



Bulletin

Budget edition 2009

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for practical solutions



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BUDGET BLUES OR RED?

Alistair Darling is proposing to borrow an additional 700 billion pounds over the next five years.

These are enormous numbers and to put it into perspective it equates to an extra 5p on the basic rate tax band for the next twenty five years.

This is an extremely serious situation and suggests all sorts of unpalatable medicine that we and our children will have to endure.

This budget does include some help for businesses by increasing the rates of capital allowances with better utilisation of loss relief and does make the UK more attractive for businesses to operate from. However, increasing the rates of tax for the higher rate taxpayer and reducing the higher rate relief of pension contributions might grab the headlines for the benefit of the present government's supporters but is likely to prove ineffective in the long run.

The Government's real issue is to tackle expenditure, and whoever is in power in the next few years will have to make drastic cuts to government spending.

I am afraid that will mean that some radical changes to our welfare state will become inevitable, and if we make no attempt to deal with these ourselves, we will find the IMF no easy taskmaster.

- Bill Ballard

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Hike in tax payments for income levels over £150,000

Taxpayers with income levels over £150,000 already struggling to come to terms with a top tax rate of income tax of 45% from April 2011 face a further 5% increase which has been brought forward by 12 months. The tax rate for incomes over £150,000 will be 50% from April 2010 (42.5% for dividends giving an effective tax rate of over 36% on the net dividend)

What steps can be taken to mitigate this increase?

If you work for your own company you can:-

Take larger dividends before 6 April 2011. For this year you pay an effective tax rate of 25% against the new rate of over 36% next year. For £100,000 additional dividends this would be a tax saving of £11,000 – not to be sneezed at. You can leave the dividend in the company but would simply need to vote the dividend before the end of the tax year.

Review when you take income from your company so you maximise use of the 40% tax band of £150,000.

Consider how you extract income. Replacing remuneration with dividends can lead to significant tax savings - not always the best policy where there are minority shareholders or the company pays the full rate of corporation tax but there are significant tax savings to be made. You can also take interest on positive director's loan accounts to save on national insurance costs.

Where you are self employed or a partner is now the time to incorporate? This will need to be considered on a case by case basis but again there is the potential for tax savings. Small and medium companies pay a lower rate of 21% on their profits. The tax saving is greatest where you do not need to extract your profit in full on an annual basis and a company does give you the flexibility to manage your personal income level.

Your contact partner can advise you further and comment on the best route for you.





Pension Shake Up

Another blow for those on high incomes is the withdrawal of higher rate tax relief on pension contributions.

From 6 April 2011 higher rate relief is withdrawn in part for those with income levels over £150,000. If your income level is over £180,000 for 2011/12 you will receive no higher rate relief.

The temptation is to make increased pension contributions before the change on 6 April 2011 while tax relief is available at 40%. However there are some complex 'anti-forestalling' rules which penalise changes to your pattern of contributions after 22 April 2009. These act to reverse the higher rate tax relief with a special annual allowance tax charge. The rate of this tax charge is the difference between the highest and basic rates of tax (20% for 2009/10). The special annual allowance tax charge applies to you if your income is £150,000 or higher, there are changes to your pattern of regular pension savings (the contributions made by you or made on your behalf) and the total pension savings exceed £20,000.

Another thought may be to reduce your income level for the current year to below £150,000 to avoid this penal tax charge. This could be done by reducing the income you extract from your personal company or through salary sacrifice – giving up some of your income in return for your employer making a pension contribution on your behalf.

Hang on a moment, the government are one step ahead of us. The special annual allowance tax charge applies if your income was £150,000 or over both in the year in which you make the contribution and in the previous two years. Further, if you forgo income with a salary sacrifice after 22 April 2009 the income foregone continues to be treated as income for the £150,000 limit.

So what can you do?

Well, those with incomes that have historically been below £150,000 but are expected to exceed £150,000 in the future could increase the level of their contributions while they still qualify for the higher rate tax relief

And those with incomes above £150,000 need to take specialist advice before they make further contributions to ensure they will not lose out on higher rate tax relief.

Help for Business



Tucked in with the bad news about the state of the economy and the colossal level of debt are measures designed to help businesses. These include a temporary first year allowance to encourage investment in plant and machinery and an extension of the trading loss carry back.

At present businesses can claim a 100% AIA in the year of expenditure for the cost of the first £50,000 invested in new machinery and 20% on the balance. For the year to April 2010 there is a temporary 40% first year allowance for expenditure over £50,000 – an increase of 20%. The temporary first year allowance does not apply to cars or to integral fittings.

Trading losses can normally be carried back one year but this has been extended to three years for accounting periods ending in the period from 24 November 2008 to 23 November 2010 for companies and for the tax years 2008/09 and 2009/10 for unincorporated businesses. The amount of loss that can be carried back more than one year is restricted to £50,000 per annual loss period but the additional tax refund will be welcome for those who qualify.

And Finally

- Corporation tax rate for SME's kept at 21%
- Changes to capital allowances for cars with 20% writing down allowance where co2 emissions are up to 160 g/km and 10% where co2 emissions over 160g/km.
- Flat 15% disallowance on car lease rental charges.
- Vat rate kept at 15% to the end of the year when it reverts back to 17.5%
- Increases in ISA limits to £10,200 of which £5,100 can be in cash.
- Stamp duty land tax holiday on properties costing up to £175,000 to continue to the end of the year.
- Extension of inheritance tax reliefs for farms in EEA and for furnished holiday lettings in EEA. This has been back dated so speak to your contact partner if this affects you.
- From 5 April 2010 the trust tax rate will be 50% and the trust dividend rate will be 42.5%.

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