

Pre-Budget Report 2008

Monday 24 November

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Darling takes steps to 'shorten the slowdown'

Set against a backdrop of global economic uncertainty, Chancellor Alistair Darling has announced a raft of measures in this year's much-anticipated Pre-Budget Report, aimed at stimulating the economy and boosting consumer confidence.

Emphasising the wider global recession, and highlighting the crisis in the banking system as the cause of economic slowdown in the UK, the Chancellor announced that borrowing will increase to £78bn this year, and revised his economic growth forecast from 2.5% to 0.75% for 2008.

The Chancellor unveiled a £20bn package, effective until April 2010, supposedly designed to help individuals and businesses to weather the storm. This includes some significant tax measures, with a cut in VAT from 17.5% to 15% for a period of 13 months, from 1 December.

The temporary increase in the basic personal tax allowance, worth £120 a year, has also been made permanent, and the tax reduction will rise to £145 in 2009/10. However, from 2011 those earning in excess of £150,000 a year will be subject to an income tax rate of 45%, and national insurance contributions will also rise by 0.5% from 2011.

The Chancellor announced help for businesses, in the form of a deferral of the 1p increase in corporation tax for small firms, and new measures allowing businesses to spread the payment of all taxes to HM Revenue & Customs. A temporary small business finance scheme worth £1bn will also be made available, and there will be an increase in the empty property relief threshold, as well as tax breaks for foreign dividends for medium and large firms.

Other measures announced include: additional support for mortgage holders; early increases in child benefit and the state pension; and a new state supported savings scheme. Meanwhile, duty on fuel, alcohol and tobacco will be increased to offset the reduction in VAT, and new rates of vehicle excise duty will be phased in over time.

Do please contact us for specific advice about how these announcements might affect you or your business.

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Value Added Tax (VAT)

Changes to the standard rate of VAT

In a move that will affect all businesses registered for VAT, the standard rate of VAT has been cut from 17.5% to **15%**, effective from **Monday 1 December 2008**. The rate will remain at 15% until 1 January 2010 when it will revert to 17.5%.

Zero-rated supplies, such as basic foodstuffs, children's clothing and books; exempt supplies, such as education and health; and supplies subject to VAT at 5%, such as domestic fuel and power are not affected by this change.

Anti-forestalling legislation will be introduced in the 2009 Finance Bill to ensure that businesses are not able to use artificial arrangements to reduce the VAT rate on goods or services to be provided after the VAT rate reverts to 17.5% where there is no current economic activity. Genuine commercial transactions should not be affected.

The measure includes two consequential changes. Firstly, it amends the percentages used in the flat rate scheme for small businesses to reflect the reduction in the standard rate of VAT.

Secondly, it introduces a change to the timing of credit notes issued following a change of rate.

Operative date

The 15% rate will have effect for:

- supplies of goods and services made on or after 1 December 2008;
- imports on or after 1 December 2008; and
- acquisitions of goods from other Member States on or after 1 December 2008.

The anti-forestalling legislation will have effect for arrangements entered into on or after 25 November 2008.

The consequential changes to the flat rate scheme percentages and the timing of credit notes will have effect on and after 1 December 2008.

Credit notes for payments received and VAT invoices issued in advance of 1 December 2008

Where payment has been received or a VAT invoice issued before 1 December 2008, VAT will have been charged at 17.5%. But where that payment or invoice relates to goods or services that are provided after 1 December 2008, the VAT rules allow the supplier to apply the new VAT rate, 15%, to the earlier payment or invoice.

Suppliers who choose this option are required to issue a credit note to their customer, if they have issued a VAT invoice, to evidence the credit for the reduction in VAT that is now due. The VAT Regulations specify that such a credit note must be provided to the recipient of the supply within 14 days after the change of rate. This time limit will be extended to 45 days.

Further information

Detailed information is provided in two supplementary documents:

- [*VAT – Change in the standard rate: A summary guide for VAT-registered businesses*](#)
- [*VAT – Change in the standard rate: A detailed guide for VAT-registered businesses*](#)

These can be seen on the HMRC website at www.hmrc.gov.uk

Flat Rate Scheme entry rules

With effect from 1 April 2009, the test that requires a business to check that its total income is less than £187,500 for entry into the VAT Flat Rate Scheme will be removed. Instead, eligibility to join the scheme will be determined solely by the taxable turnover of the business, which must be less than £150,000.

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Measures for business

A wide range of tax and other measures affecting businesses were announced by the Chancellor, with the stated aim of assisting businesses in the difficult economic climate.

Corporation tax: Small companies' rate (SCR)

The Government had planned to increase the small companies' rate (SCR) of corporation tax from 21% to 22% from 1 April 2009. However, this has now been deferred until 1 April 2010.

Legislation will now be introduced in the 2009 Finance Bill to maintain the SCR for all profits, apart from ring fence profits, at 21% from 1 April 2009 and effectively maintain the marginal rate (used to 'smooth' the difference between the main rate of corporation tax and the SCR) at 29.75%. Profits limits will remain the same.

