OFFICES AT:

NEWBURY Tel: 01635 35255
OXFORD Tel: 01865 200500
READING Tel: 0118 959 0261
HENLEY Tel: 01491 572565
SOUTHAMPTON Tel: 023 8022 1222

Email: info@jamescowper.co.uk
Website: www.jamescowper.co.uk

jamescowper
Accountants & Business Advisers

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Budget Review

Darling defiant in face of recession

Chancellor Alistair Darling has unveiled a series of measures aimed at tackling the 'unprecedented economic crisis'. As widely anticipated, growth forecasts for 2009 have been revised down, with the economy expected to shrink by 3.5%; while borrowing forecasts have risen sharply to £175 billion. However, despite the economic gloom, the Chancellor asserted that the economy will recover, forecasting growth of 1.25% next year.

Key announcements include the introduction, from April 2010, of a 50% income tax rate for those earning more than £150,000 a year. The stamp duty land tax 'holiday' for residential properties valued at £175,000 or less will be extended to the end of 2009.

Measures for businesses include the introduction of a temporary 40% first year allowance and an extension of help for loss-making companies.

The Chancellor allocated £1 billion to tackle climate change, and announced a commitment to cut UK carbon emissions by 34% by 2020.

The introduction of a 'car scrappage' scheme was also confirmed, offering £2,000 to people who trade in cars that are over 10 years old. Meanwhile, fuel duty will rise by 2p a litre from September 2009.

Other measures include an increase in the child element of Child Tax Credit from April 2010; credits towards the basic state pension for grandparents of working age who care for their grandchildren for at least 20 hours per week; and a rise in the annual limit for ISAs to £10,200 from 6 October 2009 for people aged 50 and over, and for all investors from 2010/11 onwards.

Alcohol and tobacco products duty

All duty rates for alcohol will rise by 2% from their current levels. The impact of the changes on retail prices from 23 April 2009 for typical alcoholic drinks is equivalent to:

- 13p on a 70cl bottle of spirits
- 1p on a pint of beer
- 1p on a litre of still cider
- 4p on a 75cl bottle of sparkling cider
- 4p on a 75cl bottle of wine/ made wine
- 5p on a 75cl bottle of sparkling wine.

The duty rates for tobacco products are increased by 2%.

Vehicle Excise Duty

		From 1 May 2009		From 1 April 2010	
VED Band	CO_2 emissions (g/km)	Petrol & Diesel	Alternative fuel cars	Petrol & Diesel	Alternative fuel cars
A	Up to 100	£0	£0	£0	£0
B	101 – 110	£35	£15	£20	£10
C	111 – 120	£35	£15	£30	£20
D	121 – 130	£120	£100	£90	£80
E	131 – 140	£120	£100	£110	£100
F	141 – 150	£125	£105	£125	£115
G	151 – 165	£150	£130	£155	£145
H	166 – 175	£175	£155	£180	£170
I	176 – 185	£175	£155	£200	£190
J	186 – 200	£215	£200	£235	£225
K*	201 – 225	£215	£200	£245	£235
L	226 – 255	£405	£390	£425	£415
M	Over 255	£405	£390	£435	£425

*includes cars emitting over 225 g/km registered between 1/03/01 and 23/03/06

Business tax and investment incentives

Trading losses

Trade loss carry back will be extended to a period of three years, with losses being carried back against later years first. After carry back to the preceding year, a maximum of £50,000 of unused losses will be available for carry back to the earlier two years. This will apply to trading losses made by companies in accounting periods ending between 24 November 2008 and 23 November 2010 and to trading losses made by unincorporated businesses in tax years 2008/09 and 2009/10. The £50,000 limit applies separately to the unused losses of each 12 month period or tax year.

Capital allowances (CA)

A 40% first year allowance will be introduced for expenditure on qualifying plant and machinery that would normally be allocated to the main CA pool. This will be available for expenditure in the 12 month period beginning on 1 April 2009 for corporation tax and on 6 April 2009 for income tax.

Qualifying expenditure incurred on cars on or after 1 or 6 April 2009 will now be allocated to one of the two general plant and machinery pools. Cars with CO_2 emissions exceeding 160 g/km will be dealt with in the special rate pool and attract writing down allowances (WDA) at 10%. Cars with emissions of 160 g/km or less will be added to the main rate pool and attract WDA at 20%. Expenditure incurred before April 2009 will continue to be subject to the old 'expensive' car rules for a transitional period of around five years. Cars that have an element of non-business use will continue to be dealt with in single asset pools to enable the private use adjustment to be made, but the rate of WDA will be determined by the car's CO_2 emissions.

