

## **APRIL 2009 - ENEWS**

This month's enews is unsurprisingly dominated by Budget announcements. Having waited a month beyond the usual March timing for the Budget, Alistair Darling had some significant announcements to make which are set out below.

Please browse through this month's articles using the links below and contact us if any issues or questions arise.

- Personal tax changes
- Restricted tax relief on pension contributions
- Enhanced relief for trading losses
- Capital allowances on plant and machinery
- Standard rate VAT
- VAT system for cross-border trading
- Bradford & Bingley position of former shareholders
- Change of HMRC bank account details
- Businesses given more time to pay business rates

### **Personal tax changes**

The Chancellor has not only brought forward proposals which were to take place in 2011, he has also made changes to his original announcements.

From 6 April 2010 the personal allowance, currently £6,475, will be subject to an income limit of £100,000. An individual's personal allowance will be reduced by £1 for every £2 of adjusted net income above the income limit. The personal allowance will be potentially reduced to nil from this income limit instead of the proposed two stage reduction announced last year.

Adjusted net income for these purposes is broadly all income after adjustment for pension payments, charitable giving and relief for losses.

Instead of the proposed 45% top rate of tax in 2011, a new rate of income tax will be introduced of 50% from 6 April 2010. This will apply to taxable 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 42.5% will be introduced for dividends which fall into the income band above £150,000.

**Internet link:** [HMRC budget note 1](#)

### **Restricted tax relief on pension contributions**

Pension contributions made by an individual are usually paid net of basic rate tax. Where the individual is a higher rate taxpayer further relief is due which significantly reduces the net cost of the contribution.

The government has announced its intention to restrict tax relief on pension savings with effect from 6 April 2011 for people with taxable income of £150,000 or more. The relief will be tapered down until it is 20%.

Legislation will be introduced to prevent those potentially affected by the new rules from seeking to forestall this change by increasing their pension savings in excess of their normal regular pattern, prior to that restriction taking effect.

The forestalling measures will apply to individuals with incomes of £150,000 or more who, from Budget Day, change:

- their normal pattern of regular pension contributions, or
- the normal way in which their pension benefits are accrued, and
- their total pension contributions or benefits accrued exceed £20,000 a year.

Reacting to the Chancellor's Budget speech, Richard Lambert, CBI Director-General, said:

'Changing the higher-rate tax relief on pensions weakens incentives to save for retirement and is yet another change to a system which really needs stability.'

**Internet link:** [HMRC pensions changes](#)

### **Enhanced relief for trading losses**

Under current rules businesses already have a number of mechanisms to relieve trading losses against other income including past trading profits.

Unincorporated businesses can offset unlimited trading losses against income in the preceding year and in the early years of business trading losses may be carried back for three years.

The main relief for companies is a carry back of unlimited trading losses against profits made in the previous year.

A proposed revision will apply for two years and will extend the period that current trading losses from businesses can be carried back against previous profits to a period of three years, with losses being carried back against later years first.

The amount of losses that can be carried back to the preceding year remains unlimited. After carry back to the preceding year, a maximum of £50,000 of the balance of unused losses is then available for carry back to the earlier two years.

This change will have effect for company accounting periods ending in the period 24 November 2008 to 23 November 2010. For unincorporated businesses, the measure will have effect in relation to trading losses for tax years 2008/09 and 2009/10.

**Internet link:** [HMRC budget note 13](#)

### **Capital allowances on plant and machinery**

Additional capital allowances are to be available for expenditure incurred by a business in the 12 month period (starting 1 April 2009 for companies and 6 April 2009 for individuals and partnerships).

Most businesses have since April 2008 been able to claim the new Annual Investment Allowance (AIA) on the first £50,000 spent on most plant and machinery. Expenditure on qualifying plant and machinery not covered by the AIA will be eligible for a temporary first year allowance (FYA) of 40% instead of a 20% writing down allowance.

The temporary FYA will not apply for certain expenditure including integral features, cars, long life assets and assets for leasing. This additional allowance will be attractive to larger or plant intensive businesses where the AIA is insufficient, particularly groups of companies where one AIA has to be shared between all companies.

**Internet link:** [HMRC budget note 4](#)

### **Standard rate VAT**

The standard rate of VAT was reduced from 17.5% to 15% for the 13 month period 1 December 2008 to 31 December 2009. HMRC have confirmed that the standard rate of VAT will revert to 17.5% from 1 January 2010.

The government have confirmed that legislation will be introduced to counter schemes which purport to apply the 15% VAT rate to goods or services to be supplied on or after the date that the rate returns to 17.5%. The measures will apply where the customer cannot recover all the VAT on the supply and:

- the supplier and customer are connected parties or
- the supplier funds the purchase of the goods or services or
- a VAT invoice is issued by the supplier where payment is not due for at least six months.

A supplementary charge will also apply where a pre-payment in excess of £100,000 is made before the rate rise in respect of goods or services to be provided on or after the date of the rate rise.

The effect of the measures will be to charge supplementary VAT of 2.5%, where VAT of 15% has been declared.

**Internet links:** [HMRC budget note 71](#) [HMRC budget note 72](#)

### **VAT system for cross-border trading**

A package of measures is being introduced to simplify and modernise the VAT system for cross-border trading and to counter fraud across the EU. The measures include:

- changes to the basic place of supply of services rules
- changes to the time of supply rules
- European Sales List (ESL) reporting for supplies of cross-border services
- a new electronic refund procedure for VAT incurred in other EU Member States.

To read more about these proposed changes visit the link below.

**Internet link:** [HMRC VAT changes link](#)

### **Bradford & Bingley position of former shareholders**

As you are no doubt aware, shares in Bradford & Bingley plc were taken into public ownership last year. HMRC have issued guidance relevant to former shareholders and employees who were members of employee share schemes.

The guidance sets out the capital gains tax and income tax implications for former shareholders and employees who were members of employee share schemes.

For the majority of shareholders the guidance sets out the procedures for claiming any capital gains tax loss relief.

Please get in touch if you have any concerns in this area.

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

### **Change of HMRC bank account details**

HMRC bank account details for paying self employed Class 2 and voluntary Class 3 National Insurance Contributions have changed. HMRC have advised that individuals will need to use the new account details when making a payment.

Their advice is that where an individual pays by Internet, telephone banking or CHAPS:

“HMRC is now using the bank Citi for these types of electronic payments. You can find the new bank account numbers and sort codes by referring to the papers sent to you by HMRC.”

According to HMRC:

“Individual banks and building societies will start accepting the new account details on or shortly after the 20 April 2009. If there is a delay your bank/building society will be able to advise you. You can continue to make payments using the old details until your bank is ready to accept the new ones.”

New payment details can also be found at the link below and are as follows:

Sort code	Account number	Account name
08 32 20	12001004	HMRC NICO

For those paying using a payslip by bank giro HMRC will be changing the system later this year so the above details do not apply to these types of payment.

We will keep you informed of developments in this area.

**Internet links:** [HMRC news](#) [Payment information](#)

### **Businesses given more time to pay business rates**

Alistair Darling made a late change to the impact of business rate rises which were due to take effect in England from 1 April 2009.

Business rates were due to go up by 5% from 1 April 2009. However under the new scheme the rise will be restricted to 2%, with businesses being able to spread the cost of the remaining 3% over the following two years. Many had feared that the proposed increase could have caused major cash flow issues for many businesses.

For more information see the fact sheet.

**Internet links:** [Fact sheet](#) [BBC news](#)