 years). This provision applies to investments made on or after 22 April 2009.
- For EIS only, the restrictions on the carry back of income tax relief on the investment to the previous year have been removed (previously restricted to shares issued before 6 October in the tax year, and capped at 50% of the subscription in the period). This provision will apply to the tax year 2009-10 and onwards.

FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)

The FSCS pays compensation to customers of defaulting financial institutions. Such payments include accrued interest and payments of this interest made on or after 06 October 2008 will be chargeable to income tax as if the accrued interest were paid by the defaulting financial institution.

AVOIDING UNINTENDED TAX CONSEQUENCES IN RELATION TO PENSIONS

Where the Financial Services Compensation Scheme (FSCS) assists in transferring an individual's right to another insurer or paying compensation to the individual, different tax rules would normally apply. The Finance Bill 2009 will provide powers to make regulations which will ensure that where FSCS assistance is given there will be broadly the same tax treatment for the resulting payments or transfers as if the FSCS had not intervened.

INDIVIDUAL SAVINGS ACCOUNTS (ISA'S)

Still a tax efficient investment. For individuals aged under 50 the limits remain unchanged at £3,600 for a cash ISA and £7,200 for a stocks and shares ISA.

However from the 6th October 2009 the limits for those aged 50 and over are increased to £10,200 in total of which £5,100 can be saved in cash. For the tax year 2010/11 the new limits will apply to all UK resident investors.

The increase in the annual limits is to be welcomed.

CHILD TRUST FUND : PAYMENT FOR DISABLED CHILDREN

The Government will contribute £100 every year to the Child Trust Fund accounts of all disabled children born after 1st September 2002, with severely disabled children receiving £200 per annum.

The payments will commence in April 2010 for children in receipt of Disability Living Allowance in 2009/10.

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 CO_2 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.

CORPORATION TAX

The rates of Corporation tax will remain at 21% on company profits up to £300,000 and 28% on company profits above £1.5m.

The increase in the small companies' rate from April 2010 by 1% to 22% is still likely to go ahead.

TRADING LOSS CARRY BACK

The Pre-Budget Report in November announced that trading losses could be carried back for 3 years by companies for accounting periods ending between 24 November 2008 and 23 November 2009 and to trading losses made by unincorporated businesses in the tax year 2008/09. This has now been extended by a further year to 23 November 2010 for companies and the tax year 2009/10 for unincorporated businesses.

Losses are carried back against later years first. After the carry back to the preceding year, a maximum of £50,000 of unused losses will be available for carry back to the two earlier years. Any unused losses can be carried forward against profits in future years.

Although this is a welcome decision, it's only worth around £10k for most companies.

Many had hoped to see the amount of loss available for 3 year carry-back being increased to help larger businesses.

CAPITAL ALLOWANCES

A temporary measure has been introduced for businesses investing in plant and machinery between April 2009 and April 2010. It applies where businesses incur expenditure in excess of the Annual Investment Allowance cap of £50,000 that would normally be allocated to the main pool and qualify for a 20% writing down allowance. In the 12 month period beginning on 1 April 2009 for companies and 06 April 2009 for unincorporated businesses, a 40% first year allowance will be available. Expenditure on long life assets, integral features, cars and assets for leasing are excluded from this measure.

A welcome measure, most useful for larger companies.

ENHANCED CAPITAL ALLOWANCES FOR ENERGY-SAVING & WATER EFFICIENT TECHNOLOGIES

The lists of energy efficient and water saving technologies that can avail of the 100% capital allowances scheme will be revised later in 2009 but it is expected that one new technology, being uninterruptible power supplies and two new sub-technologies, being air to water heat pumps and close control air conditioning systems will be added, however three existing sub-technologies in relation to heat pumps will be removed.

INTRODUCTION OF VOLUNTARY MANAGED PAYMENT PLANS

Changes to the current law will be introduced in Finance Bill 2009 to introduce voluntary managed payment plans allowing taxpayers to spread their income tax or corporation tax payments equally over a period straddling the normal due dates.