Car leases

From April 2009, the rules restricting the amount of car lease rental payments that can be deducted for tax purposes will be changed to a flat rate disallowance of 15% of relevant payments. This will apply only in respect of cars with CO_2 emissions exceeding 160 g/km. For leases that commenced prior to April 2009, the previous rules will continue to apply until the end of the lease.

Enterprise Investment Scheme

The restrictions on the carry back of income tax relief to the previous tax year will be removed. This will apply to 2009/10 and subsequent years. With effect from 22 April 2009, further changes will simplify and improve the scheme.

Loan relationships

Where trade debts between connected companies are released after 22 April 2009, the debtor companies will no longer be taxed on the debts released. For accounting periods beginning on or after 1 April 2009, deductions for interest payable to certain connected foreign companies will now be available on a paid basis rather than on the accruals basis.

Corporate transparency

For accounting periods beginning on or after Royal Assent the senior accounting officers of large companies and large groups of companies will have reporting obligations aimed at ensuring that the accounting systems are adequate for the purposes of accurate tax reporting.

These obligations will be supported by penalties chargeable on the senior accounting officer personally and on the company.

Anti-avoidance

A number of measures will be introduced to tackle anti-avoidance. These will affect:

- Intra-group convertible finance
- Derecognition of income from derivative contracts
- Plant and machinery leasing
- Foreign exchange matching
- 'Disguised interest'
- Exploitation of qualifying loan interest relief
- Real Estate Investment Trust (REIT) regime
- Double tax relief where foreign tax is repaid
- Receipts derived from a right to receive income.

Corporation Tax Rates

Taxable profits	*Financial year to 31 March 2010*	*Financial year to 31 March 2009*
First £300,000	*21%*	*21%*
Next £1,200,000	*29.75%*	*29.75%*
Over £1,500,000	*28%*	*28%*

The small companies' rate of corporation tax will increase from 21% to 22% in 2010/11

Capital taxes

The capital gains tax (CGT) annual exempt amount is increased to £10,100 for individuals (£5,050 for most trustees) for 2009/10.

The rate of CGT remains 18% with entrepreneurs' relief potentially reducing the effective rate of tax on qualifying gains to 10%.

Offshore funds

The Chancellor announced that an interest in a transparent offshore fund will be an asset for the purpose of calculating CGT on chargeable gains (as is already the case for shares in a company or units in a unit trust). Investors will no longer be required to consider disposals of the underlying assets for calculating CGT on chargeable gains.

The Government will discuss with industry how to make similar changes to the tax treatment of chargeable gains for investors subject to corporation tax.

Inheritance tax (IHT)

The IHT allowance (nil-rate band) is increased to £325,000 for 2009/10. The transferability of the allowance gives an effective joint tax-free maximum of £650,000 for married couples and civil partnerships.

The rate of IHT remains 20% for chargeable lifetime transfers and 40% for death estates (including transfers within seven years before death brought back into the estate for the purpose of calculating the tax due at death).

VAT

The standard rate will revert to 17.5% from 1 January 2010.

Cross-border VAT

With effect from 1 January 2010 UK businesses that supply services where the place of supply is the customer's country must complete EC Sales Lists (ESLs) for each calendar quarter.

Changes were announced to the place of supply of services rules. The place of supply rules determine the country where a supply of services is made and where any VAT is payable. They also determine whether, if VAT is due on a supply, it should be accounted for by the supplier of a service or their business customer.

Value Added Tax Rates and Thresholds		
From	*1 Dec 2008*	*1 Jan 2010*
Standard Rate	*15%*	*17.5%*
VAT Fraction (Turnover)	$^{3}/_{23}$	$^{7}/_{47}$
Reduced Rate	*5%*	*5%*
Taxable Turnover Limits from 1 May 2009		
Registration – last 12 months or next 30 days over	*£68,000*	
Deregistration – next 12 months under	*£66,000*	
Cash and Annual Accounting Schemes	*£1,350,000*	
Flat-rate Scheme	*£150,000*	

National Insurance Contributions (NICs)

2009/10		**Employer**	**Employee**
Class 1 – not contracted out			
Payable on weekly earnings of			
£95 (lower earnings limit) to £110		0%	0%
£110.01 – £770 (upper accrual point)		12.8%	11%
£770.01 – £844 (upper earnings limit)		12.8%	11%
Over £844		12.8%	1%

Over state retirement age, the employee contribution is Nil. Earnings over the upper accrual point provide no additional pension benefit.

