

## Pre-Budget report - key features

- VAT reduced from 17.5% to 15% from 1 December 2008 until 31 December 2009.
- £120 increase in personal tax allowances made permanent.
- A new, higher rate of income tax of 45% will be introduced for those with incomes above £150,000 from April 2011. The income tax personal allowance will be restricted for those with incomes over £100,000 from April 2010.
- Employer, employee and self-employed rates of national insurance to rise by 0.5% from April 2011.
- The 1p planned increase in the small companies' rate of corporation tax will be deferred for one year. It will remain at 21% during 2009-2010.
- A commitment for the coming year by the major mortgage lenders not to repossess homes within three months of the owner-occupier going into arrears.
- Phased introduction of new vehicle excise duty bands, with smaller increases.
- Bringing forward £3bn of capital spending in areas including the motorway network, schools and social housing from 2010-2011 to 2008-2009.



## Issue 61 December 2008

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Our offices will be closed from midday  
24 December 2008 and will reopen  
8am on Monday 5 January 2009



## Time to get on your bike?

London is the most expensive place in the world to park your car. The average cost of parking in central London is more than 50% higher than the next most expensive city in the world, Sydney. And that's without taking the congestion charge into account. You may be tempted to use public transport rather than the most expensive car park of the lot, the Pavilion Road multi-storey in Knightsbridge, a short hop from Harrods. It will set you back £43.20 for a six hour stay. Berners St car park in Bloomsbury has the highest hourly fee at £8. If you fancy a stay at the Park Lane Hilton factor in the cost for your car - two hours parking costs £12 - a little less than a gin and tonic in the revolving bar!



## Tax starts to get taxing

Demands for simplification are already being heard after the Government announced a host of highly complex future changes to personal taxation, NICs and allowances that payroll systems will have enormous difficulty in handling.

Changes in these areas form the central plank of the Government's effort to claw back tax revenue after the £25bn fiscal stimulus announced in the recent Pre-Budget report.

Increases of 0.5% in employers' and employees' contributions were announced along with changes to tax allowances for those earning above £100,000 and £140,000.

The proposed income tax rates, personal allowance reductions and national insurance contributions are a complex collection of changes set to challenge the most sophisticated of payroll operators. In addition, the potential to create artificial pay barriers around the £140,000 level could interfere with the commercial setting of remuneration levels. Many expect some simplification if the changes are to be manageable.

There are also fears that the increased national insurance contributions along with the complexity could be a deterrent for foreign companies to settle in the UK. One concern raised is whether the Government's calculation of the true cost to business, some £2.6bn in employer's contributions, is accurate. The changes are a long way off and a change of Government in the meantime is probably more likely!

## Thank you Darling

Describing the UK's 4.7 million small and medium-sized enterprises as the "engine of the economy" in his Pre-Budget Report, the Chancellor Alistair Darling unveiled a package of measures intended to help businesses respond to economic challenges. They included:

- The launch of a Small Business Finance Scheme early in 2009, a temporary guarantee scheme to enable up to £1 billion of new government-supported lending by banks.
- Working with the banks, the Export Credits Guarantee Department will introduce a temporary guarantee scheme to support a £1 billion facility, providing smaller exporters with better access to short-term working capital.
- £1 billion of European Investment Bank funds will be available through UK banks to SMEs by the end of 2008.
- To help the cash flow position of businesses that have recently become loss-making, trading loss carry back will be temporarily extended from one to three years for up to £50,000 of losses. The measure will apply for a year from 24 November 2008 to companies and unincorporated businesses. Mr Darling said 75,000 businesses would benefit (see article on page 3).
- HM Revenue & Customs will work with businesses in temporary financial difficulties so that they can spread their tax bills over a timetable they can afford. The arrangement will cover all taxes paid by businesses, including corporation tax, VAT, income tax and national insurance (see article on page 3).
- The planned increase in the small companies' rate of corporation tax will be deferred for a year. The rate will remain at 21% during 2009/10.
- For the financial year 2009/10, empty properties with a rateable value of less than £15,000 will be exempt from business rates. Mr Darling said this would exempt an estimated 70% of empty properties.
- The Finance Bill 2009 will include a package of reforms for the taxation of foreign profits to deliver an exemption from tax for most foreign dividends received by large and medium-sized groups, regardless of the level of shareholding.
- The government will advertise government contracts worth more than £20,000 on a single, free on-line portal, as part of its drive to help small firms win a larger share of public procurement.



