


The Association of Accounting Technicians

Topical tax issues 2009


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## = Contents

- Budget 2009 and the 2008 pre-budget report;
- Self-assessment issues;
- Business tax;
- Corporation tax;




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## = Contents - continued

- Reform of car taxation
- Capital gains tax – the updated position;
- VAT update points.




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## =

### The Budget and the 2008 Pre Budget Report




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## = The 2009 Budget

- Now confirmed for 22 April;
- Almost never been this late!
- Is Gordon playing for time?
- Still need Royal Assent before mid-July,




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## = Possible budget issues

- Confirm tax allowances and rates for 2009/10 to 2011/12;
- National insurance rates –note the massive hikes announced in the late 2008 PBR!



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## = Income tax – personal allowances

- PA 2008/09 £6,035;
- PA 2009/10 £6,475 (see PBRN01);
- PA not yet set for 2010/11, but expected to be around £6,800.



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## = Personal allowances

- New allowances for 2010/11 for high earners:
- Gross income above £100,000: reduction in PA of £1 for every £2 excess above £100,000 (pegged at 50% of the full PA);
- Gross income above £140,000; a further reduction of £1 for each £2;
- Means?



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## = Personal allowances

- Examples:
- A earns £104,000;
- B earns £108,000;
- C earns £110,000;
- (Assume a PA of £6,800).



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## = Personal allowances

- Further reduction of £1 for every £2 excess for earnings over £140,000.
- Example:
- A earns £180,000;



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## = Age allowances

- Pre-announced:

	08/09	09/10
Age allowance 65 to 74	£9,030	£9,490
Age allowance 75 and over	£9,180	£9,695



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## = Income tax

- Basic two rate system kept: 20% and 40%;
- Income divided into:
  - Non-savings;
  - Savings; and
  - Dividends.
- New rate of tax on non-savings and savings of 45% above £150,000 of taxable income.



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## = Income tax

- **Tax on dividends:**
- From 2011/12, there will be three rates of tax on dividends:
- Basic rate – remains at 10%;
- Higher rate up to £150,000 of taxable income – remains at 32.5%;
- New rate of 37.5% on dividends above £150,000.



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### National Insurance



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## = National Insurance

- Alignment of IT/NIC at higher rate threshold in 2009/10; and
- NIC Increases across the board from 2011/12:

Additional rate

Upper Earnings Limit (UEL)

Main rate

Primary Threshold (PT)

No NICs due – but state pension entitlement

Lower Earnings Limit



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## = National Insurance

- Increases across the board from 2011/12:
- For an employed earner:

Additional rate: 1.5% (1%)

Upper Earnings Limit (UEL)

Main rate: 11.5% (11%)

Primary Threshold (PT)

No NICs due – but state pension entitlement

Lower Earnings Limit



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## = National Insurance

- Increases across the board from 2011/12:
- For an employed earner:
- **Employers' contributions** (secondary Class 1 NICs) increase from 12.8% to 13.3%;



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## = National Insurance

- Increases across the board from 2011/12:
- For a self-employed earner:

Additional rate: 1.5% (1%)

Upper Earnings Limit (UEL)

Main rate: 8.5% (8%)

Primary Threshold (PT)

No NICs due – but state pension entitlement

Lower Earnings Limit



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## Reform of the taxation of cars



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## Reform of taxation on cars

- New rules on expensive cars from April 2009;
- Expensive means cars costing more than £12,000;
- Current restriction on WDA to £3,000.



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## Reform of taxation on cars

- From April 2009 – new rules:
- What are the CO2 emissions?
- Up to 160gm/Km – 20% Pool;
- Over 160gm/Km – 10% Pool:
- Non-business use – single asset pool – allocate as above and adjust for non-business use.



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## Business mileage rates – car provided

Engine size	Petrol		Diesel		LPG	
	Jan 09	Jul 08	Jan 09	Jul 08	Jan 09	Jul 08
1,400cc or less	10p	12p	11p	13p	7p	7p
1,401–2,000cc	12p	15p	11p	13p	9p	9p
Over 2,000 cc	17p	21p	14p	17p	12p	13p



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## Business taxation issues



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## Business tax measures

- Losses in unincorporated businesses:
- 1 year carry-back extended to 3 years (new);
- New start-up businesses can carry back trading losses in early years of new trade to pre-business income (3 years back) (existing);
- Carry forward of losses against profits of the same trade (existing).



