

# Budget 2009

**Budget report - 22 April 2009...** with the economic turmoil of the last year, expensive bailouts, deflation, rising unemployment, huge debts and a looming election - this was always going to be an interesting Budget statement from the Chancellor.

The focus for many has been the increase in tax for high earners - not only has the proposed increase doubled, but the timescale has been brought forward by a year.

To help you assess what impact the Chancellor's announcements may have on your position, we have produced this summary of the key issues which are relevant to our clients.

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## Income tax and national insurance rates & allowances

**As previously announced, for 2009/10 the personal allowance will be increased from £6,035 to £6,475. All other allowances will be increased in line with inflation.**

The Chancellor confirmed that from 6 April 2010, an individual with income over £100,000 will find their personal allowance reduced by £1 for every £2 of income above the £100,000 limit, but he announced that the reduction will now continue until the allowance is exhausted rather than leaving a half allowance. This effectively means that from 6 April 2010 if your income is more than about £113,000 you will receive no personal allowance at all.

Also as already announced last year there are no changes to the basic (20%) or higher (40%) rates of tax for 2009/10, and the basic rate band will rise by inflation for 2009/10 to £37,400.

However, in a significant departure from his Pre-Budget statement of November 2008, the Chancellor has introduced a new 50% tax rate which will apply to income (both earned and from savings) above £150,000 from 6 April 2010. Correspondingly, dividend income above this level will be taxed at 42.5% (up from 32.5%). These new rates replace the anticipated higher rates of 45% and 37.5% effective from 6 April 2011 which had been announced.

In addition to this, as previously stated, National Insurance (NI) rates will rise from 6 April 2011. From that date both employed and self-employed taxpayers will pay 0.5% more in NI contributions on all of their earned income.

The income of discretionary trusts will be taxed at the new 50% and 42.5% rates mentioned above from 6 April 2010. Again, these new rates are both 5 percentage points higher and will apply a year earlier than mentioned in the Pre-Budget statement of November.

### Help with paying your tax bills

Changes to the law will enable individuals and businesses to pay their income or corporation tax bills by instalments. These 'voluntary managed payment plans' (MPPs) will allow you to pay your taxes in smaller amounts on a regular basis assisting cash flow and avoiding the normal interest charges and other penalties for late payment of tax. However, MPPs will not be available before April 2011.

## Furnished holiday lettings (FHLs) going, going, gone - well almost!

FHLs benefit from special tax rules allowing losses from letting the property to be offset against general income and in some cases qualify for relief from Inheritance Tax.

The Government has been advised that restricting this special tax treatment to UK holiday lettings may not be compliant with EU law and this legislation will be repealed from 2010/11. Until then FHLs within the EU may now qualify for the special tax treatment so if you have an EU property with losses from letting as an FHL it could be possible to make a claim for loss relief for the tax years to 5 April 2010.

## Extension of agricultural property relief (APR) and woodlands relief (WR)

The Chancellor has bowed to pressure from the EU and extended the application of APR and WR to any relevant agricultural property and woodlands within the European Economic Area therefore relieving these assets from a charge to Inheritance Tax.

Where this relief applies you will also be able to defer a charge to Capital Gains Tax on lifetime gifts of these assets.

## Higher rate income tax relief for pension contributions

**As had been widely predicted, the Chancellor has introduced measures that will restrict higher rate tax relief for pension contributions if you have income of more than £150,000.**

From 6 April 2011 relief will be limited to basic rate tax on income over £180,000. The higher rate relief will be reduced gradually for income levels between £150,000 and £180,000. If you earn less than £150,000, your pension contributions will continue to attract higher rate income tax relief where applicable.

To deter people from making large payments before 6 April 2011, transitional rules have been introduced with immediate effect to restrict tax relief during this period. These transitional rules will only affect anyone whose taxable income for any year from 2007/08 onwards exceeds £150,000 and who make pension contributions in any tax year in excess of £20,000, or (if more), their current "regular contributions". Regular contributions are defined as the amounts already being paid on at least quarterly basis. This may be a particular problem to anyone in the habit of making a single large annual payment as this will not be a "regular contribution".

## Welcome changes to the enterprise investment scheme (EIS)

**Investments under EIS, may qualify for 20% income tax relief on the amounts subscribed for new share capital in qualifying companies, with an upper limit of £500,000 per annum.**

In addition to the income tax relief, you may benefit from capital gains tax exemption on a later sale and/or capital gains tax deferral relief.