This is an extension to the announcements made in the pre-budget report and is welcomed in the current climate. The regulation of this provision will ensure consistency which presently is lacking.

MODERNISING TAX RELIEF FOR BUSINESS EXPENDITURE ON CARS

Budget 2008 announced the abolition of the 'expensive cars' capital allowances rules and the associated restrictions on deductions for car hire expenses, to be replaced by rules with an environmental focus.

The special rules that restrict the amount of capital allowances for cars costing more than £12,000 will be replaced by new rules.

Qualifying expenditure incurred on cars on or after 1st April 2009 for companies, or 6 April 2009 for unincorporated businesses will be allocated to one of the two general plant and machinery pools depending on the car's CO_2 emissions.

Expenditure on cars with CO_2 emissions exceeding 160g/km will attract WDA at 10%.

Expenditure on cars with CO_2 emissions of 160g/km or less will be added to the main rate pool and attract WDA at 20%

From April 2009, the rules that restrict the amount of car lease rental payments that can be deducted for tax will be reformed to a flat rate disallowance of 15% of relevant payments and will apply only in respect of cars with CO_2 emissions exceeding 160g/km.

CHANGES TO BENEFIT IN KIND FROM COMPANY CARS FROM 2011/12

The benefit in kind for company cars is calculated by applying the appropriate percentage to the list price of the car. The appropriate percentage is related to the CO_2 emissions of the car and ranges from 15% to 35% in 1% increments for every 5g/km of CO_2 emissions for a petrol car. Most diesel cars attract a 3% supplement, though the maximum is also capped at 35%.

A lower rate of 10% for cars with low CO_2 emissions (13% for most diesel cars) was introduced from 6 April 2008 to promote environmentally friendly vehicles.

From 06 April 2011 the following changes will take effect:-

- The lower threshold CO_2 emissions figure (130g/km for 2010/11) will be reduced by 5g/km to 125g/km.
- Discounts for electric/petrol hybrid cars and cars propelled by bio-fuels, road fuel gas and bio-ethanol will be abolished.
- Discount given for Euro IV standard diesel cars registered before 1 January 2006 will also be abolished, changing the focus onto their CO_2 emissions.
- Currently, when calculating the cash equivalent of the car benefit charge, the list price of the car is capped at £80,000; this will be abolished.

CORPORATION TAX - TAXATION OF FOREIGN PROFITS

Foreign Dividends

Changes have been made to the tax treatment of foreign dividends by UK companies owning over 10% in the paying company to bring it into line with UK dividends. Currently, UK dividends received by companies are exempt from UK Corporation Tax, whilst foreign dividends are chargeable to Corporation Tax with credit given for foreign tax withheld and (for shareholdings of 10% or more) for underlying tax paid on foreign profits.

The changes will now bring the tax treatment of such UK and foreign dividends into line; i.e. foreign distributions will generally be exempt if they fall into an exempt class and anti-avoidance provisions do not apply. This is welcome news since the majority of foreign dividends are likely to no longer be chargeable to Corporation Tax. The changes will apply to distributions on or after 1 July 2009.

Debt Cap

The tax relief available for interest paid by group companies will be restricted. A worldwide debt cap will be introduced to restrict the tax deduction for finance expenses by UK companies who are members of a large group. This limit will be the consolidated gross finance expense of that group. This will apply to accounting periods beginning on or after 1 January 2010.

CORPORATION TAX - LOAN RELATIONSHIPS - CONNECTED COMPANIES

A significant change has been made to the loan relationship rules regarding connected companies. Releases of trade debts on or after 22 April 2009 will now be taxed differently. Formerly, if a company were to write off a debtor, and that debtor was a ‘connected’ company, then the creditor company would get no relief on the write off, but the debtor would be taxed on the profit. The new rules now bring the debtor into the loan relationship regime so that it will no longer be taxed on any profits arising on a release of its debt.

