

## Pre-Budget Report December 2009

Well we did not know what to expect; however once you begin to drill down into the detail there are a good number of important outcomes from the Pre-Budget Report (PBR).

The IPP Policy team have scanned the PBR technical notes and press releases resulting from the announcement yesterday. Please read on to understand the full content and its implications to you.

### Announced tax rates and allowances

#### Higher rate tax

The Chancellor announced a freeze on income tax for those that pay 40% tax, meaning a freeze on higher rate threshold from April 2012.

For the tax year 2010 / 11 all tax allowances and thresholds will be the same as for the current year.

For the tax year 2012 / 13, the higher rate threshold (the point at which someone starts to pay higher rate tax) will be frozen at the 2011 / 12 amount. The personal allowance will be increased and the basic rate limit will be reduced by the same amount - See [Press Release 2 for more details](#)

#### Income Tax Allowances:

<b>Income tax allowances £ per year (unless stated)</b>	<b>2009 / 10</b>	<b>Change</b>	<b>2010 / 11</b>
<b>Income tax personal and age-related allowances</b>			
Personal allowance (age under 65)	£6,475	-	£6,475
Personal allowance (age 65-74)	£9,490	-	£9,490
Personal allowance (age 75 and over)	£9,640	-	£9,640
Married couple's allowance* (age 75 and over)	£6,965	-	£6,965
Married couple's allowance* - minimum amount	£2,670	-	£2,670
Income limit for age-related allowances	£22,900	-	£22,900
Blind person's allowance	£1,890	-	£1,890

\*Married couple's allowance is given at the rate of 10%.

## Income tax Bands:

<b>2009 / 10</b>	<b>£ per year</b>	<b>2010 / 11</b>	<b>£ per year</b>
Starting savings rate: 10%*	£0-£2,440	Starting savings rate: 10%*	£0-£2,440
Basic rate: 20%	£0-£37,400	Basic rate: 20%	£0-£37,400
Higher rate: 40%	Over £37,400	Higher rate: 40%	£37,401-£150,000
Additional rate: 50%	N/A	Additional rate: 50%	Over £150,000

\*There is a 10p starting rate for savings only. If an individual's non-savings taxable income exceeds the starting rate limit, the 10p starting rate for savings will not be available for savings income.

## National Insurance contributions rates and thresholds

### [PBRN01 - National Insurance contributions rates and thresholds](#)

If you are an employer, employee or self-employed you need to read this information.

National Insurance rates that will apply from April 2010:

	<b>Increase by</b>	<b>April 2010 rate per week</b>
LEL (Linked to state pension)	£2	£97
Class 2 rate for Volunteer Development Workers	10p	£4.85

All other NICs rates and thresholds are unchanged for 2010 / 11.

- The 2008 Pre-Budget Report announced that from 2011 / 12 the main rate of Class 1 and Class 4 NICs will be increased by 0.5% to 11.5% and 8.5% respectively. And the Class 1 employer rate will be increased by 0.5% to 13.3%. The increased rate will apply to Class 1A and 1B contributions. The additional rate of Class 1 and 4 NICs will also be increased by 0.5% to 1.5%
- However in the December PBR further increases from 2011 / 12 were also:
  - The main rate of Class 1 and 4 NICs by a further 0.5% to 12% and 9% respectively
  - The Class 1 employer rate will be increased by a further 0.5% to 13.8% from 2011 / 12. The increased rate will also apply to Class 1A and 1B contributions
  - The additional rate of Class 1 and 4 NICs will be increased by a further 0.5% to 2% from 2011 / 12

