

**22nd APRIL 2009 BUDGET PROPOSALS  
AND CHANGES FOR 2009/2010 previously announced  
(Subject to details in the Finance Bill)**

**1. INCOME TAX RATES AND RELIEFS FOR 2009/2010**

- 1.1 The basic rate remains at 20% for 2009/2010.
- 1.2 The higher rate remains at 40%, with the threshold increased from £34,800 to £37,400.
- 1.3 From 2010/2011 there will be an additional higher rate of 50% for taxable income above £150,000.
- 1.4 The tax rate for investment income (other than dividends) remains at 20%, but the 10% lower rate band is available for savings income only, up to a limit of £2,440, if not already utilised by earned income and pensions. Higher rate taxpayers will continue to be liable for an additional 20% of the grossed up income.
- 1.5 The tax credit on dividends remains at 10% and this is not repayable.

As before, no additional tax is payable where taxable income is below the higher rate threshold. The higher rate on dividends remains at 32.5% of the grossed up income (equivalent to 25% of the net dividend). From 2010/2011 the additional higher rate on dividends will be at 42.5% of the grossed up income (equivalent to 36.11% of the net dividend) for taxable income above £150,000.

1.6 Personal allowances

	<u>2008/09</u>	<u>Increase</u>	<u>2009/10</u>
	£	£	£
Allowances receiving relief at top rate of tax:			
Single person	6,035	440	<b>6,475</b>
Age 65 – 74: Single	9,030	460	<b>9,490</b>
Age 75+: Single	9,180	460	<b>9,640</b>
Blind person	1,800	90	<b>1,890</b>
Allowances receiving relief at 10%:			
Married couple's allowance (including civil partnerships), where one partner is born before 6th April 1935:	6,625	340	<b>6,965</b>
Minimum allowance	2,540	130	<b>2,670</b>

The age allowances abate by £1 for every £2 of income over £22,900 (formerly £21,800) until they are reduced to the basic allowances. This level is reached at incomes from £28,930 for single people aged 65 to 74 to £37,820 for married people aged 75 and over.

From 2010/2011 the basic personal allowance will be reduced by £1 for every £2 for individuals with an adjusted net income above £100,000. The personal allowance will be reduced to nil for incomes of £112,950 and above.

## 1.7 Child Tax Credit

The Child Tax Credit (CTC) is based on joint incomes. The full child element payment is increased from £2,085 to £2,235 and is received directly from HMRC. The income threshold for those entitled to CTC only but not Working Tax Credits (WTC), rises to £16,040. The income threshold for CTC family element remains at £50,000, reducing for joint incomes up to about £58,000. The family element remains frozen at £545 per year. Further payment of up to £545 is given in the year of a child's birth, reducing for incomes up to £66,000. Claims must be made separately from Tax Returns. If income increases by more than £25,000 or personal circumstances change, then HMRC must be informed within 1 month in accordance with the notes sent with Award notices.

## 1.8 Car and fuel benefits

The system of car and fuel benefits based on the level of carbon dioxide emissions continues. From 2009/2010 the 35% maximum percentage of the list price of a car (capped at £80,000), is reached at 235 g/km. This will be reduced to 230 g/km from 2010/2011 and further to 225 g/km from 2011/2012.

Qualifying low emissions cars (cars with CO<sub>2</sub> emissions of 120g/km or less) are assessed at 10% of the list price for petrol cars and 13% for diesel.

Cars manufactured to run on E85 bio fuel continue to receive a 2% discount.

In addition, from 2011/2012 the £80,000 price cap that currently applies for calculating the cash equivalent of the car benefit will be abolished.

## 1.9 Van benefits.

As before, there is no benefit charge for employer provided vans that have insignificant or no private use.

The benefit charge for unrestricted private use of employer provided vans remains at £3,000, with an additional £500 if the employer also provides fuel for private use.

## 1.10 Authorised Mileage Rates

The single authorised rate for all vehicles for business use of employees' own vehicles remain at:

Cars:	First 10,000 miles	40p
	Over 10,000 miles	25p
Motor cycles		24p
Bicycles		20p

## 1.11 Administration

The changes in tax due under PAYE as a result of the alteration to the tax bands, and the new tax codes, are to be applied from 6th April 2009.

## 1.12 From 2007/2008 tax returns for individuals, trusts and partnerships have two separate filing deadline dates. Paper returns are to be filed by 31st October and for returns filed online the date will remain at 31st January.

## 1.13 From 2007/2008 the "enquiry window" for income tax returns ends 12 months after the filing of the return, rather than the anniversary of the filing deadline. This also applies to Corporation tax returns for accounting periods ending after 31st March 2008.