## Relief for trading losses

In the Pre-Budget Report, the Chancellor announced an extension of the general tax relief for trading losses. Broadly speaking (and the rules are in fact very complicated), under current law a trader who makes a loss may set it against profits assessed for the previous year (and so obtain a tax repayment). If the loss is larger than the profit assessed the previous year, the excess can be carried forward, for set-off against the profits of the next year in which a profit is made. For example, if a loss of £20,000 is made in the current year, 2008/09, and the assessment for 2007/08 was £15,000, the assessment for 2007/08 will be reduced to Nil and the balance of the loss, £5,000, can be carried forward for set-off against the profit of 2009/10.



The extension announced by the Chancellor is to allow a loss made in 2008/09 to be carried back for two further years - to 2006/07 and, if necessary, 2005/06. However, the total loss which may be relieved in the earlier two years combined is capped at £50,000.

An important point is that the new relief applies only to the loss made in 2008/09, which in the usual case means the loss for the year to the accounting date falling in the 2008/09 tax year. If the accounting date is (say) 30 June, that will mean the year to 30 June 2008, which was before the recession really began to bite. At present, there is no indication that the new relief will be further extended to cover losses made in the accounting year ending in 2009/10. Subject to the detailed provisions of the proposed legislation, it may be possible to increase the loss relief by extending the accounting date so that it falls later in 2008/09.

In any case, the loss relief rules are so complex that individual advice will be required on the steps to be taken to maximise the tax relief available.

There will also be a parallel relief for companies, which will apply to losses incurred in accounting periods ending between 24 November 2008 and 23 November 2009.

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## Some flexibility for tax payments

One welcome announcement in the recent Pre-Budget Statement was that HMRC will enable firms facing financial difficulties to spread their tax on a timetable they can afford. This will cover all business taxes - VAT, corporation tax, income tax and National Insurance.

Requests for time to pay will be considered by HMRC's new 'Business Payment Support Service', which has said that it will 'discuss payment options to help [traders] deal with temporary cashflow difficulties'. It suggests that it will usually be best for the trader to telephone the new 'Business Payment Support Line' (0845 302 1435) shortly before the payment is due. Once an arrangement has been made, late payment surcharges will not be levied, but interest will still continue to accrue in the usual way.



We would suggest that, before contacting HMRC, the trader should analyse the exact nature of the problem. Waiting for a delayed payment by a major customer, for example, might well create 'temporary cashflow difficulties', for which asking for time to pay would be an appropriate solution. However, if the underlying problem is that there has been a sharp reduction in sales, which because of the economic downturn may last for sometime, other action may be more appropriate, and more effective. For example, the proprietor of an unincorporated business might wish to amend his payments on account of income tax on his profits (due 31 January and 31 July 2009). In some circumstances, extending his accounting year to a later date in the current tax year might reduce the assessment. In extreme cases, some form of corporate restructuring or insolvency procedure may be the most appropriate remedy.

## That VAT reduction again - and more

Retailers, banks and insurance companies may benefit more than consumers from this month's VAT cut announced in the pre-Budget report. The cut in VAT from 17.5% to 15% was one of the centerpieces in Chancellor Alistair Darling's statement, a declared £12bn boost for the British economy aimed at reviving consumer spending. It remains to be seen how the rate reduction will flow through to consumers in the short and medium term.



However, the VAT cut will help reduce the amount of non-recoverable VAT paid by retailers, banks and insurance companies. Government figures predict that the 13 month VAT reduction to 15% £12.4bn of savings for consumers and business, but many are sceptical.

The newly reduced standard rate will apply to:

- Supplies of goods and services made on or after 1 December 2008
- Imports on or after 1 December 2008
- Acquisitions of goods from other Member States on or after the same date.