Extension of trading loss carry back

The period for which current trading losses from businesses can be carried back against previous profits is to be extended from the current one year entitlement, to a period of three years, with losses being carried back against later years first.

The amount of losses that can be carried back to the preceding year is unlimited. After carry back to the preceding year, a maximum of £50,000 of the balance of unused losses is then available for carry back to the earlier two years.

This is a temporary measure for one year only. A company may make a loss relief claim under the new rules when it makes its return for an accounting period ending in the period 24 November 2008 to 23 November 2009.

Unincorporated businesses may make a loss claim under the new rules as soon as they have calculated their losses for their basis period for the 2008/09 tax year.

HMRC will make repayments arising from loss relief claims received under the new rules on or after Budget Day 2009.

Finance for SMEs

The Chancellor announced various measures designed to help SMEs with working capital and investment needs.

Early in 2009, the Government will launch a Small Business Finance Scheme – a new temporary guarantee scheme to enable up to £1 billion of new Government supported lending by banks.

The Export Credits Guarantee Department, in conjunction with the banks, will introduce a temporary guarantee scheme to support a £1 billion facility providing smaller exporters with better access to short-term working capital. The Government will also make available a capital fund of £50 million to convert SMEs' debt into equity.

Earlier in November 2008, Advantage West Midlands, a Regional Development Agency (RDA), launched a transition fund for viable SMEs facing financial difficulties. Other RDAs will launch similar loan funds, now totalling £25 million, to help businesses over the next six months.

The Government has said that it 'welcomes the commitment' of UK lenders to approach the European Investment Bank (EIB) to access these funds. Following negotiations between UK banks and the EIB, £1 billion of EIB funds will be available to SMEs in the UK by the end of 2008.

Early in 2009, the Government will launch, in conjunction with Business Link, a new portal to direct credit-worthy SMEs who are experiencing problems accessing credit to the appropriate scheme.

Empty Property Rate Relief

The Government is temporarily increasing the threshold at which an empty property becomes liable for business rates. For the financial year 2009/10, empty properties with a rateable value of less than £15,000 will be exempt from business rates – exempting an estimated 70% of empty properties.

Interest-free payment schedule for backdated business rates bills

To reduce the cash flow impact on businesses, given current economic difficulties, the Government will legislate to give more time to pay certain backdated business rates bills issued before 31 March 2010. Businesses facing such bills will be able to pay their liability for previous years in equal interest-free instalments over 8 years, rather than immediately. Beneficiaries will include several occupiers of ports who have been affected by recent rating reviews.

Income shifting

The controversial proposed legislation designed to prevent 'income shifting' will not now be introduced in April 2009.

However, the Government has restated that it 'firmly believes it is unfair' to allow a minority of individuals to benefit financially from shifting part of their income to someone else who is subject to a lower rate of tax.

Taxation of foreign profits

The Government will bring forward a package of reforms to the taxation of foreign profits, with the object of making the UK a 'more attractive location' for multinational business. Measures will include an exemption from tax for most foreign dividends received by large and medium sized groups, regardless of the level of shareholding. The Government will also continue to examine options for reform of the Controlled Foreign Company (CFC) rules. Any reform will aim to improve the way the CFC rules achieve their objective of taxing profits diverted from the UK.

New Business Payment Support Service

HMRC has introduced a new Business Payment Support Service, which is designed to assist those businesses whose cash flow has been adversely affected by the economic downturn.

The service allows business owners who are concerned about making their tax, national insurance and other payments, to contact HMRC to discuss a range of payment options tailored to their business needs.

The scheme includes a Business Payment Support Line for new enquiries, which is available on **0845 302 1435**, and is open from 8am to 8pm Monday to Friday, and 8am to 4pm at weekends.

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Personal measures

Income tax

Following the compensation arrangements arising from the abolition of the 10% rate band, the Government will make permanent the £600 increase in the personal allowance with a further increase of £130 above indexation, meaning basic rate taxpayers pay £145 less a year in tax in 2009/10.

The basic rate limit for 2009/10 will be increased by £800 above indexation. The Chancellor announced the tax thresholds and personal allowances for 2009/10 as follows:

Income Tax	2008/09	2009/10
Starting rate band *	£2,320	£2,440
Tax rate	10%	10%
Basic rate band	£34,800	£37,400
Tax rate	20%	20%
Basic rate for dividend income	10%	10%
Higher rate – income over	£34,800	£37,400
Tax rate	40%	40%
Higher rate for dividend income	32.5%	32.5%

** 10% rate for savings income up to the starting rate limit within the basic rate band. Where taxable non-savings income does not fully occupy the starting rate band the remainder of the starting rate band is available for savings income.*

Personal allowances

(age at the end of the tax year)

Under 65	£6,035	£6,475
65 - 74	£9,030	£9,490
75 and over	£9,180	£9,640
Higher allowances scaled back if income exceeds	£21,800	£22,900

From 2010/11, those with gross income in excess of £100,000 will lose some or all of their personal allowances. The basic allowance will be scaled back in two stages:

- where gross income is between £100,000 and £140,000, to a minimum of 50%, and
- where gross income exceeds £140,000, to a minimum of £0.

