WILTON

WILTONGROUP

UK Budget 2009
A BRIEF SUMMARY

The 2009 budget can initially be viewed as one in which businesses have faired well, although not in a spectacular fashion given that most of the announcements made in the pre budget report in terms of arrangements to pay tax and national insurance, the short term reduction in VAT has been confirmed to 31 December 2009 and the use of losses for carrying back against previous profits has been confirmed.

There is a raft of anti avoidance legislation proposed the detail and impact of which will be found from analysis over the next few weeks and months. We will, of course, keep you informed on these developments.

For individuals and trusts the initial view is that they have not faired well, although the announcements made are being directed at those earning more than £100,000 but certainly for those in receipt of more than £150,000.

The main headline for individuals will be the higher tax rate of 50% from 6 April 2010, and the elimination of personal allowances for individuals with taxable income of more than £112,950.

Again there is a raft of anti avoidance legislation proposed and again the impact of this will be found from analysis over the next few weeks and months and we will keep you informed once further detail becomes available.

BUSINESS TAX

Corporation Tax Main Rate
There has been no change to the main rate of corporation tax; the rate will remain at 28% where a company's profits are above £1,500,000.
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Corporation Tax Small Companies' Rate
Previously in the budget of 2007 it had been announced that the small companies' rate of corporation tax was to be progressively increased from 20% to 22%, although it has now been confirmed that the rate will remain at 21% for the financial year starting from 1 April 2009.

Capital Allowances - Plant and machinery allowances
There will be a temporary first year allowance provided on the purchase of new plant and machinery at a rate of 40%, this allowance will be in addition to the Annual Investment Allowance (AIA) of £50,000.

The existing capital allowance rules for cars costing over £12,000 have been abolished. Instead, writing down allowances will be available according to the cars CO2 emissions, such changes came into effect from 1 April 2009 for companies and 6 April 2009 for income tax purposes.

In terms of the CO2 emissions of the vehicle, the lowest rate for calculating a benefit of 15% will reduce from 130g/km to 125 g/km.

There are also new rules for expensive cars that are leased on new agreements; again the basis of any such calculation will be upon the CO2 emission.

VAT

The reduction from 17.5% to 15% effective from 1 December 2008 will, as initially advertised, remain in force until 31 December 2009.

Also announced are changes to legislation in respect of the place of supply of services and introducing the new EC sales lists for services, all of which will come into effect from 1 January 2010.

The current basic rule is that VAT is due where the supplier has established their business, the new rule for business to business transactions only will be where the customer is established. Any transactions with a non business customer will remain unchanged.

There will also be a simplification to the process of the option to tax.

The thresholds for VAT registration have increased from £67,000 to £68,000 and for

VAT deregistration have increased from £65,000 to £66,000. These changes will have effect from 1 May 2009.

Losses

All companies and unincorporated businesses that have been trading for more than three years and continue to trade will be allowed to carry back losses against any profits made in the three previous tax years. Previously the carry back of losses had been limited to a period of one year.

The amount that can be carried back to the preceding year remains unlimited, but this extension now allows any additional unused trading losses, to be carried back for offset against the profits arising in the earlier two years. The stipulation with this extension is that the losses for years 2 and 3 will be restricted to £50,000 for each year.

Together with the enhanced loss relief arrangements, the business payment support scheme will continue allowing for a deferment in the payment of tax and national insurance.

Loan Relationships
Connected trading or property companies which have loans between themselves will now fall within the loan relationship legislation. The effect of this will be found where the loan is written off / released.

The effect of the legislation will provide a tax neutral position, whereby they will neither be a tax liability arising in one company nor a tax loss arising in the other company.

We understand that this change in legislation will also apply to companies within overseas groups.

The legislation will come into effect from 22 April 2009.

Company Car tax Changes
From 6 April 2011 the upper limit on the value of a motor vehicle of £80,000 will be removed.

The effect of this will be an increase in the taxable benefit for the individual at the rate higher rate of either 40% or 50% together with the increased company Class 1A National Insurance liability.

Other changes have also been made to the CO2 emission levels; again these changes will also affect the level of taxable benefit and Class 1A National Insurance liability.

Foreign Aspects
The review of controlled foreign companies is continuing, and further workshops will be taking place in May/June 2009, at present no formal legalisation is expected until at least 2011.

Currently, the proposals that will be coming into force are –

- Introduction of a dividend exemption for the majority of both UK and foreign dividends, to be introduced from 1 July 2009.
- Introduction of a debt cap restricting UK deductions for finance costs to the level of a groups external finance expense, to be introduced from 1 January 2010.
- Introduction of a new quarterly reporting requirement, from 1 July 2009.

Where a company computes its profits or losses for corporation tax purposes in currency other than sterling, any losses carried forward or back to accounting periods will be translated into sterling at the same exchange rate as the profits that they are offsetting.

The effect of this should prevent situations where tax losses and profits match in their own currency, but due to foreign exchange movements there is a subsequent mismatch.

PERSONAL TAX

Rates of Tax

From 6 April 2010 there will be three main rates of income tax, with a higher rate of 50% being introduced for individuals with taxable income over £150,000.
Trusts will also be affected, and where income exceeds £1,000 the tax rates will increase to 50% on income apart from dividends.
Dividend income for individuals whose income exceeds £150,000 will taxed at the rate of 42.5%. For individuals whose income is less than £150,000 the dividend rates will remain the same.
Again Trusts will also be affected, and the rate of 42.5% will be applied to the dividend income where the overall income exceeds £1,000.

