

## November Pre-budget report 2008

The Pre-budget report has been designed to stimulate the economy in the short term with future measures to claw back the cost of the tax giveaways and increases in spending.

### Reduction in the rate of VAT to 15%

The standard rate of VAT is to be reduced from 17.5% to 15% with effect from 1 December 2008 until the end of 2009. There is no change to zero-rated, exempt or supplies subject to VAT at 5%.

The VAT fraction used to calculate the amount of VAT included in a VAT inclusive price for standard rates products will now be 3/23rds.

As a result of the change the percentages used in the flat rate scheme will be reduced to reflect the change in the standard rate.

The 15% rate will come in to effect for:

- Supplies of goods and services made on or after 1 December 2008;
- Imports on or after 1 December 2008; and
- Acquisitions of goods from other Member States on or after 1 December 2008.

Further information on the effect of the change in the VAT rate can be found on the HMRC website:

- A summary guide: <http://www.hmrc.gov.uk/pbr2008/vat-guide-sum.pdf>
- A detailed guide: <http://www.hmrc.gov.uk/pbr2008/vat-guide-det.pdf>

### Deferral of proposed increase in small companies corporation tax rate

The rate of corporation tax for small companies was due to rise from 21% to 22% from 1 April 2009, this has now been deferred 12 months to 1 April 2010

### Carry back of trading losses

The rules currently allow companies and businesses to offset losses against current year income, the previous year or carried forward to offset against future profits of the same trade. In an attempt to assist companies incurring losses at the current time, businesses will be able to carry losses back a further two years. For companies this will apply to accounting periods ending in the period 24 November 2008 to 23 November 2009 and for unincorporated businesses for the tax year 2008/09. The carry back for the additional two years is however limited to £50,000.

### Business payment support service

This service is being introduced to assist business whose cash flow has been adversely affected by the economic downturn. The scheme enables businesses to contact HMRC to discuss payment options tailored to their needs. Interest will still be paid (but not late payment surcharges) on outstanding NI, income tax and capital gains tax debts at 5.5 per cent, and on corporation tax at 4.25 per cent as from 6 December. The aim is to allow firms to reschedule their tax debts rather than borrow money. The scheme includes a Business Payment Support line for new enquiries available on 0845 302 1435 and open 8am to 8pm week days and 8am to 4pm at week-ends. Further details of the scheme can be found on the HMRC website [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

For more information contact Simon Bell FCA, CTA  
tel: 01376 571358 | email: [simon.bell@sjbtax.co.uk](mailto:simon.bell@sjbtax.co.uk)

**Capital allowances on business cars**

From April 2009, new cars will either qualify for capital allowances at 10% if their emissions are over 160g/km or 20% for less polluting cars. The cost of such vehicles will go in to a pool so there will no longer be a balancing allowance on disposal. For unincorporated businesses with cars that have a private use element, allowances will continue to be calculated on a car by car basis and a balancing allowance will be available on disposal.

**National insurance increases**

From April 2009, the upper earnings limit for National Insurance Contributions will be aligned with the level at which people start to pay higher rate tax which is an increase of over £3,800 significantly more than the inflation adjustment.

National insurance contributions are set to rise from April 2011 by 0.5% so that the employee class 1 rate will become 11.5% and the employer class 1 rate will be 13.3% so that the combined rate will be nearly 25%. The Class 4 NIC rate for the self employed will rise to 8.5% (and 1.5% for income over the upper limit).

**Personal allowances**

The temporary increase in personal allowances made earlier this year will become permanent and there will be a further above inflation increase in the basic personal allowance in 2009/10. However from April 2010, the personal allowance will be progressively reduced for individuals with an income over £100,000. For levels of income at which the personal allowance is being withdrawn the effective marginal rate of tax will be 60%.

**New 45% top rate of income tax**

From April 2011, there will be new top rate of income tax of 45% for those with income over £150,000. The 45% rate of tax will also apply to discretionary and accumulation and maintenance trusts.

The combination of a new top rate of income tax and the withdrawal of personal allowances for higher earners will further complicate the tax system and make it likely that more people will need to complete tax returns in years to come.

**Husband & wife companies**

The government originally introduced proposals to counter income shifting last year and these were to be brought in to effect from April 2009. In the light of current economic conditions, the Government has deferred the introduction of revised proposals, however the issue is to be kept under review. The immediate threat to family companies of investigation in to how profits are shared between family members has receded, however as has always been the case businesses should consider how they can justify the allocation of income to ensure that it can be justified in the event of HM Revenue & Customs challenge.

**Pension allowances frozen**

The life time and annual allowances are to be frozen for five years from 2011/12 to 2015/16 at £255,000 and £1.8m respectively. Higher earners and those with significant pension funds would be advised to review their position carefully. For those with significant pension funds who have not made contributions since 5 April 2006, consideration should be given to applying for

For more information contact Simon Bell FCA, CTA  
tel: 01376 571358 | email: [simon.bell@sjbtax.co.uk](mailto:simon.bell@sjbtax.co.uk)

enhanced protection to avoid the risk of additional tax charges arising and specialist advice should be sought.

## **Inheritance tax**

There were no changes in inheritance tax as anticipated after the changes of last year to enable the nil rate band to be transferred between spouses and civil partners. Individuals should continue to take advantage of the reliefs currently available particularly with respect to life time giving. The capital gains issues on giving away significant assets may have reduced currently with the fall in asset values and 18% capital gains tax rate.

## **Green measures**

The increase in fuel duty of 2p per litre deferred in April due to the higher price of fuel will now take effect on 1 December with further increases in April 2009 and 2010.

Air passenger duty is to be reformed from November 2009 and will be in bands dependent on distance.

## **Impending deadlines**

**31 December 2008** Private companies with 28 February 2008 year-ends should file their accounts at Companies House.

**31 December 2008** Corporate tax returns for periods ended 31 December 2007 should be filed by concession no penalty is charged if the return is submitted by 7 January 2009.

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](mailto:simon.bell@sjbtax.co.uk) . For copies of previous newsletters or details of our services please visit our website [www.sjbtax.co.uk](http://www.sjbtax.co.uk)

Please feel free to forward this newsletter to any colleagues or friends who may be interested in it or refer them to our website [www.sjbtax.co.uk](http://www.sjbtax.co.uk)

This newsletter is written in general terms and therefore cannot be relied on to cover specific situations; applications of the principles set out will depend on the particular circumstances involved and it is recommended that you take professional advice before acting or refraining from acting on any material in the newsletter.

If you do not wish to receive further newsletters please email [simon.bell@sjbtax.co.uk](mailto:simon.bell@sjbtax.co.uk) and put unsubscribe in the subject line.