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## = Business tax measures

- Losses in unincorporated businesses (cont):

This 3 year carry back is for one year only and will apply to trading losses incurred in the 2009/09 tax year;

Unlimited losses carried back for first year;

Max £50,000 for the next 2 years (later years first).



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## = Business taxation

- Help for people struggling to pay their tax;
- New Business Payment Support Service;
- New telephone support line;
- Quick decisions;
- Interest still charged – but not surcharges.



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### Corporation tax issues



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## = Corporation Tax

- Small companies rate (SCR)
- Proposed rise from 21% to 22% in April 2009 now postponed (from 2008 PBR).
- Worth £500 for a company with profits (and PCTCT) of £50,000.



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## = Corporation Tax

- The smoothing fraction for marginal companies will be 7/400 – but Budget note unclear;
- The profit limits will remain the same;
- Confirmation expected in the 2009 Budget.



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## = Corporation Tax

- Companies with losses can now carry the loss back 3 years instead of 1 year;
- For company accounting periods ending between 24 November 2008 and 23 November 2009.
- Unlimited losses can be carried back 1 year;
- Max £50,000 carried back for the next 2 years (later years first).



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## = Tax comparisons 2008/09

- So, is it worth incorporating?
- Profits of £10,000 – incorporation saves £449;
- Profits of £50,000 – incorporation saves £3,437.



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## = Tax comparisons 2009/10 (CT rise postponed)

- Profits of £10,000 – incorporation saves £449;
- Profits of £50,000 – incorporation saves £3,437.



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## = Tax comparisons 2009/10

- So is incorporation still desirable?
- Unquestionably yes for the right clients and unquestionably no for the wrong clients;
- Note that the CA 2006 implementation timetable (which will be the subject of another podcast) is running through 2009 to final implementation in September 2009.



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## = Incorporation issues - taxation

- Income tax – cessation;
- Capital Allowances – balancing events, but can elect to transfer at TWDV;
- CGT – disposals – but reliefs available;
- Stamp Duty Land Tax – possible impact;
- VAT – probably a TOGC.



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## = Arctic Systems

- Long-running saga!
- Budget 2008 announced a one year postponement of the anti-avoidance rule;
- PBR 2008 announced.....



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## = Arctic Systems

- A further postponement of one year till April 2009! (this could be extended in the current climate)
- So, make hay while the sun shines!
- Use personal allowance salaries and basic rate dividend extraction;
- Use spouses and civil partners (could use anyone!)



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## Residence and domicile issues



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## Residence and domicile issues

- **Residence** – denotes exposure to IT and CGT on WORLDWIDE income and gains;
- **Ordinary residence** – second hook for CGT exposure;
- **Domicile** (for IHT purposes only) – denotes exposure to IHT on WORLDWIDE estate.



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## Non-domiciled taxpayers

- Non-doms and NORs able to use **the remittance basis**;
- FA 2008 changes;
- Remittance now needs election – choice- year on year;



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## Non doms

- ALL non-doms, who choose the remittance basis lose their personal allowance and CGT annual exemption;
- Non-doms >7/10 years in the UK, in addition, pay £30k for each year of choosing remittance basis (known as the Remittance Basis Charge (RBC)) ;
- Who will be affected?



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## Example

- Peter, Greek, in UK for last five years;
- UK profits £25,000 per annum;
- Greek profits £4,000 per annum;
- Peter must choose – lose UK PA or be taxed on Greek profits in UK.



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## Residence tests

- Two basic tests:
  - Any 183 days in a tax year; or
  - 91 days on average over 4 years;
- IR20 – The Bible!
- Historically, don't count days of arrival or departure;



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## = Residence tests

- Robert Gaines-Cooper case;
- FA2008 changes;
- Now only count the midnights spent in the UK.