New measures are being introduced for 2009/10 onwards to allow you to carry back the income tax relief to the previous tax year, without restrictions. Under current legislation you can only carry back up to £50,000 provided you had invested before 6 October.

## Financial services compensation scheme (FSCS) - interest

The FSCS was set up to compensate customers who have lost money where financial institutions have failed. Any elements of compensation paid on or after 6 October 2008 which are accrued interest will be taxable.

## New penalty regimes

The 2009 Finance Act will introduce legislation to reform penalty regimes across most taxes for late filing of tax returns and the late payment of tax, which will be dealt with separately.

Although full details are not yet available, the new regimes will be harsher than the old. Key elements include:

- Charging individuals and companies a £100 penalty for a late filed return even if no tax is due
- Charging individuals and companies penalties of £10 per day for returns over 3 months late and tax-geared penalties for returns over 6 months late
- The introduction of tax-geared penalties for the late payment of corporation tax
- The introduction of tax-geared penalties for late payments under the PAYE system if there are more than one of these in any 12 month period

These regimes will however be phased in over a number of years – it seems the only one operational from April 2010 will be that governing PAYE payments.

## Taxation of foreign dividends

From 22 April 2009, individuals with shareholdings of 10% or more in foreign companies will receive a non-repayable tax credit of 10% on their dividends. The requirement is that the company concerned is resident in a country with a Double Tax Agreement with the UK allowing this. Until now only those with foreign company shareholdings of less than 10% qualified for this tax credit.

## Anti-avoidance

As is usual, several changes were announced to prevent certain tax avoidance schemes. These include schemes where relief is claimed for interest payments on loans to partnerships or close companies where no investment risk is present; schemes using offshore life insurance policies to generate income tax losses; and schemes which dispose of rights to receive future income streams without disposing of any underlying asset.

## HMRC Charter

Following consultations, the first ever statutory Charter governing standards of behaviour and values for HMRC in dealing with taxpayers will be published before the end of this year.

This is a welcome move given the new powers that HMRC have from April 2009. However, it remains to be seen what remedies will be available to taxpayers under this new Charter if HMRC are in breach of it.

## Stamp duty land tax (SDLT): extension of increase in threshold

In September 2008 the Chancellor announced that the SDLT threshold for residential property would be increased from £125,000 to £175,000 until 2 September 2009.

Budget 2009 extends this measure until 31 December 2009, meaning that all residential properties purchased this year for less than £175,000 will be SDLT-free.

## Offshore disclosure facility - Part 2

The Chancellor announced a new offshore disclosure scheme which will run for a limited period from Autumn 2009.

This will allow taxpayers with undisclosed offshore accounts one final opportunity to disclose this income to HMRC. Details have yet to be announced.

## Reclaiming overpaid tax

The time limits for reclaiming overpayments of income tax, capital gains tax and corporation tax will reduce considerably for claims made after 1 April 2010. From that date claims must be made within 4 years from the end of the period for which the tax return was made. This is a significantly shorter time period than the current ones of 5 years and 10 months (individuals) and 6 years (companies).

In spite of this reduction, other changes may widen the circumstances in which you are entitled to reclaim an overpayment.

## Individual savings accounts (ISAs): increased limits

The annual ISA subscription limit for 2009/10 is £7,200, of which up to £3,600 can be invested in cash.

From 6 April 2010, the limit will increase to £10,200, with the cash element increasing to £5,100. If you are over 50, the increased limit will apply from the earlier date of 6 October 2009.

## Interest harmonisation

Different interest rates for both tax underpayments and overpayments currently exist for a number of different taxes.

Moves are afoot to harmonise these for all taxes and use a formula based on the Bank of England base rate. For most taxes the interest rates will be aligned shortly after the passing of the Finance Act.

## State pensions safe!

Despite the fall of the RPI into negative figures (expected to reach -3% by September when the RPI is used as a base for the next year's increase in the state pension and similar benefits) the Chancellor has promised that the state pension will increase by no less than 2.5%. This reflects the fact that lower-income households are still experiencing positive inflation in food and fuel costs.

## Naming and shaming

Legislation has been proposed to allow the publication of the names of serious tax defaulters on the HMRC website. A serious tax defaulter is any individual, business or company whose activities have deliberately led to a tax loss of more than £25,000. This could be as a result of actual fraud, or potentially by participating in aggressive tax planning. However, disclosures made within normal time limits, whether prompted or unprompted will be unaffected and the taxpayers' names will not be published.

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