GROUPS : REALLOCATION OF CHARGEABLE GAINS

Budget 2009 has introduced legislation to make it easier for groups to match gains and losses that arise on disposals of chargeable assets without the need to transfer the ownership of assets within the group.

Previous legislation meant that an asset was deemed to have been transferred from one group company to another group company before a disposal outside of the group. An election could not be made unless the disposal was to a third party and that third party acquired the asset.

The changes mean that instead of deeming a transfer of an asset from one group company to another before the disposal, it transfers a gain or loss from the company making the disposal to one or more other specified companies within the group when they jointly elect.

GROUP RELIEF : PREFERENCE SHARES

A new definition of ‘relevant preference shares’ has been introduced to make it more difficult to inadvertently break a group structure for group relief purposes.

The equity holders in a company determine whether related companies can claim or surrender group relief and participate in a capital gains group. Equity holders include the holders of ordinary shares which are all of the company’s ordinary shares except for fixed rate preference shares. This affects groups with external investors who hold preference shares.

The change removes the reference to fixed rate preference shares and replaces it with the exclusion of a new wider group of ‘relevant preference shares’. This provision will make it more difficult to inadvertently break a group structure or trigger an anti-avoidance provision through issuing a common commercial financing instrument to external investors.

MANUFACTURED INTEREST

A recent High Court case involving the tax treatment of deemed manufactured payments has cast doubt on the tax treatment of real manufactured payments for both payers and recipients. The decision could result in payers being able to claim additional deductions for tax purposes that bear no relation to their economic position, and recipients being taxable on amounts in excess of their actual income.

The legislation announced on 27 January 2009 will ensure that the tax treatment follows the treatment of the payments in the company accounts.

To ensure the decision does not have adverse consequences either for the Exchequer or for taxpayers, the legislation will apply to past payments as well as to payments made before the date of the announcement, i.e. 27 January 2009.

DISGUISED INTEREST

From 22 April 2009 legislation has been introduced to ensure returns from arrangements that produce amounts economically equivalent to interest will be treated in the same way as interest for the purposes of Corporation Tax. This is to tackle avoidance involving disguised interest.

CORPORATE INTANGIBLE FIXED ASSET REGIME

Legislation will be introduced in Finance Bill 2009 to specifically support HMRC's long held view that, for the purpose of the intangible fixed asset rules, goodwill includes internally-generated goodwill. Furthermore, it will confirm that goodwill of a business which commenced before 1 April 2002 is excluded from the regime unless and until the business is acquired by an unrelated party.

ANTI-AVOIDANCE

— General

As usual government has introduced a range of anti-avoidance measures to counter attempts to abuse the rules and cover the following areas:-

- Assessment of Benefit in Kind for Living Accommodation provided by reason of employment
- Income Tax Relief for losses on offshore life insurance policies
- Relief for the deduction and/or losses connected to employment
- Banks and Financial institutions using avoidance schemes involving manufactured overseas dividends
- Double taxation relief claimed by banks
- Double taxation relief within group companies in respect of dividend payments

— Interest relief

From 19 March 2009 legislation will be introduced to block schemes whereby provisions that allow individuals to claim relief for interest payments are used in avoidance arrangements that guarantee that the borrower will be able to make a profit as a result of the availability of the relief.

The new measure will deny relief for interest if the interest is paid as part of an arrangement that is certain to allow the investor to exit the arrangement with more money than was originally invested where the investor's main purpose in being party to the arrangements is to secure that result.

— Financial arrangements avoidance

Legislation has been introduced in Budget 2009 to tackle two schemes involving intra-group finance whereby loans are structured so the debtor company accrues a deduction for a finance cost that is greater than the finance return that the creditor company brings into account. The company derecognises in its accounts a derivative contract that is carried at fair value with the result that profits arising to the company on the contract fall out of account for tax purposes.

