

## Announcements aimed at stimulating the Economy

### • VAT

The main proposal is a 13 month cut of 2 ½% in the rate of VAT from 17 ½% to 15%. This will take effect from 1<sup>st</sup> December 2008.

The reduction in the standard rate of VAT from 1<sup>st</sup> December 2008 affects those using the flat rate scheme; individual businesses will have to check (on the HMRC website or with us) exactly what their new flat rate should be.

Duty on petrol and diesel is to go up on 1<sup>st</sup> December to balance the reduction in VAT. Also announced were increases in the duty on alcohol and most tobacco products, again negating the VAT reduction.

### • Personal Tax

Tax allowances and bands for 2009/10 will be based on the 'enhanced' 2008/09 figures, uplifted for inflation; the personal allowances for 2009/10 will rise as follows: -

	<u>2008/09</u>	<u>2009/10</u>
Basic personal allowance	£6,035	£6,475
Personal allowance ( <i>Age 65-74</i> )	£9,030	£9,490
Personal allowance ( <i>Age 75+</i> )	£9,180	£9,640
Blind person's allowance	£1,800	£1,890
Married couple's allowance ( <i>for those born before 6<sup>th</sup> April 1935 @ 10%</i> )	£6,625	£6,965
Minimum MCA	£2,540	£2,670
Income limit for age allowances	£21,800	£22,900
Basic rate tax band	£34,800	£37,400

The NIC threshold remains less than the personal allowance for 2009/10 at £5,715pa. The upper earnings limit for NIC will be substantially increased from the current level to £43,875pa (current level £40,040). This means that employees will pay the higher rate of 11% on an additional £3,555 of income, a tax increase of £355 for those earning above that level. The percentage rates of income tax and NIC remain the same as for 2008/09.

### • Pensioner boost

The basic pension is increasing next April from £90.70pw to £95.25pw.

The Chancellor announced that there would be an additional payment of £60 to all pensioners in January – £120 for couples – so they would not have to wait so long for the extra spending power. This will be in addition to the winter fuel payment and the Christmas bonus of £10.

There will also be above-inflation increases in the standard minimum income guarantee within Pension Credit from April 2009.

### • Child Credits and benefits

The rates of Child and Working Tax Credits have been increased, although the income withdrawal threshold of £50,000 has not been increased so those with higher incomes are still unlikely to qualify. In a time of falling incomes, it is worth remembering to put in a claim for these credits in good time because they can only be backdated by three months from the date of claim. However if a provisional claim is made early in the tax year and rejected because the prior year's income is too high, credits can be paid for the whole tax year in arrears if income later falls to qualifying levels.

Child benefit, paid to the mother of qualifying children without any means testing, will increase to £20 for the first child and £13.20 for subsequent children; these rises will apply from 5<sup>th</sup> January 2009 instead of the usual 5<sup>th</sup> April.

## Announcements aimed at recouping these tax losses and increased Public Spending.

- **NIC**

The big tax-raising measure announced was the increase in all rates of National Insurance Contributions by 0.5% from April 2011. At the moment, employees pay 11% on earnings up to the upper earnings limit, and 1% above that. The 0.5% increase on its own will mean an extra cost; of about £220 on a salary of £50,000. Employers' contributions will also increase to 13.3%. Contributions for the self-employed will also increase by 0.5%.

From 2011, the starting point for NIC will rise to match the income tax personal allowance which will offset the increase for lower earners. Those earning up to about £13,000 should pay no more than they do now. The Government's press releases claim that the totality of the changes will leave a person with income of £40,000 paying no more in April 2011 than they were in April 2008. The tax raised by this measure will be about £3.8 billion a year.

- **High earners**

The Chancellor has decided to raise income tax to 45%, from 2011/12, on income over £150,000. As a result dividends will be charged at a higher rate of 37.5%, less a 10% tax credit. For someone with an income of £200,000, this 5% increase represents an extra £2,500 in tax.

There is also a significant change to the relief for the personal allowances of high earners. From 2010/11, those with incomes above £100,000 will have a reduced allowance. The rules are complicated, but the effect is that the allowance will be tapered away so that it is worth 20% of its full value rather than the top rate of tax. Where income exceeds £140,000, the allowance will be tapered further until it is worth nothing at all. For someone on a £200,000 income, the loss of the personal allowance represents a tax increase of £2,590 at 2009/10 rates - more when increases in the allowances by 2010/11 are taken into account. The total increase for these taxpayers will therefore be over £5,000 from the higher rate and lost allowance.

- **Trust taxation**

The increases in income tax rates which will take effect in 2011/12 also apply to trusts. For the last few years all trusts have had to pay tax at 40% on most types of income and 32.5% on dividends (less a 10% tax credit). The new rates will be 45% and 37.5%.

## Selected other measures

- **Pension Contributions**

Although the Chancellor had previously announced the next five annual increases to maximum contributions, he has now announced that the current figures will be frozen at least to the end of 2015/16.

- **Small company tax**

The small company rate of corporation tax – currently 21% on profits of up to £300,000, was planned to rise to 22% from 1<sup>st</sup> April 2009, but this has been deferred for a year. The maximum benefit of this is £3,000 for a company at the very top of the small company profits band.

- **Company losses**

The Chancellor has extended the carry-back of losses up to £50,000 to three years (from the current one year for a continuing trade). The extra relief is available for just one year, for accounting dates falling between 24<sup>th</sup> November 2008 and 23<sup>rd</sup> November 2009.

- **Help with spreading tax payments**

The Chancellor announced the establishment of a new HMRC Business Payment Support Service to allow businesses in temporary financial difficulty to pay their tax bills on a timetable they can afford.

- **No change to income shifting rules**

The present economic climate is not considered the best time for introducing laws to penalise husband and wife enterprises so the Pre-Budget Report includes a promise that the income-shifting proposals will be deferred again – but they will be kept under review.