DICKINSONS NEWSLETTER

CHARTERED ACCOUNTANTS

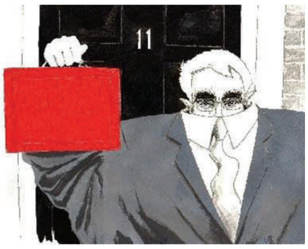
BUDGET SPECIAL 2009

Enterprise House,
Beeson's Yard, Bury Lane,
Rickmansworth,
Herts WD3 1DS

Tel: +44(0)1923 776818
Fax: +44(0)1923 725825
Email: info@dickinsons.co.uk
Web: www.dickinsons.co.uk

Loss relief and capital allowances extended

These are the good news points from the Budget. Businesses that are currently making losses can now carry those losses back to earlier periods to generate repayments of tax paid on the earlier profits. Some business will benefit from a temporary increase in capital allowances.



Limited help for businesses

Losses

Normally trading losses can only be set back against profits made in the immediately preceding accounting period. If the profits of that year are not sufficient to cover the loss, any surplus loss only receives tax relief when the business returns to profit. New sole-trader businesses have a little more flexibility over the use of losses.

This one-year carry back facility has now been extended to allow losses to be set against the profits made in the three preceding years, when those losses arise in the following accounting periods:

- For sole traders and partnerships: the accounts ending in the tax years **2008/09** and **2009/10**.
- For companies: the accounting periods ending in the **two years** to 23 November 2010.

For each loss making period an unlimited amount of loss can be carried back one year, but a maximum of £50,000 of loss may be carried back to the next two years. The losses must be used against the profits of later periods before earlier periods.

Where the loss claim is accepted by HMRC they will repay the tax that was paid in respect of the profits made in the earlier period. Class 4 national insurance paid on self-employed profits will not be repaid.

Tax debts

If you are having difficulties paying the tax due on the profits made in an earlier accounting period, which will be partly or wholly cancelled out by losses made in the current year, you can ask HMRC for time to pay the tax due. The HMRC officer should now take into account the expected loss that will be carried back, but he or she may want to talk to us, as your accountant, to verify the scale of the loss.

Capital allowances

Some larger businesses will benefit from a temporary increase in capital allowances for plant and machinery from 20% to 40%.

All businesses can claim 100% capital allowances for such items under the Annual Investment Allowance (AIA). The AIA cap is £50,000 per year for a single business or group of companies. Any expenditure in excess of the AIA cap goes into the relevant capital allowance pool and receives tax relief at either 10% or 20% per year. The excess plant and machinery expenditure over the AIA cap can qualify for a 40% allowance if the cost is incurred in the year to 31 March 2010 (for companies), or to 5 April 2010 (for unincorporated businesses).

Tax Data 2009/10

Income Tax
Personal Allowance: £6,475
Rates:
Savings only to £2,440 @ 10%
Earned to £37,400 @ 20%,
All above £37,400 @ 40%,
***Tax on dividends*:**
to £37,400@ 10%
above £37,400 @ 32.5%

National Insurance
Class 1 employers:
12.8% over £5,715
Class 1 employees:
11% on £5,715 to £43,875
plus 1% above £43,875
Class 4:
8% on £5,715 to £43,875 plus
1% on profits above £43,875
Class 2: £2.40 per week
Class 3: £12.05 per week

Capital Gains Tax
All gains taxed at 18%
Annual exemption: £10,100

Inheritance Tax
Nil rate band: £325,000
transferable to spouse on death
Excess taxed at 40% on death.

Pension Contributions
With no earnings: £3,600 gross
Otherwise: 100% of earnings.
*Tax relief cap: £245,000
Pension fund cap: £1.75 million
*Potential charges over £20,000

Corporation Tax
Small co: 21% to £300,000
Marginal: 29.75% to £1.5 m
Large co: 28% over £1.5 m

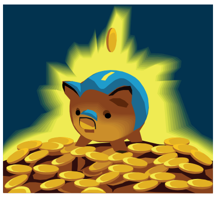
VAT Rates:
Lowest: 0%
Reduced: 5%
Standard: <u>15% to 1 Jan 2010</u>
Turnover thresholds from 1 May 09
Registration £68,000
Deregistration £66,000
Flat rate small bus': £150,000
Cash Accounting: £1.35m
Annual accounting: £1.35m

