

## **NOVEMBER 2008 - INTRODUCTION**

Chancellor Alistair Darling presented his second Pre-Budget Report on Monday 24 November 2008.

As expected Mr Darling concentrated on measures to protect and support businesses and individuals in these 'extraordinary, challenging times for the global economy'. We report on the Chancellor's key announcements.

We also include our usual round up of news. Please browse through this month's articles using the links below and contact us if any issues or questions arise.

- **Standard rate VAT**
- **Proposed personal tax changes**
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- **Tougher penalties for health and safety offences**
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### **Standard rate VAT**

The standard rate of VAT will be reduced from 17.5% to 15% for the period 1 December 2008 to 31 December 2009. The rate will then revert to 17.5%. No changes have been made to the 5% reduced rate or the 0% rate.

The government will introduce 'anti-forestalling legislation' to prevent abuse of the reduction in the standard rate of VAT.

The percentages applicable to those businesses operating the flat rate scheme will be reduced with effect from 1 December 2008.

The transition to the new rate will cause issues for all businesses. We have provided a link to HMRC guidance but please do get in touch if you would like some help in this area.

We are also including HMRC's guide for consumers, so you are aware of how the changes will impact you personally.

**Internet links:** [HMRC VAT changes](#) [HMRC detailed guide](#) [HMRC consumer guide](#)

### **Proposed personal tax changes**

The government has announced significant changes to the system of personal allowances and tax rates for the next few years. These mainly impact on those with higher levels of income.

#### **Allowances and rates**

The 2009/10 personal allowance will be £6,475. The basic rate limit will be £37,400. Therefore an individual will pay 40% tax rather than the basic rate of 20% when their total income exceeds £43,875.

The 10% starting rate for savings income band (increased to £2,440) is only available where an individual's non savings income (broadly earnings, pensions, trading profits and property income) does not exceed the starting rate limit.

#### **Personal allowance changes for 2010/11**

From 2010/11 the personal allowance will be subject to an income limit of £100,000. An individual's personal allowance will be reduced by £1 for every £2 of gross income they have above the income limit up to a maximum reduction of half of the personal allowance.

For those with income of above a second income limit of £140,000, the amount of their allowance will be further reduced by £1 for every £2 above this income limit up to a maximum of the full amount of the personal allowance.

#### **New tax rates for 2011/12**

A new rate of income tax will be introduced of 45%. This will apply to taxable non savings income and savings income above £150,000.

Dividend income is currently taxed at 10% where it falls within the basic rate band and 32.5% where liable at the higher rate of tax. A new rate of 37.5% will be introduced for dividends which fall into the income band of above £150,000.

**Internet link:** [HMRC personal tax changes](#)

### **Corporation tax Changes**

The main rate of corporation tax which applies to companies with profits of more than £1.5 million fell to 28% from 30% from 1 April 2008.

The small companies corporation tax rate which applies to companies with up to £300,000 of profits increased from 20% to 21% from 1 April 2008. The intention was to increase this rate to 22% in 2009 but this has been deferred until 1 April 2010.

**Internet link:** [HMRC corporation tax changes](#)

### **Taxation of business travel**

Further details have been provided on the changes to the capital allowance treatment of cars. The changes will have effect from 1 April 2009 for corporation tax purposes and 6 April 2009 for income tax. The special rules that restrict the amount of capital allowances for cars costing more than £12,000 will be abolished.

- Expenditure on cars with CO2 emissions of 160gm/km or below will be allocated to the plant and machinery 'pool' (ie will obtain 20% writing down allowances (WDA)).
- Expenditure on cars with CO2 emissions above 160gm/km will be allocated to the 'special rate pool' (ie will obtain 10% WDA).
- Cars that have an element of non-business use will continue to be dealt with in a single asset pool to enable the private use adjustment to be made, but for expenditure incurred from April 2009 onwards the rate of WDA will be determined by the car's CO2 emissions.

Expenditure incurred before April 2009 will, in general, continue to be subject to the existing 'expensive' car rules for a transitional period of around five years. Any expenditure remaining in a single asset pool (unless there is any non-business use of the car) will be transferred to the main capital allowances pool.

Please do get in touch if you would like more information on how these changes will affect you.

**Internet link:** [HMRC and cars](#)

### **Discipline and Grievance Code of Practice**

Acas (Advisory, Conciliation and Arbitration Service) has made available a revised Code of Practice dealing with discipline and grievance procedures. The Code has been approved by the Secretary of State for Business, Enterprise and Regulatory Reform. The draft guidance will now be put before Parliament for approval.

The revised Code provides broad principles on discipline and grievance handling in the workplace. The Code will be backed up by a non-statutory Acas Guide providing more detailed good practice advice.

The Code is due to come into effect on 6 April 2009.

**Internet link:** [Acas website](#)

### **Pension forecast**

Do you know how much your state pension could be when you retire? The Pensions Service will provide a forecast of this information either by letter or an online email service.

As detailed on their website "a State Pension forecast gives you in today's money values:

- an estimate of basic and additional State Pension you may get based on your National Insurance Contributions so far and
- an estimate of basic and additional State Pension you may get when you claim your State Pension.

If you would like any help with pension advice please get in touch.

**Internet link:** [Pensions service forecast](#)

### **Tougher penalties for health and safety offences**

New legislation under the Health and Safety Offences Act 2008 will increase penalties and provide courts with greater sentencing powers for those who flout health and safety legislation.

The Act will increase the maximum level of penalties that can be imposed by the lower courts on those who breach health and safety regulations from £5,000 to £20,000. It also increases the range of offences for which an individual can be imprisoned. The legislation, which received Royal Assent on 16 October 2008, will come into force in January 2009.

DWP Minister Lord McKenzie said:

"It is generally accepted that the level of fines for some health and safety offences is too low. These changes will ensure that sentences can now be more easily set at a level to deter businesses that do not take their health and safety management responsibilities seriously and further encourage employers and others to comply with the law.

Furthermore, by extending the £20,000 maximum fine to the lower courts and making imprisonment an option, more cases will be resolved in the lower courts and justice will be faster, less costly and more efficient."

**Internet link:** [DWP press release](#)

### **Child Trust Fund**

According to HMRC data the success of the Child Trust Fund (CTF), the tax exempt long-term savings and investment account for children born on or after 1 September 2002, continues to grow.

The statistics published by HMRC show:

- 97% of eligible parents are aware of the Child Trust Fund
- around 3/4 of parents continue to open accounts for their children within the first year
- there has been a small upturn in the number of accounts opened by parents in the first year.

Where parents do not open a CTF account within one year, HMRC will automatically open an account for the child.

The Economic Secretary to the Treasury Ian Pearson said:

"The third year of the Child Trust Fund has continued to build firmly on the success of the founding years, but we still need to do more. This is why I am writing today to all MPs to encourage them to further raise

the profile of the Child Trust Fund in their constituencies and to direct parents towards the help available to them in opening and engaging with their children's accounts."

**Internet links:** [Treasury press release](#) [Statistics](#)

### **Parties for employees**

Are you planning a party for your staff? Make sure you are clear on the tax implications.

The good news is that, unlike entertaining customers, employee entertaining costs are generally allowable against the profits of the business.

What about the employees themselves? Is it a perk of their jobs and will they be subject to tax?

Generally, as long as the total costs of employee annual functions in a tax year are less than £150 per head there will be no tax implications for the employees themselves. In considering this limit make sure you have included all the costs, which may include not only the meal itself but also any drinks, transport and accommodation that you provide.

If the costs are above the £150 per head limit then do get in touch so we can advise you how best to deal with them.

**Internet link:** [HMRC guidance](#)