## National Insurance Contributions:

<b>£ per week (unless stated)</b>	<b>2009-10</b>	<b>Change</b>	<b>2010 - 11</b>
Lower earnings limit, primary Class 1	£95	£2	£97
Upper earnings limit, primary Class 1	£844	-	£844
Upper Accruals Point	£770	-	£770
Primary threshold	£110	-	£110
Secondary threshold	£110	-	£110
Employees' primary Class 1 rate between primary threshold and upper earnings limit	11%	-	11%
Employees' primary Class 1 rate above upper earnings limit	1%	-	1%
Employees' contracted-out rebate - salary-related schemes	1.6%	-	1.6%
Employees' contracted-out rebate - money-purchase schemes	1.6%	-	1.6%
Married women's reduced rate between primary threshold and upper earnings limit	4.85%	-	4.85%
Married women's rate above upper earnings limit	1%	-	1%
Employers' secondary Class 1 rate above secondary threshold	12.8%	-	12.8%
Employers' contracted-out rebate, salary-related schemes	3.7%	-	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%	-	1.4%
Class 2 rate	£2.40	-	£2.40

Class 2 small earnings exception (per year)	£5,075	-	£5,075
Special Class 2 rate for share fishermen	£3.05	-	£3.05
Special Class 2 rate for volunteer development workers	£4.75	£0.10	£4.85
Class 3 rate (per week)	£12.05	-	£12.05

## **Bank payroll tax**

### **PBRN02 - bank payroll tax**

#### **Who should read this information?**

Banks, financial businesses and holding companies in banking groups, building societies, financial businesses and holding companies in building society groups and UK branches of foreign banks ("taxable companies" referred to in this note hereafter as a bank) that provide a bonus exceeding £25,000 to a banking employee directly or through an intermediary.

#### **Description of the measure**

Legislation in Finance Bill 2010 will introduce a new bank payroll tax. This will be set at 50%. It will be payable by a bank, on the amount of a bonus to which a banking employee is entitled, to the extent that the bonus exceeds £25,000. A bank will also be liable to the bank payroll tax where the bonus entitlement arises in respect of services performed for the bank regardless of who awards the bonus.

The provisions will include anti-avoidance measures.

#### **Operative date**

The bank payroll tax will have effect from the time of the announcement on 9 December 2009 until 5 April 2010 for all discretionary and contractual bonus awards. There is an exception for contractual bonus entitlements where the payer has no discretion as to the amount of the bonus because of contractual obligation existing at the time of the Chancellor's announcement.

#### **What does this mean?**

Specifically, a Taxable Company will be charged to the bank payroll tax on the aggregate of the amounts of "Chargeable Relevant Remuneration" awarded to or in respect of its "Relevant Banking Employees" in the chargeable period at the rate of 50%. Chargeable Relevant Remuneration is the amount by which "Relevant Remuneration" awarded to or in respect of a Relevant Banking Employee exceeds £25,000.

An individual will be a Relevant Banking Employee of a Taxable Company if that individual is employed by the Taxable Company in a "Banking Employment" and either the individual is resident in the United Kingdom in the tax year 2009 / 10

or performs duties of the Banking Employment at any time in that year wholly or partly in the UK.

For this purpose, Banking Employment means an employment which wholly or mainly involves duties that relate either directly or indirectly to activities that are "Relevant Regulated Activities".

The Commissioners of HMRC will be responsible for the collection and management of the bank payroll tax, which will become due and payable on 31 August 2010.

No deduction may be taken into account in calculating profits or losses for the purposes of corporation tax by any company in respect of any amount paid or payable as bank payroll tax.

So whilst it's not a tax on the individual to be collected through the payroll there will be implications for payroll and HR re providing the information that will be used in the reporting.

Further detail can be viewed in the Technical Note supplied by HMRC by [clicking here](#).

### **Pensions: Restricting Tax Relief for High-Income Individuals (Anti-Forestalling)**

#### **[PBRN18 - Pensions: Restricting Tax Relief for High-Income Individuals \(Anti-Forestalling\)](#)**

**Note:** This will not affect your payroll processes and this will primarily be administered via Self Assessment; however our pension's members may find this information useful.

#### **Who is likely to be affected?**

1. Individuals with incomes of £130,000 or over who, on or after 9 December 2009, change:
  - Their normal pattern of regular pension contributions
  - The normal way in which their pension benefits are accrued

And whose total pension contributions / benefits accrued ('pension savings') exceed the special annual allowance of £20,000 a year (or in some circumstances £30,000)

2. Scheme administrators of registered pension schemes and advisers with clients who have changes to pension savings that are affected by this measure

#### **The following provides further detail to support understanding:**

At Budget 2009 and the 2009 Pre-Budget Report, the government announced changes to pension's tax relief for high income individuals to ensure that it remains fair, affordable and sustainable.