Personal Allowances

The main Personal Allowance for individuals will increase from £6,035 to £6,475 from 5th April 2009. From 6 April 2010 the personal allowance for individuals with taxable income over £100,000 will see a reduction of £1 for every £2 above this limit.
The effect of this is that those with taxable income exceeding £112,950 will not benefit from a personal allowance.

Pension Tax Relief

For those with annual income exceeding £150,000 there will be a limit placed upon the level of tax relief provided in respect of the personal pension contribution that the individual makes.
The legalisation will come into force from 6 April 2011, but in order to prevent excessive additional contributions from now until then they has been legalisation introduced and effective from 22 April 2009, although the new legalisation will allow for relief on regular contributions made.

Stamp Duty

The “holiday” period in which the 0% band applies will be extended to 31 December 2009 on the purchase of residential properties with a value up to £175,000. After 31 December 2009 the 0% band will resume on properties up to a value of £125,000.

Savings

This year witnesses the 10th anniversary of the introduction of the ISA, and with this there will be an increase in the investment limits. The maximum investment will increase to £10,200 from 6 October 2009, but only for those that are aged over 50. From 6 April 2010, the limit will be available to all savers; the cash limit has been increased to £5,100.

Furnished Holiday Lettings

The tax benefits arising to the landlords of such property will cease from 6 April 2010.

Inheritance Tax

With effect from 22 April 2009 agricultural property relief and woodlands relief has been extended to property situated within the EEA together with Norway, Iceland and Liechtenstein.

A retrospective claim can be made on IHT which has been calculated and paid on or after 23 April 2003, such claims can be made up to and including 21 April 2010.

Foreign Aspects

From 22 April 2009, individuals who own more than 10% of the shares from a non UK resident company will be eligible for non payable tax credits when calculating their tax liability.

There have also been changes made to distributions to individuals from offshore funds previously there would have been no tax credit applied to the distribution made to the UK individual. The proposal is therefore to provide a non payable tax credit to individuals in receipt of dividends from non UK resident companies including offshore funds that are companies.

Additionally there is a stipulation that where the offshore fund holds more than 60% of its assets in interest bearing form then the distribution will be considered to be interest, and no tax credit will be applied.

From 6 April 2010, non resident individuals will no longer qualify for reliefs and allowances, solely by virtue of being a Commonwealth citizen. Although this restriction will be subject to any double taxation agreements in force.

Tables of Rates and Allowances

Income Tax Allowances table

Income tax allowances	2008-09 (£)	2009-10 (£)
Personal allowance	6,035	6,475
Personal allowance for people aged 65-74 (1)	9,030	9,490
Personal allowance for people aged 75 and over (1)	9,180	9,640
Married couple's allowance (born before 6th April 1935 but aged under 75) (1) (2) (3)	6,535	N/A
Married couple's allowance - aged 75 and over (1) (2)	6,625	6,965
Income limit for age-related allowances	21,800	22,900
Minimum amount of married couple's allowance	2,540	2,670
Blind person's allowance	1,800	1,890

(1) - These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic Personal allowance or minimum amount of Married Couple’s allowance.

(2) - Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

(3) - In the 2009-10 tax year all Married Couple's Allowance claimants in this category will become 75 at some point during the year and will therefore be entitled to the higher amount of the allowance - for those aged 75 and over.
Taxable Bands table

Taxable Bands Allowances	2008-09 (£)	2009-10 (£)
Starting rate 10% *	0 – 2,320	0 – 2,440
Basic rate 22%	0 – 34,800	0 – 37,400
Higher rate 40%	over 34,800	over 37,400

* From 2008-09 there is a 10 per cent starting rate for savings income only. If your non-savings income is above this limit then the 10 per cent starting rate for savings will not apply.

The rates available for dividends are the 10 per cent ordinary rate and the 32.5 per cent dividend upper rate.

From 6 April 2010 there will be an additional higher rate of 50% for taxable income above £150,000.

National Insurance - Rates and Allowances

£ per week	2008-09	2009-10
Lower earnings limit, primary Class 1	£90	£95
Upper earnings limit, primary Class 1	£770	£844
Upper accruals point	N/A	£770
Primary threshold	£105	£110
Secondary threshold	£105	£110

Employees' primary Class 1 rate between primary threshold and upper earnings limit	11%	11%
Employees' primary Class 1 rate above upper earnings limit	1%	1%
Class 4 lower profits limit	£5, 435 per year	£5,715 per year
Class 4 upper profits limit	£40,040 per year	£43,875 per year
Class 4 rate between lower profits limit and upper profits limit	8%	8%
Class 4 rate above upper profits limit	1%	1%

Inheritance Tax Rates

Taxable Bands Allowances	**2008-09 (£)**	**2009-10 (£)**
Nil	Up to £312,000	Up to £325,000
40%	Over £312,000	Over £325,000

As you will know we have a whole senior team here to support you and help you at any time. Please either call me or the managers of the appropriate department. **Jon** in Tax, **Martin** or **Siva** in Accounting, **Natalie** in Private Client Services, **Debbie** & **Nicole** in the Isle of Man together with **Thomas Walford** or myself will be able to help.
We at Wilton remain available to assist you and look forward to answering your queries. Please give us a call at any time.
Yours sincerely

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