The scaling will be achieved by reducing the allowance by £1 for every £2 by which gross income exceeds the £100,000 and £140,000 thresholds.

Also announced for 2011/12 are new higher rates of tax:

- for those with higher incomes, a tax rate of 45% will apply to savings and non-savings income over £150,000
- a new 37.5% rate of tax will apply to taxable dividend income above £150,000
- the rate of tax for trusts will be increased to 45%, with trust dividend income liable at 37.5%.

National Insurance Contributions

For 2009/10 the Upper Earnings Limit (UEL) for primary Class 1 National Insurance Contributions (NICs) will be aligned with the level at which people start to pay higher rate income tax. The UEL will therefore be £43,875 (2008/09 £40,040). This is equivalent to £844 per week (2008/09 £770).

The Class 1 and Class 4 rates of contribution remain unchanged until April 2011.

Class 2 NICs increase by 10p to £2.40 per week and Class 3 voluntary contributions go up by £3.95 to £12.05 per week. The Government is to reduce the burden on the self-employed by aligning the payment dates of Class 2 NICs with those for Self Assessment liabilities. This will reduce the number of bills issued. There will also be improved information to contributors.

For 2011/12, and thereafter, the Chancellor announced an increase of 0.5% to the main NIC rates:

- the Class 1 primary (employee) rate increases to 11.5% on earnings between the primary and upper thresholds and to 1.5% thereafter
- the Class 1 secondary (employer) rate increases to 13.3% on earnings over the primary threshold
- Class 1A and Class 1B NICs will also increase to 13.3%
- Class 4 NICs will increase to 8.5% (1.5% above the upper limit).

Pension savings

The limits on annual and lifetime investment have risen each year since 2006/07 and will continue to do so until 2010/11. The Chancellor announced that the limits will stay the same for the following five years – at £255,000 and £1.8 million.

Child benefit

The Chancellor announced that the increase in child benefit rates due in April 2009 will be brought forward to 5 January 2009.

The weekly rate for the first child will increase to £20, with the rate for other children increasing to £13.20 per week.

Child tax credit

Bringing forward promised increases in CTC, the Chancellor announced that the child element will increase to £2,235 from April 2009, while the disabled child element will increase at the same time to £2,670.

State Pension

The Chancellor announced that although the full State Pension will not rise to £95.25 per week until April 2009, it will make a payment of £60 to pensioners “in the new year”, equivalent to bringing forward the rise.

Also, the standard minimum income guarantee in Pension Credit will rise by £5.95 to £130 per week for single pensioners and by £9.10 to £198.45 a week for pensioner couples.

Saving Gateway scheme

A new state supported saving scheme, the Saving Gateway, is to be rolled out nationally in 2010, in a bid to encourage up to eight million low income earners to save money.

Under the scheme, the Government will contribute 50p for every £1 that is saved. A maximum payment of £300 will be made once an account holder has been saving for two years, and the contribution will only be applied for those months in which no withdrawals have been made.

The Saving Gateway will be available through a range of banks, building societies, credit unions, and the Post Office.

Mortgages

The Government has said it is committed to supporting households, through:

- increasing the generosity of the Support for Mortgage Interest scheme
- extending the Mortgage Rescue scheme to cover second charge lending

- obtaining a commitment from major lenders not to initiate repossession action until at least three months after an owner occupier goes into arrears
- better access to free and impartial debt advice.

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Green measures

Fuel Duty

The Chancellor announced that the reduction in pump prices means the 2p per litre increase on fuel duty will take effect from 1 December 2008. Further increases of 1.84p per litre from 1 April 2009 and 0.5p per litre above indexation from 1 April 2010 will go ahead, as planned.

Vehicle Excise Duty

Six new bands of VED will be introduced in 2009, the Chancellor announced, taking the total to 13.

By 2010 the rate bands will start to separate out, with increases of up to £30 that year. Also due in 2010 is the First-Year Rate – the new higher Year One VED rate for new cars.

Air Passenger Duty

New air passenger duty rates will apply from 1 November 2009, based on four distance bands, and increase from 1 November 2010, when the maximum standard rate will stand at £170.

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What they said...

In these exceptional economic circumstances, I want to take fair and responsible steps to protect and support businesses and people now – while putting the public finances on the right path for the future.

Chancellor of the Exchequer, Alistair Darling

Listening to the Chancellor's speech, no one can be in any doubt that the Prime Minister's claim to have abolished boom and bust is one of the biggest deceptions ever told to the British public.

Shadow Chancellor, George Osborne

If I were marking the Chancellor's report card, I'd say 'could do better'.

David Frost, British Chambers of Commerce

Many of these measures [...] will give small businesses a welcome breather from the taxman and allow them to concentrate on sustaining their business, supporting their staff and growing the economy in the long term.

John Walker, Federation of Small Businesses

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