

Pre-Budget Report 2009

The principal taxation proposals are summarised below.

Income Tax

No changes to income tax rates or allowances for 2010/11. Next year's rates will be the same as this year's except for the introduction of the 50% income tax rate on taxable income over £150,000

The personal allowance will remain at £6,745 (though reducing for those with incomes over £100,000). The basic rate of tax at 20% will be levied on taxable income up to £37,400. The 40% higher rate tax will be levied on income between £37,401 and £150,000 and the new 50% additional rate of tax will apply to taxable income above that figure.

National Insurance Contributions (NIC)

The starting point for employers', employees' and self employed NICs will be maintained at £110 per week. The upper earnings and profit limits for Class 1 and Class 4 NICs respectively will also be maintained at their current level of £844 per week. Similarly the Class 2 Self employed contributions will continue to be at £2.40 per week. Class 3 contributions will also remain at their current rate of £12.05.

From 2011/12, Class 1 NICs rise by 1% to 12% for employees and 13.8% for employers. The increased rate will also apply to Class 1A and 1B contributions. Class 4 NICs will also be increased by the same amount to 9%.

The additional rate of Class 1 and 4 NICs payable on earnings above the upper earnings limit will also be increased by 1% to 2% from 2011/12.

The primary threshold and lower profit limit will be increased by £570 for 2011/12 above previous announced amounts to compensate lower earners for the increase in Class 1 and 4 rates.

Capital Gains Tax

No changes to the rate of tax on chargeable gains were announced. The annual exemption therefore remains at £10,100 and the rate applied to taxable gains remains at 18%.

Higher Rate Relief for Pensions

Budget 2009 announced that from 6 April 2011 there would be a restriction on pension tax relief for people with incomes of £150,000 or over. Finance Act 2009 introduced anti-forestalling measures to immediately deny higher rate tax relief to individuals earning over £150,000 who:

- change their normal pattern of regular pension contributions, and
- make total pension savings in the tax year in excess of £20,000 (or the lower of £30,000 and average contributions over the past three years if contributions are less regular than quarterly)

Finance Bill 2010 will introduce legislation, effective from 9 December 2009, to lower the income threshold for these anti-forestalling measures to £130,000.

Employee Benefits

With effect from 6 April 2010, the notional figure used to calculate tax and employers' national insurance on the benefit where employees have a company car and receive free private fuel will increase by £1,100 to £18,000. An employee who is in the higher-rate tax bracket and who receives free private fuel throughout the year for use in a car with the lowest level of emissions will pay £1,080 in tax, or, if the car has the highest level of emissions, the charge will be £2,520.

The amount applying to vans will increase by £50 to £550.

Finance Bill 2010 will set the company car tax charges that will apply from 6 April 2012. The current table of company car tax bands is to be extended down to a new 10% band and all CO2 emissions thresholds moved down by 5g/km. From 6 April 2012 the 10% band will apply to company cars with CO2 emissions up to 99g/km.

Furnished Holiday Lettings

From April 2010, furnished holiday lets will be treated, for tax purposes, the same as any other property business. Income will no longer be relevant UK earnings for pension relief purposes and losses will no longer be available to be set off against other income but can instead only be used against future property profits.

Inheritance Tax

The Finance Bill 2010 will reverse the planned increase for next year and freeze the nil rate band at the 2009/10 level of £325,000 for chargeable IHT events occurring on or after 6 April 2010.

Corporation Tax Rates

The planned small companies' rate increase to 22% is deferred to 2011/12. Therefore, for 2010/11, the full and small companies' rates remain at 28% and 21% respectively.

Stamp Duties

The Stamp Duty Land Tax holiday for residential properties up to the value of £175,000 will end as planned on 31 December 2009.

Value Added Tax

The standard rate will revert to 17.5% on 1 January 2010 as originally announced.

The above is for information only and is not intended to be specific advice.

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