

April 2009 Budget

There were a number of headline catching measures for individuals which will increase taxes principally for higher earners and little of great benefit for small businesses and their owners. We outline below the key measures for individuals and businesses, some of which will have immediate effect, others are deferred until next year or the year after.

Personal tax

- 50% tax rate on taxable income over £150,000 from 6 April 2010;
- The top tax rate on dividends will rise from 32.5% to 42.5% which means the effective tax rate on cash received rises from 25% to just over 36% for top rate taxpayers.
- The tax rate for most trusts will increase to 50%.
- Withdrawal of personal allowances, where adjusted income exceeds £100,000 the personal allowance will be reduced by £1 for every £2 of additional income to give an effective marginal tax rate of 60% on income between £100,000 and approximately £113,000 from 6 April 2010;
- Tax relief for pension contributions will be reduced to 20% where income exceeds £150,000 from 6 April 2011. There are transitional rules with immediate effect restricting tax relief on high income individuals increasing their contributions in the period to 6 April 2011.
- The maximum contribution to ISAs for people aged over 50 increases to £10,200 from 6 October 2009 of which £5,100 can be in cash. The limits for other investors increase from 6 April 2010.
- In order to comply with European law, furnished holiday letting rules will be extended to apply to properties in the European Economic Area and late claims for 2006/07 will be accepted up to 31 July 2009. Then from 6 April 2010, losses on furnished holiday lettings will no longer be eligible to be offset against other income.
- Although not mentioned in the Budget speech, the upper earnings limit for NIC is increased to £43,875 from 6 April 2009 and from 6 April 2011 the employee NIC rate increases to 11.5% and employer rates from 12.8% to 13.3%.

For high income individuals there will be a need to review their tax positions closely over the rest of this tax year. Individuals may wish to accelerate income to fall in to the current tax year and avoid the increased tax rates. The transfer of income producing assets to lower taxed spouses and family members will become more attractive and the use of investments which are exempt from tax (ISAs, certain national savings products) or provide deferral may be of greater interest.

Higher income individuals considering making pension contributions in excess of £20,000 in the current year or next year should seek advice to confirm the level of tax relief that will be available.

Given the projected government deficit, it can be expected that the increase in the tax burden for higher earners will have to be extended to those on middle incomes before too long and individuals would be advised to continue to take advantage of available tax breaks whilst still available.

Business taxes

- Corporation tax rates will remain unchanged for 2009/10 at 21% for small companies and 28% for large companies, it is unclear whether the planned increase in small companies rate to 22% will come in next year.
- There will be a first year allowance of 40% for expenditure incurred in 2009/10 (year ended 31 March 2010 for companies).

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- The extension to loss carry back provisions will apply for a further year. Up to a maximum of £50,000 can be carried back up to three years (in place of the standard one year) for company accounting periods ending between 24 November 2008 and 23 November 2010 and unincorporated businesses for 2008/09 and 2009/10.
- From 6 April 2009, the rate of capital allowances will depend on the level of CO2 emissions.

For smaller business there would appear to be little of benefit in the budget as the Annual Investment Allowance of 100% will cover their capital expenditure. The prospect of increases in employer national insurance in 2011 means that it will be increasingly important to take advantage of available tax incentives such as salary sacrifice for pensions (for employees with incomes below £150,000) and childcare vouchers.

Other measures

- The nil rate band of Stamp Duty Land Tax for residential properties will remain at £175,000 until 31 December 2009 after which it will revert to £125,000.
- The standard rate of VAT will go back to 17.5% from 1 January 2010.
- There will be a new Offshore Disclosure Opportunity, details are still to be announced, however it is expected to follow the scheme used last year whereby individuals who have undisclosed overseas income could make a full disclosure and be guaranteed a fixed penalty of 10%. Individuals with undisclosed overseas income would be advised to take professional advice and take advantage of the scheme to avoid higher penalties if HMRC discover undeclared income through their own enquiries.

The above measures are only an outline of selected measures. Over the coming weeks and months the full effects of the measures being introduced in the Budget will become clear. We would suggest that individuals review their tax position closely over the coming months. We will be discussing possible strategies with clients as part of our year-end tax year review and we would encourage clients to consult with us as appropriate on any actions being considered or changes to long term plans.

The above notes are based on the Budget proposals which may be subject to amendment in the Finance Act. You are advised to take professional advice before taking any action as a result of the contents of this summary.

For more information or to discuss how the ideas can be applied to your particular situation please contact Simon Bell by phone on 01376 571358 or email simon.bell@sjbtax.co.uk . For copies of previous newsletters or details of our services please visit our website www.sjbtax.co.uk

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