From April 2011 tax relief on pension contributions will be restricted for individuals with gross incomes of £150,000 and over, where gross income

incorporates all pension contributions, including the value of any benefit funded by, or eventually funded by, an individual's employer. Tax relief will gradually be tapered away so that above £180,000 it is worth 20%, the same rate received by a basic-rate income taxpayer.

To provide more certainty for individuals around whether they are affected, and to reduce administrative burdens for schemes, this will be subject to an income floor at £130,000 of pre-tax income (excluding the value of any employer pension contributions).

The government has launched a formal consultation on the implementation of the restriction and welcomes responses from interested stakeholders. The consultation will run for 12 weeks until 3 March 2010 and will allow core legislation to be in place ahead of implementation in 2011, providing certainty for those affected. A consultation Impact Assessment is included in the document.

Further information and Technical Notes and Consultation Document can be viewed by [clicking here](#).

### **General description of the measure**

The government announced at Budget 2009 its intention to restrict tax relief on pension's savings with effect from 6 April 2011 for people with incomes of £150,000 or over. At the same time legislation was introduced to prevent those likely to be affected from seeking to forestall this change.

In the PBR the government announced that:

- The income definition for the £150,000 threshold will include the value of employer pension contributions
- Tax relief for those with incomes below £130,000 before the inclusion of employer pension contributions will not be restricted (other than by the existing annual and lifetime allowances)

To reflect this new floor, legislation will be introduced in Finance Bill 2010 to amend the anti-forestalling threshold to income of £130,000 or over.

### **Pensions: Changes to Tax Rates for Special Charges and the Special Annual Allowance Charge wef 2010**

#### **[PBRN19 - Pensions: Changes to Tax Rates for Special Charges and the Special Annual Allowance Charge](#)**

#### **Who is likely to be affected?**

1. Scheme administrators of registered pension schemes who are liable to a charge on the payment of short service refund lump sums
2. Beneficiaries of Employer-Financed Retirement Benefits Schemes (EFRBS) where the scheme makes a payment other than to an individual
3. Pension scheme members who are liable to the special annual allowance charge

## **General description of the measure**

This measure increases the rates for the tax charge on short service lump sum refunds and EFRBS payments, other than to individuals, and sets new rates for the special annual allowance charge with effect from 6 April 2010.

## **Operative date**

The measure will have effect for short service lump sum refunds and EFRBS payments made on or after 6 April 2010, and to special annual allowance charges in respect of excess pension savings made in 2010 -11.

## **Seafarers' Earnings Deduction: EU and EEA Residents wef 2011**

### **[PBRN23 - Seafarers' Earnings Deduction: EU and EEA Residents](#)**

#### **Who is likely to be affected?**

Useful for those involved in related seafaring industries: EU and European Economic Area (EEA) residents who pay UK tax on their earnings as a seafarer. Broadly speaking a seafarer is a person who works on a ship.

## **General description of the measure**

Legislation will be introduced in Finance Bill 2010 to extend the Seafarers' Earnings Deduction to EU and EEA resident seafarers, ensuring the provisions are compatible with the EU Treaty.

## **Operative date**

The measure will have effect on and after 6 April 2011.

## **Salary Sacrifice: Restricting the Tax Exemption for Workplace Canteens wef 2011**

### **[PBRN25 - Salary Sacrifice: Restricting the Tax Exemption for Workplace Canteens](#)**

As you know the Policy team have been working on Salary Sacrifice elements with HMRC and other external stakeholders. In relation to salary sacrifice we expected further confirmation of the tax relief on childcare vouchers (CCVs). Recent announcements stated that the tax relief would be restricted to 20% tax payers. We have yet to learn more. Rest assured your Policy team will be discussing CCVs with HMRC.

In the meantime we have further Salary Sacrifice news:

#### **Who is likely to be affected?**

Employers and employees who have structured contractual remuneration arrangements, involving salary sacrifice or flexible benefits, that are intended to allow employees to obtain meals at work partly or wholly free of liability to tax and National Insurance Contributions (NICs).

