

Prosper - Newsflash

Pre-Budget Report

The Pre-Budget Report contained widely anticipated measures for individuals, designed to support the economy, together with some surprising measures to claw back some of the tax giveaways from higher rate taxpayers in the future. These measures include a 45% tax rate, increased national insurance contributions (NICs) and a restriction or loss of personal allowances.

The rate of VAT falls to 15% from 1 December 2008 for thirteen months.

60% marginal rate

The new tax rates to be introduced from 2011 add more than one extra layer of complexity to the income tax system.

There will then be six rates of income tax that can apply to individual taxpayers in the UK - the basic rate of 20% and higher rate of 40%; the basic and higher rates relating to dividend income of 10% and 32.5%; and the special rate of 45% that applies to income over £150,000, together with a corresponding higher rate for dividends of 37.5%.

To add to this, various changes were announced today to be effective from 2010 regarding the removal of personal allowances for those with income over £100,000. The effect of this is to taper away the personal allowance such that for every £2 of income over £100,000, £1 worth of personal allowance will be removed, up to a maximum of 50% of the allowance.

The other 50% of the allowance will be tapered away in the same way for income of more than £140,000, such that no personal allowance will be available for income of more than approximately £146,000. At £150,000 the 45%/37.5% rates kick in.

These changes also throw up some interesting marginal tax rates. For someone with income greater than £100,000, the marginal tax rate is 60% over the income bands where they are losing their personal allowance. That is before calculating the cost of any NICs, also set to increase by 0.5% for everybody within the national insurance net, regardless of earnings, from 2011.

From 6 April 2011 discretionary and accumulation trusts will pay tax at these new rates of 37.5% on dividends and 45% on all other income with only a lower band of 20% on the first £1,000.

Pension allowances frozen

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.

However, as the top rate of income tax for individuals earning in excess of £150,000 will be 45% from 2011/12, this appears to mean that these individuals will be able to obtain tax relief at 45% on contributions to registered pension schemes. This may explain in part why the pension allowances have been frozen.

Carry back of trading losses

Companies and unincorporated businesses making trading losses will have an additional way to relieve these losses. Rules currently allow trading losses to be relieved in a number of ways, including against income in the current year or carried back to the preceding year. Going forward it will be possible to carry back trading losses for a further two years, where they have not been

fully utilised by a single-year carry back claim.

For companies the new rules will apply for accounting periods ending between 24 November 2008 and 23 November 2009 and for unincorporated businesses for the tax year 2008/09.

Losses must be set against profits from the most recent accounting period first. Once offset has taken place in the most recent accounting period (without restriction), the maximum relief that can be claimed by carrying back to the two preceding periods is limited to £50,000 of losses.

Anti-avoidance - film partnership leasing

As announced on 13 November 2008, the Government has outlined measures to counter avoidance of taxation by film leasing partnerships through the use of long funding leases.

Under standard sale and leaseback partnership arrangements, films are acquired or produced and leased to other companies over a period of up to 15 years. The rents are taxable, but the effect of the sale and leaseback arrangements allows a deferral of tax for up to 15 years.

The new anti-avoidance rules are aimed at arrangements under which the existing leases are replaced with new leases designed to qualify as long funding finance leases of plant and machinery. The effect was to replace taxable income with income that was largely tax free.

The effect of the new rules is that rentals are taxable in full to the extent that they are payable after 13 November 2008 and relate to periods after that date.

Individual Savings Accounts and Multilateral Institutions

The Chancellor has announced an extension to the ISA regulations to enable investors to hold bonds issued by Multilateral Institutions within a stocks and shares ISA.

Multilateral Institutions provide financial support and professional advice for economic and social development activities in developing countries, as defined by the OECD.

Qualified Investor Schemes

These are a form of authorised investment fund which can only be marketed to sophisticated investors. They have wider investment powers than other authorised funds.

Currently a special less favourable tax regime applies to investors who hold more than 10% of such a fund. From 1 January 2009 all investors in qualified investor schemes will be taxed in the same way as investors in other authorised investment funds such as unit trusts or open-ended investment companies. This is subject to a condition that the scheme does not limit its investors to specific individuals or companies.

Claims equalisation relief for Lloyds corporates

Corporate members of Lloyds will in future benefit from an alignment with other general insurers by being able to claim tax relief on claims equalisation reserves (or provisions) in respect of profits treated as arising in the year ended 31 December 2008 onwards.

What did not change...

Income shifting kept under review

The original proposals to counter income shifting were published on 6 December 2007. They were concerned with cases 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 confirmed that the issue will be kept under review.

Taxation of non-domiciles

Following the major changes introduced by the Finance Act 2008, there was a general expectation and indeed commitment by the Government that no major changes would be announced. The new rules are still bedding down and a number of practical issues have been identified and are under discussion with HMRC. In the light of this, it comes as no surprise that none of the new announcements touched upon this area.

Prospective changes

Review of offshore financial centres

There will be a review into the financial and fiscal arrangements of the UK's Crown Dependencies and overseas territories, such as the Channel Islands and the Isle of Man; interim conclusions will be produced for the Budget in 2009, with more detail later in the year.

A new charter for HMRC and taxpayers

HMRC today issued their formal response to consultation into the scope of a new Charter between HMRC, individuals, businesses and their agents. HMRC have agreed that a single Charter, with legislative authority, is appropriate. This will be a high level principles document linked to HMRC standards of service to help taxpayers measure performance covering taxpayer rights and obligations. HMRC will consult in the New Year on the draft Charter and the responses will be used to refine the draft to produce the final document.

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Tax rates and allowances 2009/10

Allowances 2009/10

	2009/10 £	Change £	2008/09 £
Personal allowance (age under 65)	6,475	440	6,035
Personal allowance (age 65-74)	9,490	460	9,030
Personal allowance (age 75 and over)	9,640	460	9,180
Married Couple's allowance* (age less than 75 and born before 6 April 1935)	6,865	330	6,535
Married Couple's allowance* (age 75 and over)	6,965	340	6,625
Married Couple's allowance* - minimum amount	2,670	130	2,540
Income limit for age-related allowances	22,900	1,100	21,800

* Married Couple's allowance is given at rate of 10%

The basic and higher income tax rates remain at 20% and 40% for 2009/10 and 2010/11. From 6 April 2010 the personal allowance will be restricted to half its value for those with incomes over £100,000 and to zero for those with incomes over £140,000. From 6 April 2011 incomes above £150,000 will be subject to a new 45% income tax rate.

Pensions

	2009/10 £	Change £	2008/09 £
Annual allowance	245,000	10,000	235,000
Lifetime allowance	1,750,000	100,000	1,650,000

National Insurance Contributions

	2009/10 £	Change £	2008/09 £
Primary Class 1 contributions			
Lower earnings limit (per week)	95	5	90
Upper earnings limit (per week)	844	74	770
Primary threshold (per week)	110	5	105
Secondary threshold (per week)	110	5	105
Class 2 annual small earnings exception	5,075	250	4,825
Class 2 rate (per week)	2.40	0.10	2.30
Class 3 voluntary contribution rate (per week)	12.05	3.95	8.10
Class 4 contributions			
Lower annual earnings limit	5,715	280	5,435
Upper annual earnings limit	43,875	3,835	40,040

From 6 April 2011 a 0.5% increase in employer, employee and self-employed rates of national insurance contributions (both main and additional rates) will be introduced. At the same time the point at which individuals start to pay National Insurance will be aligned with the personal allowance.