Budget 2009

The Chancellor, Alistair Darling announced some gloomy news in his 2009 Budget speech. However he is reluctant to introduce tax increases too quickly for fear of stifling a recovery to the economy. Income tax will not go up this year for most, however those earning more than £150,000 will see an increase from 40% to 50% from April 2010. Many are saying that Mr Darling's projections are too optimistic.

Other Budget highlights include:

Personal Tax

From 6th April 2010:

- Dividends within the higher rate tax band will be taxed at 42.5%
- The rate applicable to trusts will rise from 40% to 50%
- Individuals with income of £100,000 will lose £1 of personal allowance for every £2 their income exceeds this limit.
- The favourable treatment available to furnished holiday lettings is to be abolished. Losses will no longer be available for offset against other income, capital gains tax on the sale of the property will increase by up to 80% and inheritance tax relief may be affected.

From 6th April 2011:

- The rate of tax relief on pension contributions will be restricted for those with incomes of £150,000 or more. Higher rate relief will be tapered away until only 20% relief is available when income reaches £180,000.
- Rules have been introduced to deter those with income in excess of £150,000 from accelerating their pension contributions into the period between now and April 2011, to gain the benefit of tax relief at 40% or 50%. The amount of pension contributions benefiting from higher rate relief will be capped to £20,000 in certain circumstances.

Business Tax

- The full rate of corporation tax for the financial year 2010 starting on 1st April 2010 will remain at 28%
- The small company rate for financial year 2009 starting on 1st April 2009 will remain at 21%. It is expected that the rate will **increase** to 22% from 1st April 2010.
- A First Year Allowance (FYA) of 40% will be introduced for one year on the main capital allowances pool for expenditure on or after 1st April 2009 for companies and 6th April 2009 for other businesses. The FYA will be available to companies, individuals and all partnerships. It will not apply to cars or assets used for leasing. It will not be relevant to those spending less than £50,000 a year on plant & equipment as the 100% Annual Investment Allowance (AIA) will cover this level of expenditure.
- Improvement of the loss carry back rules announced in the Pre Budget report by the extension of the loss making period from one to two years. For companies, losses arising in corporation tax accounting periods ending between 24th November 2008

and 23rd November 2010 will be available for a three year carry back. For income tax purposes, losses arising in 2008/09 and 2009/10 can be carried back. No more than £50,000 can be carried back in relation to each loss making period. It is now possible to anticipate a loss before the accounting period ends when negotiating the payment of outstanding tax liabilities.

- Capital Allowances on cars have been reformed for qualifying expenditure from 1st or 6th April 2009. Cars emitting no more than 160g/km of CO_2 are to be included in the main pool attracting an annual allowance of 20%. Those emitting more will be included in the special rate pool attracting a lower allowance of 10%. Restrictions on lease payments will apply to higher emitting cars and to shorter term hire periods in excess of 45 days. Motorcycles will no longer be treated as cars, and so will qualify for the 100% AIA.

- Cars that have an element of non-business use will continue to be dealt with separately to enable the private use adjustment to be made, but the rate of allowance will still be determined by the car's CO_2 emissions.

- Businesses purchasing designated energy efficient plant and machinery, which reduces water use or improves water quality qualify for 100% capital allowances. Further additions to the approved technologies which benefit from these enhanced allowances are to be implemented in the summer of 2009.

VAT

- VAT registration threshold increased from £67,000 to £68,000 with effect from 1st May 2009.

- VAT voluntary deregistration threshold increased from £65,000 to £66,000 with effect from 1st May 2009.

- VAT standard rate reverts back to 17.5% on 1st January 2010.

- The process for reclaiming VAT incurred in other member states will be significantly streamlined from 1st January 2010, with claims made electronically, rather than on paper, and submitted to the home tax authority.

Other

- The ISA limit will increase to £10,200 from 6th April 2009 for those aged 50 or more, and the new limit will apply to all savers from 6th April 2010. The cash limit within the overall limit will be £5,100.

- Improvements have also been made to the EIS scheme, in particular to extend the carry back rules by removing the limits which permit only half of the amount invested to be carried back, subject to an upper limit of £50,000. Up to £500,000 of the investment can now be carried back to the previous year, qualifying for 20% tax relief.

- The stamp duty land tax "holiday" on residential property costing up to £175,000, which was due to come to an end on 2nd September 2009 has been extended until 31st December 2009. The holiday now applies to acquisitions between 3rd September 2008 and 31st December 2009 inclusive. After that date the SDLT threshold for residential property will revert to £125,000.