

## **Pre-Budget Report December 2009**

As you may be aware, the Pre Budget Report was recently issued by the Chancellor of the Exchequer, Alistair Darling. Announcing measures to raise an extra £3.5 billion in tax in 2011 and £5.1 billion the following year, Mr Darling insisted that the UK economy is on the road to recovery and will return to healthy growth next year. Some commentators are not so sure and believe that this is really only a not very subtle piece of electioneering. The contents of the report did not include any major surprises.

With UK GDP contracting more sharply than expected at the Budget in 2009, the purpose of the Pre- Budget Report (PBR) is to maintain economic stability. The Chancellor refrained from increasing rates of income tax beyond those previously announced. The rates for corporation tax and capital gains tax are unchanged. The following points may be of note.

### **Personal Taxes**

**National Insurance** - The key tax changes outlined were that National Insurance would increase by a further 0.5% from 2011 and additionally public sector workers face a one per cent pay squeeze. Additionally, there will also be an increase to the primary threshold and lower profits limit of 570 above those already planned in the 2008 PBR. This to compensate lower earners for the proposed increase to the rates of Class 1 and Class 4 NIC.

**Pension Contributions** - The Government has also published a consultation document on how the restriction of higher rate tax relief for pension contributions for high-income individuals will be implemented from 6 April 2011. This will affect individuals with a 'gross income' of £150,000 or over who save in a registered pension scheme.

**Offshore Tax Evasion** - Proposals have been published aiming at counteracting offshore tax evasion. HMRC has already obtained significant data on offshore accounts, largely gained from bank notices. Proposals include new penalties and disclosure requirements. A specific penalty for tax evasion linked to assets held offshore is proposed, meaning any non-compliance will be penalised at the same level as domestic tax evasion.

### **Corporate Taxes**

**Corporation Tax** - Initially, it is prominent to note that Corporation Tax rise was given a deferral: The planned 1p hike in corporation [tax](#) for profits under £300,000 to 22p in the pound has been delayed. The Small Companies' Rate will remain at 21% for the Financial Year commencing 1 April 2010.

**Bankers Bonus Tax** - The much-heralded bank bonus tax was outlined by The Chancellor as he delivered his Pre-Budget Report. He announced a one-off levy, to

**be charged to banks**, of 50% on any bonus exceeding £25,000. This is expected to raise £500 million. This measure was introduced as preferable to a windfall tax on the banks, instead, giving them a choice between building their capital or paying bonuses (subject to the newly announced levy). This measure is likely to result in widespread discontent and will lead to banks reconsidering whether their operations should be based outside the UK.

**Patents** - In order to strengthen the incentives to invest in innovative industries and ensure the UK remains an attractive location for innovation, the Government will introduce a Patent Box, a reduced rate of Corporation Tax applying to income from patents, from April 2013. The new patent box, whereby income from new patents granted from 2013 will be taxed at 10% and the announcement of consultation on a foreign branch exemption.

The patent box is intended to provide an effective 10% rate of corporation tax on income from patents. After consultation with business the measure will be introduced into Finance Bill 2011, and will apply to income from patents granted after the legislation has passed. The reduced rate will apply from April 2013.

The regime will not be applied to intellectual property in the wider sense, but only to patent income. However, patent Intellectual Property is also a feature of various sectors such as manufacturing and technology, and the potential application of a patent box could be very wide.

#### **Research and Development (R&D)**

The Government also announced support for R&D by stipulating that companies promoting R&D will be eligible for a 10p corporation tax rate. This is potentially very useful for some companies and further details will be announced in alignment with the actual budget report next year.

#### **Controlled Foreign Companies (CFC)**

The report illustrates details on the proposed shape of the new CFC Regime; this however will be published in greater detail in the New Year. It is disheartening to learn that CFC reform has been left behind other changes to the UK's taxation of 'foreign profits' introduced in Finance Act 2009. The UK CFC rules are a vital segment of the reform package and inevitably a major consideration for businesses in analysing UK competitiveness.


**VAT-** As expected, the VAT holiday will end on January 1<sup>st</sup>. The standard rate of VAT returns to 17.5% from midnight on 31 December 2009. There will be a period of grace for certain businesses trading across the midnight deadline to charge the lower rate until either when they close, or if earlier, 6.00am.

**Anti-Avoidance-** HMRC has published a consultation document in respect of the disclosure of tax avoidance schemes (DOTAS). This paper sets out a variety of reforms and measures, the most significant of which states that failure to disclose a scheme will bring about enhanced penalties. Additionally, there are revisions and extensions to the 'hallmarks' under which disclosure needs to be made.

**Overall** this appears to be a plan for the election in the UK rather than a serious scheme to address the deficit in the public finances. Most people in the UK will see their income reduced through the additional measures announced with increasing effect in the years through to 2013, the exception will be pensioners earning less than £100,000. What is notable is that a number of expected announcements were not included and so opportunities to mitigate tax have been largely left open for now. Any clients wishing to take advantage of these should contact us as it can not be assumed that they will remain possible after an emergency budget which is expected after the election next year.

This is an abbreviated summary of the main points and we will be very happy to look at the implications for you or your business in greater detail. Please call us on 020 7355 3525.

Yours sincerely



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