Tax free mileage rates
Own car :
Up to10,000 miles: 40p (excess 25p)
Company car (from 1 Jan 09):

	Petrol	Diesel	LPG
To 1400 cc	10p	11p	7p
To 2000 cc	12p	11p	9p
2000 cc +	17p	14p	12p

Good and bad news for savers

Savers have been hit hard by the reductions in interest rates, so it makes sense for the ISA investment limits to go up. The smaller amount of interest received within the ISA will at least be tax free. The new limits are:



Finally, some positive steps for savers

- Overall limit: £10,200
- Cash element, saved with one provider: £5,100

These limits come into effect on 6 April 2010 for all savers, but those who are already aged 50 or more can take advantage of the new limits from 6 October 2009.

Savers who lost money when their bank went into liquidation will generally be compensated under the Financial Service Compensation Scheme (FSCS). This scheme returns the capital that was lost and an amount in respect of lost interest. Those savers will now be taxed on the compensation received in respect of the interest lost, as if that amount was interest payable by a bank.

If you invest in Enterprise Investment Scheme (EIS) shares in this tax year you can carry back all the income tax relief to 2008/09, subject to the overall annual investment limit of £500,000.

Top rate of income tax raised to 50%!!

The 50% rate of income tax will apply from 6 April 2010 on income above £150,000. This replaces the proposed 45% rate, which was going to come in a year later on 6 April 2011. Dividend income above £150,000 will be taxed at 42.5%. The tax rates for trusts will also increase to 50% and 42.5% to prevent people from channelling income through trusts.

From 6 April 2010 the tax free personal allowance (£6,475 for 2009/10) will also be tapered down to nil for those individuals who have taxable income of £100,000 or more. So once you have taxable income of about £113,000 you will completely lose the benefit of the personal allowance.

Many individuals make pension contributions and receive tax relief at their highest marginal tax rate. But from 6 April 2011 the higher rate tax relief for pension contributions will be tapered down so those earning £180,000 or more will only get the basic rate tax relief on all their pension contributions. The window of opportunity to make tax efficient pension contributions before 6 April 2011 has also been blocked for those earning £150,000 or more. If you are in this income bracket and plan an increase in your pension contributions please talk to us first.

Where you have a significant amount of cash retained within your own company you may want to consider withdrawing some funds in the current tax year, while the highest rate of tax is only 40%, or 32.5% for dividends. National insurance contributions payable on salary and bonuses are also due to increase to 11.5% for employees and 13.3% for employers from 6 April 2011.

If you plan to sell your business, the tax rate you will pay on the capital gain is currently only 18%, and every individual has a tax free annual exemption of £10,100.

Tax breaks on property come and go

Stamp Duty Land Tax
The threshold from which Stamp Duty Land Tax becomes payable on residential property transactions was raised from £125,000 to £175,000 in September 2008. The threshold will now stay at £175,000 until midnight on 31 December 2009, when presumably the recession will be over. If you are planning to buy a house in that price range make sure you complete the deal before 1 January 2010.

Inheritance tax
Many UK laws restrict tax relief to land held in the UK, but this contravenes EU law. As a result the Government is retrospectively allowing inheritance tax relief on qualifying agricultural land and woodlands situated anywhere in the European Economic Area (EEA). The EEA comprises the 27 EU countries plus Iceland, Liechtenstein and Norway. If inheritance tax has been paid on such non-UK property since 23 April 2003 the executors of the estate can claim a refund. Please ask us how to make this claim.

Furnished holiday lettings
When a property meets the strict conditions for furnished holiday lettings (FHL), losses can be set-off against all other income rather than just against future property income, and gains on the property may be rolled-over. But previously only properties in the UK could qualify as FHL. Now HMRC accept the FHL rules and the associated tax reliefs can apply to properties in any EEA country. Taxpayers can now make claims for tax relief on losses and gains made on properties situated in Europe where the claim period is still open. Ask us for details.

However, rather than expand the scope of tax relief to all European holiday lets owned by UK residents, HMRC are withdrawing the FHL rules for all properties from April 2010. This means owners of holiday lets only have one more year to use losses created by the property letting business against other income, or to sell the property and roll-over the gain into another business.

The clock is ticking