Amendments are being made to the flat rate scheme for small businesses and the law relating to credit notes to ensure that taxpayers are not disadvantaged.

The VAT flat rate scheme enables businesses to pay VAT as a fixed percentage of turnover, at a rate lower than the standard rate. At the moment there are two tests to be satisfied to see if a small business may use the VAT flat rate scheme.

- Firstly, a business has to check if its taxable turnover is less than £150,000
- Secondly, a business has to check that its total income is less than £187,500

The second test is to be abolished with effect from 1 April 2009.

A business has to leave the VAT flat rate scheme if its annual income exceeds £225,000. Income is currently not defined in the VAT legislation. Under the new rules it will be computed by the same method used by the business to calculate its VAT - if a business is on an invoice basis, then this will be the basis applied.

## They take it back with the other hand

The proposed 2010 tax rise on most readers' incomes announced in the recent Pre-Budget report bucks a global trend according to a survey which reveals that the top rates of personal income tax around the world have fallen by an average of 2.5% in the past six years, as governments try to balance their need for revenue with the impact of increasing global labour mobility.

However, a top rate of 45% on earnings of more than £150,000 is largely in line with the top rates of key competitors such as Germany (45% on income over €250,000) and the US (45% on income over \$357,700).

Given the recent changes to non-domiciled individuals' taxation, (see also the article on page 6) there is a fear that the future rate increases - assuming they are not revoked by a new Government - would present a further challenge to London's position as a leading global financial centre.



## Personal and age-related allowances 2009/10



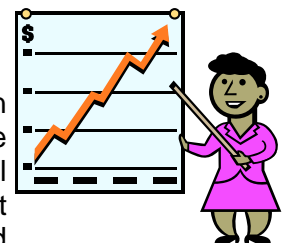
In his Pre-Budget Report last month, the Chancellor announced the following levels of the principal personal allowances for income tax purposes for the coming tax year:

Type of allowance	£
Personal allowance (age under 65)	6,475
Personal allowance (age 65-74)	9,490
Personal allowance (age 75 and over)	9,640
Married couple's allowance* (aged less than 75 and born before 6 April 1935)	6,865
Married couple's allowance* (age 75 and over)	6,965
Married couple's allowance* (minimum amount)	2,670
Age allowances income limit	22,900

Full details of income tax and national insurance rates for the tax year 2009/10 can be found on our website [www.bhgroup.co.uk](http://www.bhgroup.co.uk) along with details of the various tax thresholds and allowances.

## Income shifting legislation deferred

Controversial plans to tax "income shifting" in family businesses have been postponed indefinitely, a year after their previous deferral. It would have struck the wrong note at a time when the Government is allegedly trying to help small businesses and would have created a huge administrative burden. In addition, it would probably not have brought in significant additional taxation revenues and would have been a massive distraction at a time when businesses need to devote all of their energies to managing through the economic crisis.



However, whilst it would be nice to believe they've come round to our way of thinking, the Government is likely to revisit the issue in the future.

## Thinking of a new motor?

Historically, the maximum capital allowances that can be claimed on motor cars costing more than £12,000 has been restricted to £3,000 a year (and there are equivalent restrictions to tax relief for lease rental payments on such cars).



For cars purchased on or after 6 April 2009 (1 April 2009 for companies) this rule will be replaced by a new rule restricting capital allowances on cars with CO<sub>2</sub> emissions above 160g/km, to 10% a year (instead of the 20% available if that limit is not breached). Lease rental payments on such cars will be subject to a flat-rate restriction of 15%. Importantly, these new restrictions will also apply to taxis and hire cars, which were exempt from the old rules.

In some cases, there may now be an advantage in buying a new car before April and in others in leaving the purchase until later. Because of the wide range of factors to be taken into account, we can only suggest that clients contact us for individual advice

## Investing in property abroad

In view of the current economic climate, you may be looking further afield for new investment opportunities and places to park your hard-earned savings. Property is a tangible item and where prices are falling there may be possible bargains.



It is important that when contemplating acquiring property abroad, you take into account how it should be structured and what taxes and charges you could be subject to.