Class 1A	On relevant benefits	12.8%	Nil
Class 2	Self employed	£2.40 per week	
	Limit of net earnings for exception	£5,075 per annum	
Class 3	Voluntary	£12.05 per week	
Class 4*	Self employed on profits		
	£5,715 - £43,875	8%	
	Excess over £43,875	1%	

*Exemption applies if state retirement age was reached by 6 April 2009.

Income tax and personal savings

Income Tax Rates	2009/10	2008/09
Starting Rate Limit*	**£2,440**	**£2,320**
*Tax Rate**	*10%*	*10%*
Basic Rate	**£37,400**	**£34,800**
Basic Rate	*20%*	*20%*
Savings Rate	*20%*	*20%*
Dividend Ordinary Rate	*10%*	*10%*
Higher Rate - Income Over	**£37,400**	**£34,800**
Tax Rate Excluding Dividends	*40%*	*40%*
Dividend Upper Rate	*32.5%*	*32.5%*

** Where taxable non-savings income does not fully occupy the starting rate limit, the remainder of the limit is available for savings income at the 10% starting rate.*

Personal Allowances		2009/10	2008/09
Allowances that reduce taxable income		**£**	**£**
Personal Allowance	*under 65*	*6,475*	*6,035*
	*65 to 74**	*9,490*	*9,030*
	*75 and over**	*9,640*	*9,180*
	minimum	*6,475*	*6,035*
Allowances that reduce tax			
Married Couple's Allowance (MCA)			
Elder Partner	*74**	*n/a*	*653.50*
	*75 and over**	*696.50*	*662.50*
	minimum	*267*	*254*

**Higher allowances for those aged 65 or more are scaled back when income exceeds £22,900 (2008/09 £21,800). MCA is only available where at least one partner was born before 6 April 1935.*

Pension savings

The Chancellor announced that tax relief on pension savings will be restricted to the basic rate from 6 April 2011 for those with taxable income of £150,000 or more.

Anti-forestalling measures have been announced. They will prevent those potentially affected from seeking to forestall this change by increasing their pension savings in excess of their normal regular pattern prior to the restriction taking effect. Those who do increase their pension savings will be affected only if their total pension savings in the year exceed £20,000. The change will not affect any normal, regular ongoing pension savings that were in place before 22 April 2009, whatever their value.

Tax and travel

Car and fuel benefits

The taxable petrol and diesel car benefit is based on the car's CO_2 emissions. It is calculated using the car's UK list price and applying the 'appropriate percentage' as shown in the table opposite. The first line of figures in the table relates to qualifying low emissions cars (QUALECs). Discounts of between 2% and 6% are given for cars other than QUALECs that can be driven on alternative fuels.

The car fuel benefit is calculated by applying the same percentages to the fuel multiplier, which for 2009/10 is £16,900.

VAT on fuel for private use in cars

Where businesses wish to reclaim the input VAT on fuel which has some degree of private use, they must account for output VAT on a scale charge. The table shows the VAT chargeable for quarters commencing on or after 1 May 2009.

Company vans

The taxable benefit for the unrestricted private use of vans is £3,000. There is a further £500 taxable benefit if the employer provides fuel for private travel.

CO_2 emissions	Appropriate percentage		Quarterly VAT		
(g/km)	Petrol %	Diesel %	Fuel scale charge £	VAT on charge £ (15%)	VAT on charge £ (17.5%)
120 and below	10	13	126	16.43	18.76
121 - 139	15	18	189	24.65	28.14
140 - 144	16	19	201	26.21	29.93
145 - 149	17	20	214	27.91	31.87
150 - 154	18	21	226	29.47	33.65
155 - 159	19	22	239	31.17	35.59
160 - 164	20	23	251	32.73	37.38
165 - 169	21	24	264	34.43	39.31
170 - 174	22	25	276	36.00	41.10
175 - 179	23	26	289	37.69	43.04
180 - 184	24	27	302	39.39	44.97
185 - 189	25	28	314	40.95	46.76
190 - 194	26	29	327	42.65	48.70
195 - 199	27	30	339	44.21	50.48
200 - 204	28	31	352	45.91	52.42
205 - 209	29	32	365	47.60	54.36
210 - 214	30	33	378	49.30	56.29
215 - 219	31	34	390	50.86	58.08
220 - 224	32	35	403	52.56	60.02
225 - 229	33	35	416	54.26	61.95
230 - 234	34	35	428	55.82	63.74
235 and above	35	35	441	57.52	65.68