## **2. NATIONAL INSURANCE CONTRIBUTIONS**

Revised contributions take effect from 6th April 2009:

### **2.1 Class 1 Contributions (per week)**

Employees earning over £110 per week will pay 11% on the excess up to £884 per week, plus an additional 1% on the excess over £884 with no upper limit.

Employers will pay 12.8% on all earnings over £110 per week.

### **2.2 The Class 2 rate for the self-employed increases to £2.40 per week. The small earnings exception is increased to £5,075 per year.**

### **2.3 The Class 4 rate of 8% will be charged on profits between £5,715 and £43,875 (an increase of £3,835 on 2008/2009) plus an additional 1% on all profits above £43,875.**

### **2.4 Most taxable benefits provided by employers will continue to be liable to Class 1A at 12.8%.**

## **3. CAPITAL GAINS TAX**

### **3.1 The new regime for Capital Gains Tax was introduced from 6th April 2008 for individuals and trustees. Gains are taxed at a flat rate of 18%, with taper relief and indexation of costs being abolished retrospectively.**

### **3.2 The annual exemption remains, and is increased from £9,600 to £10,100 (£5,050 for most trusts) for 2009/2010. Other reliefs unaffected by the new regime include roll-over, hold-over, principal private residence and lettings relief.**

### **3.3 Entrepreneurs' Relief was introduced from 2008/09. The relief is available to certain individuals involved in running a business, in respect of gains made on the disposal of all or part of the business, or on gains made on disposals of assets following the cessation of the business. The first £1 million of lifetime gains that qualify for the relief are charged to CGT at an effective rate of 10%. Gains in excess of £1 million are charged at the normal 18% rate. An individual will be able to make claims for relief on more than one occasion, up to a lifetime total of £1 million of gains qualifying for relief.**

## **4. VAT**

### **4.1 The standard rate was reduced from 17.5% to 15% on 1st December 2008. This rate will revert back to 17.5% on 1st January 2010.**

### **4.2 The annual registration limit is increased to £68,000 from 1st May 2009.**

The deregistration limit is increased to £66,000 from 1st May 2009.

### **4.3 The annual turnover limit below which businesses can start to use both the VAT cash accounting scheme and the VAT annual accounting scheme remains at £1,350,000.**

### **4.4 VAT fuel scale charges for private use of cars previously based on engine size are now to be based on CO<sub>2</sub> emissions where the car is first registered after 1st March 2001. The scale charges have been revised to reflect changes in fuel prices and maintain alignment with CO<sub>2</sub> bands used for income tax purposes.**

For example, the scale charge for a car with CO<sub>2</sub> emissions of 200 g/km is £352 per quarter, inclusive of VAT (reduced from £386).

The new scale charges will apply from the start of a businesses next prescribed accounting period beginning on or after 1st May 2009.

## 5. CORPORATION TAX

5.1 The rates of Corporation Tax are as follows:

Year commencing	Small companies' rate	Mainstream rate
1st April 2006	19%	30%
1st April 2007	20%	30%
1st April 2008	21%	28%
1st April 2009	21%	28%
1st April 2010	22%	28%

The small companies' rate applies to profits up to £300,000 with marginal relief up to £1,500,000. The mainstream rate applies to profits over £1,500,000.

5.2 Companies are required to notify HMRC of commencement of trading within 3 months of starting to trade.

5.3 For accounting periods ending after 31st March 2008 the "enquiry window" for corporation tax returns will end 12 months after the filing of the return rather than the anniversary of the filing deadline.

## 6. BUSINESSES - CAPITAL ALLOWANCES

6.1 The Annual Investment Allowance (AIA) was introduced from 2008/2009 for individuals, partnerships and companies.

6.2 The AIA provides an annual 100% allowance for the first £50,000 of investment in plant and machinery (other than cars) to all businesses, regardless of size.

6.3 Expenditure in excess of the annual £50,000 limit will fall into either a 20% main rate pool or a 10% special rate pool where it will attract writing down allowances at the appropriate rate. From 6th April 2009 (1st April for companies) a 12 month temporary First Year Allowance of 40% is available on plant and machinery that falls in the main rate pool.

6.4 The AIA does not replace the existing 100% enhanced capital allowances schemes for environmentally beneficial plant and machinery.

6.5 Industrial Buildings Allowances and Agricultural Buildings Allowances are being withdrawn over a four year period from 2008/2009.

6.6 From 2009/2010 the rate of capital allowances on qualifying cars will depend on the cars CO<sub>2</sub> emissions. Expenditure on cars with CO<sub>2</sub> emissions of 160 g/km or less will be allocated to the 20% main rate pool. Those with emissions exceeding 160g/km will be allocated to the 10% special rate pool.

## 7. BUSINESSES – LOSS RELIEF

7.1 Currently an unlimited amount of trade losses can be carried back to the previous year and receive tax relief.

Unincorporated business trade losses made in 2008/2009 and 2009/2010 (and company trade losses with accounts periods ending between 24th November 2008 and 23rd November 2010) may be carried back a further two years, subject to a £50,000 cap.