## **General description of the measure**

Section 317 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) provides an exemption from tax under the employment income rules whereby an employer can provide the benefit of free or subsidised meals in a canteen or on its business premises, subject to certain conditions.

The government has become aware that some employers and employees have developed remuneration arrangements involving salary sacrifice or flexible benefits to take advantage of this exemption.

These arrangements are intended to allow some employees to purchase meals out of gross pay, and hence obtain a significant tax and NICs advantage over the majority of employees who must purchase their meals using their net pay, from which tax and NICs have already been deducted.

Legislation will be introduced in Finance Bill 2010 to amend section 317 of ITEPA to restrict the exemption for the benefit of free or subsidised meals where an employee has an entitlement in conjunction with salary sacrifice or flexible benefits arrangements to employer-provided free or subsidised meals.

## **Operative date**

The measure will have effect on and after 6 April 2011.

## **Changes to Company Car Tax wef 2012**

### **[PBRN26 - Changes to Company Car Tax](#)**

## **Who is likely to be affected?**

Employees provided with a company car that is available for their private use and employers who bear Class 1A National Insurance Contributions (NICs) on the taxable benefit of company cars.

## **General description of the measure**

Legislation will be introduced in Finance Bill 2010 to set the company car tax charge for 2012 / 13.

## **Operative date**

The measure will have effect on and after 6 April 2012.

## **Current law and proposed revisions**

In this instance we have added more information from the Budget Note to enable further understanding:

Section 139 of the Income Tax (Earnings and Pensions) Act 2003 sets out the basis for calculating the appropriate percentage for cars with CO2 emissions. The appropriate percentage multiplied by the list price of the car (adjusted for any taxable accessories) provides the level of chargeable benefit for company car tax and Class 1A NICs.

The current graduated table of company car tax bands will be extended down to a new 10% band, and all CO2 emissions thresholds moved down by 5g / km on 6 April 2012 so that the 10% band will apply to company cars with CO2 emissions up to 99g / km. Qualifying Low Emissions Cars (QALIECs) will therefore no longer exist as a separate category.

**Note:** currently the lowest rate is 15% with adjustments for certain fuel types; this should help to simplify the way that information is provided re the percentages to be used for calculating car tax and so make it easier for all to understand.

### **Company Car Tax: Electric Cars wef 2010**

#### **[PBRN27 - Company Car Tax: Electric Cars](#)**

##### **Who is likely to be affected?**

Employees and directors who are provided for their private use with a company car propelled solely by electricity and employers who bear Class 1A National Insurance Contributions (NICs) on the taxable benefit of company cars.

##### **General description of the measure**

Legislation will be introduced in 2010 to reduce the appropriate percentage to 0% for electric cars for the purposes of company car tax. This reduces the car benefit charge for electric cars to nil.

##### **Operative date**

The measure will have effect on and after 6 April 2010 for five years.

##### **Current law and proposed revisions**

Section 140(3)(a) of the Income Tax (Earnings and Pensions) Act 2003 sets out the basis for calculating the appropriate percentage for cars which are wholly electrically propelled.

The current appropriate percentage of 9% will be reduced to 0% with effect from 6 April 2010, and will apply for five years.

### **Van Benefit Charge: Electric Vans wef 2010**

#### **[PBRN28 - Van Benefit Charge: Electric Vans](#)**

##### **Who is likely to be affected?**

Employees and directors who are provided for their private use with a van propelled solely by electricity and employers who bear Class 1A National Insurance Contributions (NICs) on the taxable benefit of company vans.

##### **General description of the measure**

Legislation will be introduced in Finance Bill 2010 to set a new, lower flat rate benefit charge for electric vans for the purposes of the van benefit charge. The rate will be set at nil for electric vans.

## **Operative date**

The measure will have effect on and after 6 April 2010 for five years.