The new legislation will require the creditor company to recognise additional credits (to match the debtors debits) where the debt is convertible debt, the debtor and creditor are connected and the debtor has a larger tax deduction in respect of the debt than the amount on which the creditor is chargeable.

The derivatives scheme will be blocked by requiring full tax recognition of profits and losses of a derivative contract even if not recognised in the company's accounts.

ACCOUNTABILITY OF SENIOR ACCOUNTING OFFICERS

Legislation has been introduced to establish a statutory requirement for senior accounting officers of large UK Companies to certify personally that adequate controls to prepare accurate tax computations are in place.

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.

AGRICULTURAL PROPERTY RELIEF

- APR reduces that value of agricultural property chargeable to Inheritance Tax (IHT). Before 22 April 2009 APR was restricted to property in the UK, the Channel Islands or the Isle of Man. Finance Bill 2009 will extend relief to agricultural property in European Economic Area (EEA) states.
- IHT due or paid on or after 23 April 2003 in relation to agricultural property located in an EEA state at the time of the chargeable event will become eligible for relief.
- Finance Bill 2009 will provide that the earliest deadline for reclaiming overpayments on such property will be 21 April 2010. From 2011 the statutory time limit for making a claim for repayment of overpaid IHT will reduce from six years to four. This will affect repayment claims for overpayments where IHT has been paid and APR is now available, however the new time limit will not apply to claims made before 1 April 2011.
- Similar provisions have been introduced in relation to Woodlands Relief.

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.

VAT REGISTRATION & DEREGISTRATION LIMITS

The VAT registration threshold will increase from £67,000 to £68,000 from 01 May 2009. The deregistration limit will be £66,000.

CHANGE OF STANDARD RATE

The standard rate of VAT will return to 17.5% from 01 January 2010. Anti-avoidance measures came into effect from 31 March 2009 to counter schemes that attempt to fix the VAT rate at 15% where a supplier issues an invoice or receives a payment before the rate rises but where goods have not been delivered or services performed.

CROSS BORDER VAT CHANGES

A package of new measures to simplify and modernize the VAT system for cross-border trading and to counter fraud by meeting new obligations to exchange information with other EU Member States more quickly will be phased into effect between 01 January 2010 and 01 January 2013 across the EU.

These measures include:-

- Changes to the place of supply rules for cross border services which aim to ensure that, as far as possible, VAT is due in the country in which the service is consumed (e.g. where the customer is established) rather then where the supplier is established.
- New time of supply rules for cross border services which bring when the VAT is brought to account forward to when the services are performed, regardless of when they are paid for.
- Introduction of European Sales List (ESL) reporting for suppliers of cross-border services.
- The time available for businesses to submit ESLs will be reduced to 14 days.
- A requirement for monthly ESLs will be introduced where supplies exceed £70,000 in a quarter.

— A new electronic refund procedure for VAT incurred in other EU Member States will replace the current paper based system across the EU. Claims will be submitted electronically to HM Revenue & Customs rather than direct to the member state of Refund. The time limit for submitting such claims will also be extended to 9 months from the end of the calendar year in which the VAT was incurred and the authorities will, in general, only have 4 months to make repayments.

SIMPLIFYING THE PROCEDURE FOR OPTING TO TAX LAND & BUILDINGS

From 01 May 2009 where a business wants to opt to tax land and buildings on which they have made previous exempt supplies, formal permission from HM Revenue & Customs will no longer be required.

REDUCED RATE FOR CHILDREN'S CAR SEAT BASES

With effect from 01 July 2009 a 5% reduced rate of VAT for children's car seats will be extended to include bases for such seats.

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.

SDLT HOLIDAY

The 'holiday' from stamp duty land tax announced in September 2008 which meant that purchases of residential property costing up to £175,000 would be exempt from SDLT for acquisitions made between 3 September 2008 and 2 September 2009 will continue to be applied to 31 December 2009.

The effective date is normally the date of completion, not the date of exchange of contracts. However, the effective date may be earlier than the date of completion if the contract is substantially performed, for example, if the purchaser takes possession or pays the purchase price in advance of completion.