For example, you will want to know the annual costs and what charges you may be liable for. You will also need to consider the position if you wish to rent out the property. When it comes to disposal - hopefully when market conditions have improved - then what tax would there be?

The table below shows the taxes likely to be relevant in each of 10 jurisdictions. The table is designed to provide initial advice as to how property should be held and what the tax costs might be. It is not designed to be a definitive, detailed source of reference. It is intended to give a brief overview of key issues and rates applying to property ownership abroad, and a prompt towards areas which will need further research. Bear in mind that you may need to take specialist advice and that local lawyers will need to act on any proposed transaction.

Some points to highlight are:

- In the 10 countries, non-residents can buy property and hold it in their own names (though see note regarding Bulgaria).
- Some countries levy a tax on acquisition (like the UK's SDLT).
- Most countries have a municipal and/or council tax which operates in a similar way to the UK.
- Some countries have a wealth tax which might be reduced by financing the acquisition with debt so as to reduce the equity subject to tax.
- Where property is sold and a capital gain is realised, you may be liable to capital gains tax in the overseas country. There will be a credit for that tax where there is a double tax treaty with the UK.
- Should you pass away there may be tax payable. As with capital gains tax, there should be a credit for any local tax against any inheritance tax that is paid. You should take into account any possible heirship rules which could result, for example, in children inheriting whereas the UK will may provide otherwise.

	France	Spain	Portugal	Italy	South Cyprus	Bulgaria	Romania	Switzerland	India	UAE
<b>Can foreigners buy?</b>	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes in most categories	Yes in UAE free zones
Personally?	Yes	Yes	Yes	Yes	Yes	No (note 1)	Yes	Yes	Yes	Yes
Or another structure						Yes				
<b>Cost of acquisition</b>										
Stamp duty	2.5%-5%	7%	0.80%	1%			0.3%-3%	2%-4%	Yes	
Transfer duty			6.50%		3%-8%	2%-3%				
<b>Annual charges</b>										
Municipal tax			0.4%-0.8%				0.25%-1.5%		12.5%-14.5%	
Council tax		Yes				0.15%-0.3%			(note 2)	
Wealth tax	up to 1.8%	0.2%-2.5%						0.02%-0.5%		
Others				0.4%-0.9%						
<b>Tax on letting income</b>										
Relief for mortgage interest	Yes	No	No	Yes	Yes	Yes	No		Yes	
Income tax	20%-40%	24%	15%	23%-43%	20%	10%	16%	0.77%-25%	33.99%	Nil
Municipal tax								Yes		Up to 10%
<b>Tax on selling</b>										
Indexation relief	No	Yes	Yes		Yes			Yes	Yes	
Tax on death	Up to 40%	7%-64%	No	Yes	No	0.7%-5%	No	Yes	No	No
Stamp duty on transfer			10.80%							

Note 1 - Non-residents may acquire limited rights therefore buying through a local Bulgarian company may be recommended.

Note 2 - Based on the rental value of the property.

Note 3 - Some countries such as Bulgaria and Cyprus charge VAT depending on when the property was built.

## Residence and domicile

The Finance Act 2008 made major changes to the tax rules on domicile, the remittance basis and residence which apply from 6 April 2008. We have produced guidance on this topic for interested parties and if you would like a copy please let us know.

Central to the new rules is the £30,000 charge which will be levied on those who are eligible to use the remittance basis (i.e. those not domiciled or not ordinarily resident in the UK) and wish to claim it. One of the most fundamental points is that the rules can apply to any adult who is not UK-domiciled - not just the super-rich.

In our guide, we set out the new rules and discuss some of the key technical and practical issues that people may encounter. However, our relatively brief guidance note cannot be comprehensive. The onus is very much on the taxpayer to ensure that the right amounts are recorded and returned. We recommend that advisers ensure they ask sufficient questions of their clients to ascertain the correct position, and seek specialist advice if they are in doubt.



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8am Monday 5 January 2009



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### Newsletter Content

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.

### Disclaimer

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# straightforward

Like you, we're straightforward people. We give you straight advice, you take your business forward. No nonsense. Straightforward isn't it?