7.2 Furnished Holiday Lettings

From 2010/2011 losses from furnished holiday lettings will no longer be able to be set against other personal income.

## **8. INHERITANCE TAX**

- 8.1 The starting point for Inheritance Tax (the “nil rate band”) increases from £312,000 to £325,000 from 6th April 2009 for individuals. This will be followed by a further increase to £350,000 from 6th April 2010.
- 8.2 The single rate on death of 40% is unchanged.
- 8.3 For married couples and civil partners, where the second death occurs on or after 9th October 2007, up to two nil rate bands, both at the amount applying on the date of the second death (£325,000 from 6th April 2009), are available to the estate.

## **9. TRUSTS**

- 9.1 The trust tax rate remains at 40% and the dividend trust rate at 32.5%.
- 9.2 The Capital Gains Tax rate for all trusts decreased to 18% from 6th April 2008, in line with the new CGT regime introduced at that time.
- 9.3 Income distributions are received with the benefit of a tax deduction of 40%. Any difference between each beneficiary’s top rate and 40% is recoverable.
- 9.4 The standard rate band applying to the first £1,000 of income for all trusts liable to the trust tax rate remains the same.

## **10. OTHER TAXATION PROPOSALS**

### **10.1 Personal Pensions**

From 6th April 2009, the maximum level of earnings for which pension provision may be made with tax relief increases from £235,000 to £245,000.

The lifetime allowance for total tax-approved pension savings increases from £1,650,000 in 2008/2009 to £1,750,000 in 2009/2010.

From 2011/2012 people with income of £150,000 or more will have tax relief restricted on pension savings above their normal regular pattern of savings.

### **10.2 Stamp Duty Land Tax**

For residential property transactions the 1% rate threshold was temporarily increased from £125,000 to £175,000 on 3rd September 2008. This will revert back to £125,000 on 1st January 2010. The 3% and 4% rates and thresholds are unchanged at £250,000 and £500,000 respectively.

### **10.3 Enterprise Investment Scheme (EIS)**

The annual investment limit remains at £500,000.

For investments made on or after 22nd April 2009, to qualify for EIS relief 100% of money raised from share subscriptions must be used in a qualifying activity within 2 years. (Previously 80% within 1 year was required).

Also income tax relief may be carried back to the previous year on 100% of an investment made on or after 22nd April 2009. (Previously the carry back was restricted to 50% of investments made before 6th October, to a maximum of £50,000).

### **10.4 Venture Capital Trusts (VCTs)**

The annual investment limit remains at £200,000 and the income tax relief remains at 30%. VCT investors must hold their shares for a minimum period of 5 years.

#### 10.5 ISAs

Currently the maximum limit of investment is £7,200, of which £3,600 can be invested in cash.

From 6th October 2009 those aged 50 and over will have the limits increased to £10,200 of which £5,100 can be saved in cash. The increased limits will then be made available to all investors from 6th April 2010.

#### 10.6 Employer Supported Childcare

Employees can continue to receive up to £55 a week with an approved childcarer, free of tax and National Insurance.

#### 10.7 Pensioners

The previous year's winter fuel allowance "one-off" increase from £200 to £250 per household for those aged over 60 and from £300 to £400 for those aged over 80, has been extended to this year.

From October 2009 the first £10,000 of savings held by pensioners will be disregarded when assessing their entitlement to Pension Credit, Housing and Council Tax Benefit (previously £6,000).

### 11. EXCISE DUTIES

#### 11.1 Reductions:

Children's car seat bases – VAT reduced to 5%.

#### 11.2 Increases:

Air Passenger Duty is unchanged until 1st November 2009, when it will be replaced by a new method of taxation structured around four distance bands A - D, set at 2,000 mile intervals from London. The duty rates will range from £11 for short range economy class flights up to £110 for non-economy long haul flights. The duty rates will increase again from 1st November 2010 and range from £12 to £170.

Vehicle Excise Duty - £5 for vehicles registered pre-March 2001.

Vehicles registered after March 2001 are banded A – M and suffer duty ranging from £nil to £405 in 2009/2010 (£400 in 2008/2009) dependant upon CO<sub>2</sub> emissions and fuel type. Most bands increase by £5.

From 2010/2011 brand new cars will be charged higher first year rates ranging from £nil to £950, depending on the CO<sub>2</sub> emissions.

Beer	- 1p per pint
Cider	- 1p per litre
Sparkling cider	- 4p per bottle
Wine	- 4p per bottle
Sparkling wine	- 5p per bottle
Spirits	- 13p per bottle
Cigarettes	- 7p per packet
Fuel duty	- 1.84p per litre from April 2009 and a further 2p per litre from September 2009.