SDLT : TAX TREATMENT OF SHARED OWNERSHIP

Legislation will be introduced in Finance Bill 2009 to extend favourable SDLT treatment to purchasers under shared ownership schemes operated by profit-making registered providers of social housing, where the scheme is assisted by public subsidy. The legislation will also extend the relief for purchases by Registered Social Landlords to profit-making Registered Providers of Social Housing where the purchase is assisted by public subsidy.

A new type of shared ownership scheme, 'Rent to Home Buy', helps individuals to purchase homes using shared ownership schemes by allowing them to initially occupy the property under Assured Shorthold Tenancy, to allow them to save for a deposit. Under current rules, the SDLT treatment of these schemes can be quite complex but Finance Bill 2009 will simplify the rules for these schemes.

SDLT : LEASEHOLD ENFRANCHISEMENT

The Finance Bill 2009 will introduce legislation to change the rules for SDLT relief for leaseholders of flats wishing to acquire the freehold of their block by removing the requirement that the relief can only be claimed by a statutory 'Right to Enfranchise' (RTE) Company. This change will ensure that the relief can now be claimed by all who are exercising statutory rights of leasehold enfranchisement.

CAPITAL GAINS TAX

- No changes were announced.
- CGT for individuals remains at 18%. Entrepreneurial relief remains in place with a lifetime allowance of £1m.
- No doubt as the assault continues on income tax, schemes, arrangement and payment methods will shift towards capital gains with a potential tax saving of 32%.

OTHER TAXES

LANDFILL TAX

The standard rate of landfill tax will be increased by £8 per tonne to £48 per tonne on 01 April 2010.

CLIMATE CHANGE LEVY

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.

Other changes have been announced in respect of relief that can be claimed in the Plastics Sector and the recovery of such relief if the claimant fails to meet its emission targets.

BETTING & GAMING

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.

WAREHOUSING FOR EXPORT DRAWBACK SCHEME FOR ALCOHOLIC LIQUORS

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

PENALTIES FOR LATE FILING OF RETURNS & LATE PAYMENT OF TAX

Legislation will be introduced in Finance Bill 2009 to reform penalty regimes for late filing of tax returns and late payment of tax.

The new regime will replace the current variety of penalties and will treat late payment and late filing of returns separately. The proposed changes will apply to personal, corporate and PAYE/CIS Returns. For the first time all employers who are late in making monthly PAYE and NIC payments will be liable to penalties.

It provides for removing late payment penalties where taxpayers have agreed a time to pay arrangement with HMRC.

Implementation of the new penalties will be staged over a number of years, commencing in April 2010 with penalties for late payment of PAYE.

THE KEY ELEMENTS OF THE NEW PENALTY MODELS ARE:

Penalties for late filing where the obligation to file the return is annual or occasional

- £100 penalty immediately after the due date for filing (whether or not tax has been paid);
- Daily penalties of £10 per day (annual obligations only) for returns that are more than three months late, running for a maximum of 90 days;
- Penalties of 5% tax due for the return period for prolonged failures (over 6 months and again at 12 months); and
- Higher penalties of 70% of the tax due where a person fails to submit a return over 12 months and has deliberately withheld information necessary for HMRC to assess the tax due

Penalties for late payment where the obligation is annual or occasional

- Penalties of 5% of the amount of tax unpaid, generally one month after the payment due date;
- Further penalties of 5% of any amounts of tax still unpaid at 6 and 12 months; and
- Suspension of late payment penalties where the tax payer agrees a time to pay arrangement with HMRC

Penalties for late filing of CIS returns include

- A fixed penalty of £100 for failure to submit any return by the filing date,
- An additional fixed penalty of £200 if any return is outstanding more than 3 months after the filing date;
- Penalties of 5% of deductions due for the return period for prolonged failures;
- Higher penalties of 70% of the deductions due where a person fails to submit a return over 12 months and has deliberately withheld information necessary for HMRC to assess the tax due.

