

Today's Pre-Budget Report – What it means for you

Published each autumn, the Pre-Budget Report is the Treasury's chance to explain in advance its approach to the full Budget next spring, and also an opportunity to update its economic forecasts. Whilst it is always an important event, the current economic state of the economy, combined with a general election next year, means that this year there is an even greater need to ensure stability and certainty for individuals and businesses in the UK tax system.

Today's Pre-Budget Report by the Chancellor Alistair Darling is probably his last chance to have any real effect on the economy before we are given our opportunity to vote in a new government. We will probably see a Budget in March 2010, but it will be swiftly followed by the General Election and so whoever wins will no doubt present a fresh Budget soon afterwards.

The Chancellor's statement was high on rhetoric but contained little of great substance. There was much hype about a bank payroll tax on bonuses over £25,000 but this will only affect a tiny proportion of taxpayers and is unlikely to collect significant amounts of extra tax. However, there were some announcements tucked away in the fine print that businessmen and taxpayers should note. Here is Ellacotts' summary of the key changes and some pointers on where to pay particular attention.

2010 tax rates at a glance

Personal Taxation – 2010/11

- **Income tax** – 20/40/50% rates with rate bands and allowances frozen from 2009/10. Personal allowances £6,475 but withdrawn if income exceeds £100,000.
- **National insurance contributions** for employees – continues at 11%/1%. Increase due 2011.
- **Capital gains tax** – no change expected
- **Inheritance tax** – nil rate band frozen at £325k (proposed increase to £350k scrapped)
- **Pensions tax relief** – contributions capped at £20,000 for most individuals with income over £130k
- **Company cars & vans:**
 - tax-free electric vehicles for 5yrs
 - car fuel benefit scale = £18,000
 - lower benefit CO₂ level = 99g/km

Business Taxation

- **Corporation tax** – 21% lower rate further extended until 2011
- **Capital allowances** – 100% relief on electric cars
- **National insurance contributions** – increase due 2011 (13.3% employers contribution)
- **VAT** – confirmed 17.5% from 1 January 2010

Other taxes

- **Stamp duty land tax** – reduction in lower limit from £175k to £125k confirmed from 1 January 2010
- **Penalties for offshore tax evasion** – increased from 100% to 200% of tax
- **New landline duty** – 50p per month per line confirmed from 1 October 2010

Tips for tax planning

1. A £400 cash-back will soon be available for replacement household boilers, so if you are considering upgrading your boiler check to see if you qualify for this incentive.
2. Company car fuel benefit charges are being hiked (a 6.5% tax increase) again from next April. Many more employees will be better off paying for fuel for private mileage rather than suffering the tax. A 40% taxpayer with a mid-range car will probably be better opting-out of the benefit if they do less than 16,000 private miles each year.
3. Individuals will be paying more tax in real terms from April 2010 because the tax allowances and rate bands are being kept the same as 2009/10. It is also proposed that the 2012/13 higher rate threshold will be frozen at 2011/12 levels. Family businesses may wish to consider how each member withdraws profits from the business to maximise use of the tax allowances and rate bands.
4. The impact of the new 50% income tax rate, withdrawal of personal allowances and capping of pension scheme contributions will significantly affect individuals with higher incomes. Anyone who believes their income may exceed £100,000 per annum after 5 April 2010 should consider taking tax advice to mitigate the effect of the new tax rules.
5. The further extension of the small company corporation tax rate at 21% to 31 March 2011 will help keep a lid on tax costs for smaller businesses. This means that some partnerships and sole traders may wish to consider incorporating into a limited company to take the benefit of possible lower tax rates.

With announcements of this nature, the finer points of the proposed changes are often buried deep in accompanying documents that are released after the Pre-Budget Report. It is necessary for us to review these documents in detail, in order to establish if there are significant proposals that did not get mentioned in the Chancellor's speech. Once we have reviewed and made sense of them, we will communicate any relevant findings to you over the next few days via the News and Events page on our website.

Please note that next spring we will be hosting an Ellacotts "Budget Uncovered" event which will take place the day after the release of the Government's Budget statement. Once the date of the Budget has been agreed, we will send you an invite and would be delighted if you are able to attend in order to discover first hand from local tax experts exactly how the Budget will affect you and/or your business/clients.

In the meantime if you would like to speak to us about any particular point, please contact Alan Boby on 01295 250401, or email aboby@ellacotts.co.uk