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## Self assessment



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## = Self-assessment

- Personal tax filing deadlines;
- 31 October (paper) and 31 January (electronic);
- How was it for you?
- I filed on-line this year using HMRC software and a purchased partnership software suite



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## = Filing on-line

- The partnership suite cost £25 for up to 5 partnerships and was adequate for my needs;
- For the record it was called Andrica Limited;
- How did I find the HMRC suite?
- I probably won't use it next year;
- Reasons?



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## = Filing on-line

- Reasons?
- It needed lots of fixes to make it work;
- It wouldn't allow filing unless a Date of Birth was given;
- It needed a PAYE reference for the employee page – no good for spousal payments in family companies where personal allowance salaries were paid and no PAYE scheme operated.



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## = Filing on-line

- Reasons?
- It wouldn't accept nil tax deducted on the employee page, so I had to use £1;
- The final print-out wasn't great looking and not great to give to clients;
- So any suggestions?



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## = The new penalty regime

- For return periods commencing after 31.03.08, where these are filed after 31.03.09;
- Covers:
  - IT;
  - CGT;
  - CT;
  - VAT;
- So, will affect 2009 tax returns!



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## = The new penalty regime

- Applies as a result of "careless or deliberate" action;
- Graduated penalty, linked to:
  - Amount of tax;
  - The behaviour of the taxpayer;
  - The extent of the disclosure.
- Mistakes?



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## = The new penalty regime

Behaviour:	No disclosure	Prompted disclosure	Unprompted disclosure
Careless	30%	15%	nil
Deliberate- Not concealed	70%	35%	20%
Deliberate- Concealed	100%	50%	30%



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### Capital allowances



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## = Capital allowances

- New regime from April 2008;
- Main impact is :
  - Less complex calculations;
  - Some buildings expenditure now eligible for CAs.



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## = Capital allowances

- Plant and machinery in buildings?
- Not for residential property;
- CAA 2001: Lists A, B and C.



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## = Capital allowances

- WDAs reduced from 25% to 20% for P&M CAs;
- Apportionment for APs straddling April 2008;
- Expensive cars?
- The new 10% pool.



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## = Capital allowances

- The new Annual Investment Allowance (AIA);
- £50,000 per annum per business or group;
- On plant and machinery – eg vans, but not cars!
- Apportionment for APs on the straddle;
- Example.



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## = Capital allowances

- Industrial Buildings Allowances (IBAs) and ABAs to go;
- Phased out over 4 years;
- Gone from April 2011.



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## = Capital allowances

- 100% Enhanced CAs still available;
- Very low emission cars (n/e 110 g/km);
- Water saving technology;
- Energy saving technology;
- See [www.eca.gov.uk](http://www.eca.gov.uk)



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### Capital gains tax



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## = Capital Gains Tax - summary

- Straight 18% flat rate;
- Goodbye Taper Relief and Indexation Allowance;
- Losses and major reliefs unaffected;
- Annual exemption still in place;
- New Entrepreneurs' relief.



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## = Example

- Buy a buy-to-let for £200,000 in July 1990;
- Sell for £350,000;
- Loss of IA and Taper relief;
- Assume hr taxpayer and annual exemption used;
- Increase in tax of approx. £4,500!



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## = Entrepreneurs' relief

- Extreme reaction to the PBR proposals!
- Chancellor introduces Entrepreneurs' relief;
- In effect the old retirement relief!



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## = Entrepreneurs' relief

- Assets and shares;
- Trading and not investment businesses;
- No minimum age to qualify;
- One year trading requirement;



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## = Entrepreneurs' relief

- Associated disposal rules;
- £1 million lifetime limit.



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## = Capital Gains Tax – other issues

- Pre 1982 assets;
- Share pooling – effectively redundant;
- Inter-spouse transfers – still there and worth using – could be used to transfer assets to say wife if she's at home on maternity leave.



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VAT



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## = VAT

- Reduced rate of 15% from 1 December 2008;
- For 13 months;
- 17.5% rate to be re-introduced from 1 January 2010;
- Take care with transitional rules on deposits etc.



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## = VAT

- Correction of errors;
- Raised from £2,000 (from 1 May 2008);
- Now greater of:
- £10,000 and 1% of turnover;
- Subject to an upper limit of £50,000.



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## = VAT

- Revised fuel scale charges;
- Expected 1 May 2009;
- Budget announcement?



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