Penalties for late payment of taxes and deductions collected through PAYE

- The penalty will depend on the number of defaults in any 12 month period;
- A second late payment and any subsequent failures in the period will attract a penalty of 2% of the tax unpaid rising to 5%;
- Further penalties of 5% of any amounts of tax still unpaid at 6 and 12 months.

RECLAIMING INCOME TAX, CAPITAL GAINS TAX & CORPORATION TAX OVERPAYMENT

Legislation will be introduced in Finance Bill 2009 to provide a means of reclaiming overpayments of income tax, CGT and CT where there is no other statutory route. The measure will have effect for claims made on or after 1 April 2010.

The time limits for making a claim are to be reduced from up to 6 years at present to 4 years from the end of the accounting period for which the return was made.

PUBLISHING THE NAMES OF DELIBERATE TAX DEFAULTERS

Legislation will be introduced in Finance Bill 2009 enabling HMRC to publish the names and details of individuals and companies who are penalised for deliberate defaults leading to a loss of tax of more than £25,000.

Details will be published quarterly within one year of the penalty becoming final and will only be removed from publication one year later.

The names of individuals who have been penalised for failing to take reasonable care will not be published.

There will be exemption from publication for those who make a full unprompted disclosure to HMRC of their defaults and make a full prompted disclosure to HMRC within the required time.

The naming and shaming will not be welcome but will bring UK tax in line with the ROI.

PERSONAL TAXATION

Personal Allowance	2009/10	2008/09
Aged < 65	£6,475	£6,035
Aged 65 or over in year of assessment	*£9,490	*£9,030
Aged 75 or over in year of assessment	*£9,640	*£9,180

Married Couples Allowance (10% Relief)		
Either spouse born before 6 April 1935	N/A	£6,535
Elder spouse aged 75 or over in year of assessment	£6,965	£6,625
*Age allowance income limit *(Note 1)*	£22,900	£21,800
Minimum allowance where income exceeds limit	£2,670	£2,540

Blind Person's Allowance		
	£1,890	£1,800

Note 1 - For every £2 above the limit the age allowances are reduced by £1

INCOME TAX

	2009/10	2008/09
Starting savings rate (Savings income only)	10%	10%
On taxable income up to	£2,440	£2,320
Basic rate	20%	20%
On taxable income from starting rate limit up to	£37,400	£34,800
Higher rate	40%	40%
On taxable income over	£37,400	£34,800

CORPORATION TAX

	FY 2009	FY 2008
Small profits rate	21%	21%
- rate limit	£300,000	£300,000
- marginal relief limit	£1,500,000	£1,500,000
- marginal rate	29.75%	29.75%
All companies (except those above)	28%	28%

INHERITANCE TAX

	Transfers after 05/04/09	Transfers after 05/04/08
Threshold	£325,000	£312,000
Death Rate	40%	40%

CAPITAL GAINS TAX

	2009/10	2008/09
Annual Allowance	£10,100	£9,600

VAT

	2009/10
Lower Rate	5%
Standard Rate *(Note 1)*	*15%
Registration threshold	£68,000
Deregistration threshold	£66,000

Note 1 - Due to increase to 17.5% on 1st January 2010

STAMP DUTY LAND TAX (SDLT)

The SDLT holiday, which exempts residential properties up to the value of £175,000 from SDLT, is extended until 31 December 2009.

