

Entrepreneurial Business Bulletin PBR special



Introduction

The Pre Budget Report confirmed some initial predictions as well as proposed some new developments. There was a mixture of news including some positive measures for entrepreneurial businesses. This bulletin aims to summarise the key measures likely to impact these businesses. Further information on each of the topics covered can be found from your usual Deloitte contact or one of those listed below to determine the likely implications to your businesses.

Financial help for business

New loan guarantee schemes

With UK GDP forecast to contract by between 0.75% and 1.25% in 2009, measures aimed at helping small companies secure finance and insurance were tabled.

The government announced a Small Business Finance Scheme through which it will support £1bn of new lending by banks. Further support of another £1bn via the Export Credits Guarantee Department to help smaller businesses in the export market will become available. Details of access and eligibility criteria will be announced shortly. In addition, £1bn of European Investment Bank funds will be made available prior to year end to UK banks to lend only to small and medium firms.

The taxation of foreign profits offers a good opportunity to review arrangements where an entrepreneurial business has overseas interests

HMRC business payment support

From 24 November 2008, a business payment support line intended to help businesses that are having difficulty meeting their tax liabilities, will be made available in order to allow them to spread out payments over an agreed period of time. This covers all types of taxes including corporation tax, VAT, PAYE and NIC. Where difficulties are caused by HMRC delays in processing refunds, taxpayers are encouraged to contact the office dealing with their claim.

Corporation tax

Deferral of rate increase

The proposal to defer the 1% increase in the small companies' rate of corporation tax to 22% is a welcome measure for small businesses. The corporation tax rate for companies with profits above £300,000 will remain at the current level (21%) until April 2010.

Temporary carry back of trading losses

Companies and unincorporated businesses making trading losses will be able to carry back losses of up to £50,000 for up to three years rather than the current one year. The one year loss carry back remains unlimited.

For companies the new rules will apply for accounting periods ending between 24 November 2008 and 23 December 2009. Whilst for unincorporated businesses, the new rules will apply to the basis period for the tax year 2008-09.

This measure will be a financial boost for businesses that are able to claim tax repayments as a result. Whilst this measure is similar to one previously introduced in the 1990s, this time around it is limited to £50,000 of trading losses.

Tax relief on company cars

New rules have been introduced for expenditure incurred on cars on or after April 2009 for companies and unincorporated businesses. From that date, expenditure on cars will be allocated to one of the two general plant and machinery pools, depending on the cars' CO₂ emissions. Expenditure on cars with CO₂ emissions over 160g/km will be dealt with in the special rate pool and attract allowances at 10%.

The old expensive car rules will continue to apply for expenditure incurred before April 2009 for a transitional period of 5 years.

For leases commencing from April 2009 a flat rate disallowance of 15% for cars with CO₂ emissions of 160g/km or more will apply.

Taxation of foreign profits

After almost two years of debate, the government finally announced the introduction of an exemption from UK corporation tax on overseas dividends. The exemption will apply to medium and large businesses. The exemption will not be available to those businesses who are small. Small businesses which receive foreign dividends will still be subject to UK corporation tax with credit.

The above exemptions will be subject to a Targeted Anti-Avoidance Rule (TAAR) which will apply where there is a scheme which is tax motivated and carries certain characteristics. No detail has yet been provided on this. This is a good opportunity to review arrangements where an entrepreneurial business has overseas interests (either with branches, investments or subsidiaries).

Personal tax

The following rate changes were announced:

- From April 2010 individuals earning in excess of £100,000 will suffer restrictions on personal allowances.
- From April 2011 there will be a general increase of 0.5% in NIC for most earners.
- From April 2011 the top rate of income tax will rise to 45% for individuals earning in excess of £150,000 a year.
- The personal lifetime and annual allowances for tax-relieved pension savings are being frozen for five tax years from 2011/12 to 2015/16 inclusive at £1.8m and £255,000 respectively.

Income shifting proposals dropped

The original proposals to counter income shifting were published on 6 December 2007. They were concerned with situations where income is transferred by an individual (in the form of dividends or partnership profits) to another person who is subject to a lower rate of tax.

In the light of the current economic challenges the government has decided to defer immediate action and has confirmed that it will not introduce revised proposals in the Finance Bill 2009. However, the government has indicated that the issue will be kept under review.



Employment taxes

Travel and subsistence rules and salary sacrifice opportunities unaffected

As highlighted in previous bulletins, we have a number of ideas to help you save money on PAYE and NIC. These opportunities still exist and will become more valuable given the increasing PAYE and NIC rates in the future. Your local Deloitte contact will be happy to discuss the benefits and savings that can be made from such a scheme as is relevant to your business.

Systems changes will also have to be made to implement the PAYE and NIC changes occurring in 2010 and 2011.

VAT

Rate cut to 15% from 1 December 2008

The standard rate of VAT is to be cut to 15% with effect from 1 December 2008 and will run until 31 December 2009. This is the first reduction in the standard rate for over 30 years.

As a consequence, businesses will need to update their systems to accommodate the new rate, including dealing with payments already received for goods and services to be delivered after 1 December (and vice versa) and credit notes. Retailers will have the task of repricing their goods if they are to pass on the rate reduction. Businesses may also wish to consider the timing of purchases, particularly capital purchases, especially where VAT would not be fully recoverable.

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