The rates below apply to acquisitions of chargeable interests in land including leases from 1 January 2010:

Relevant Consideration (£) Residential	Rate %
0 - 125,000* *(Note 1)*	0
125,001* - 250,000	1
250,001 - 500,000	3
Over 500,000	4

Note 1 - From 3 September 2008 to 31 December 2009 this threshold is raised to £175,000

** £150,000 for residential in disadvantaged areas*

Relevant Consideration (£) Non-Residential	Rate %
0 - 150,000	0
150,001 - 250,000	1
250,001 - 500,000	3
Over 500,000	4

STAMP DUTY

Transfer of Shares & Marketable Securities	0.5%

NATIONAL INSURANCE CONTRIBUTIONS

Class 1: Employed Earners	Not Contracted Out	Contracted-Out Salary Related	Contracted-Out Money Purchase
Employee			
Earnings up to £110.00 a week	Nil	Nil	Nil
Earnings between £110.01 and £844.00 a week	11.0%	9.4%	9.4%
Earnings over £844 a week	1.0%	1.0%	1.0%
Employer			
Earnings up to £110.00 a week	Nil	Nil	Nil
Earnings between £110.01 and £844.00 a week	12.8%	9.1%	11.4%
Earnings over £844 a week	12.8%	12.8%	12.8%

Employee earnings between £95 and £110 a week will be credited with a nil rate contribution which will frank their contribution record for Retirement Pension and other Social Security benefit purposes.

The reduced rate payable by certain married women and widows will remain at 4.85% on earnings between £110.01 and £844 a week, plus 1% on earnings above £844 a week.

Class 2: Self Employed Persons

£2.40 weekly contribution
A Certificate of Exception will be available where annual earnings are expected to be less than £5,075

Class 3: Voluntary Contributions

£12.05 weekly contribution

Class 4: Self Employed Persons

8% on earnings between £5,715 and £43,875, plus 1% on earnings above £43,875

INCOME TAX RELIEFS & INCENTIVES

	2009/10 (£)	Income Tax Relief
Enterprise Investment Scheme (EIS)	500,000	20%
Venture Capital Trust (VCT)	200,000	30%
Individual Savings Account (ISA)		
- Total Investment (max) *(Note 1)*	7,200	
- Stock & Shares Component (max)	7,200	
- Cash Component (max)	3,600	

Note 1 - From 6 October 2009, the ISA limit will increase to £10,200 for people aged 50 and over

PENSIONS

	Earnings Cap (£)	Annual Allowance (£)	Lifetime Allowance (£)
2006/2007	108,600	215,000	1,500,000
2007/2008	112,800	225,000	1,600,000
2008/2009	117,600	235,000	1,650,000
2009/2010	123,600	245,000	1,750,000
2010/2011	-	255,000	1,800,000

TAXABLE CAR & FUEL BENEFITS

The taxable car benefit is calculated as a percentage of the car's list price based on carbon dioxide (CO_2) emissions as follows:

- **Cars emitting 121 - 134g/km of CO_2 – 15%**
- **Cars emitting 135g/km of CO_2 – 15%**
- **For each additional 5g/km of CO_2 – add 1%**
- **Maximum benefit where CO_2 at least 240 g/km – 35%**

A 3% Supplement applies to certain diesel cars, up to the maximum charge of 35% of list price.

Hybrid cars and those which run on Liquid Petroleum Gas (LPG) attract discounts of 3% and 2% respectively.

There is a 10% band for cars with CO_2 emissions of exactly 120g/km or lower.

Fuel benefit for cars is calculated by applying the relevant car CO_2 emissions percentage to £16,900 for 2009/2010.

The private use of vans attracts a scale charge of £3,000 pa.

Taxable fuel benefit for private use of a company van is £500 for 2009/2010.

APPROVED MILEAGE RATES

Approved mileage rates for employees use of own vehicles for business travel.

Cars / Vans	Rate
- First 10,000 Business Miles PA - Excess over 10,000 Miles - Each Passenger Making Same Trip	40p 25p 5p
Motorcycles	24p
Bicycles	20p

NOTES

Footnote

Whilst every effort has been made by Cavanagh Kelly to ensure the accuracy of the information in this booklet, it cannot be guaranteed and neither Cavanagh Kelly nor any related entity shall have any liability to any person who relies on the information thereon. If having read the guide, you would like to discuss further; one of our taxation staff will be pleased to help you.

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