## **Current law and proposed revisions**

- The basis for calculating the van benefit charge is set out in sections 154-159 of the Income Tax (Earnings and Pensions) Act 2003
- The current flat rate of £3,000 for all vans will be reduced to nil for electric vans with effect from 6 April 2010, and will apply for five years
- The van benefit legislation will be amended to include a definition of an electric van for this purpose

## **Cars and Vans: Changes to Fuel Benefit Tax wef 2010**

### **[PBRN29 - Cars and Vans: Changes to Fuel Benefit Tax](#)**

#### **Who is likely to be affected?**

Employees who receive free private fuel from their employers for company cars or vans and employers who bear Class 1A National Insurance Contributions (NICs) on the taxable benefit of provided fuel.

#### **General description of the measure**

The measure sets the fuel benefit charge for company cars and vans from 2010 / 11 with company car fuel benefit charges increasing to £18,000 and company van fuel benefit charge increasing to £550.

#### **Operative date**

The measure will have effect on and after 6 April 2010.

#### **Current law and proposed revisions**

Company Car Fuel Benefit Charge to increase from £16,900 to £18,000:

Section 150(1) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) provides the figure to be used as the basis for calculating the benefit of private fuel received for a company car which is chargeable to tax and Class 1A NICs. This figure is currently set at £16,900 and will be increased to £18,000.

Company Van Fuel Benefit Charge to increase from £500 to £550:

Similarly, section 161 of ITEPA provides the figure to be used as the basis for calculating the benefit of private fuel received for a company van which is chargeable to tax and Class 1A NICs. This figure is currently set at £500 and will be increased to £550.

## **Electric Vans: 100 Per Cent First-Year Allowances wef 2010**

### **[PBRN30 - Electric Vans: 100 Per Cent First-Year Allowances](#)**

#### **Who is likely to be affected?**

Businesses that purchase new electric vans.

#### **General description of the measure**

Subject to confirming compatibility with the State aid rules, legislation will be introduced to provide a 100% first-year allowance for business expenditure on new, unused (not second hand) electric vans.

#### **Operative date**

Subject to confirming the State aid position, this measure will have effect for expenditure incurred on or after 1 April 2010 (corporation tax) or 6 April 2010 (income tax).

#### **Current law and proposed revisions**

Capital allowances allow business to deduct the costs of capital assets, such as plant and machinery, against their taxable income. They take the place of commercial depreciation, which is not allowed for tax. Since 1 April 2008 (corporation tax) or 6 April 2008 (income tax) most businesses, regardless of size, have been able to claim an annual investment allowance (AIA) on the first £50,000 spent on plant or machinery (subject to certain exclusions).

Where businesses spend more than £50,000 in any chargeable period, any additional expenditure will be dealt with in the normal capital allowances regime, entering either the main pool or special rate pool, where it will attract writing-down allowances (WDAs) at either the 20% or 10% respectively.

In addition expenditure on certain items of plant and machinery qualifies for a 100% first-year capital allowance. These 100% allowances, claimed as an alternative to AIA and WDAs, are currently available for expenditure on:

- Electric cars and cars with very low carbon dioxide emissions (up to 110g / km)
- Certain energy saving and environmentally beneficial plant and machinery
- Gas refuelling equipment

Subject to confirming compatibility with the State aid rules, it is planned to introduce a 100% allowance for business expenditure on new and unused (not second hand) electric vans.

## **VAT Flat Rate Scheme: Changes to the Flat Rate Percentages wef 1 January 2010**

### **[PBRN33 - VAT Flat Rate Scheme: Changes to the Flat Rate Percentages](#)**

The VAT rate is increasing from 15% to 17.5% from 1 January 2009. This is no surprise to business as we had already been warned of the increase. HMRC have already written to all VAT registered businesses explaining how and when to apply the changes and information was included in News On Line, see issue 30 November 2009.

### **Who is likely to be affected?**

Small businesses that currently use, or are considering using, the VAT flat rate scheme.

### **General description of the measure**

The flat rate percentages were re-calculated in December 2008 to reflect the temporary reduction in the standard rate of VAT. This measure will ensure that they are based on the 17.5% rate of VAT effective from 1 January 2010. It also makes technical adjustments to the rates to ensure that they reflect the latest data about business VAT liabilities in each sector.

### **Operative date**

The recalculation of the flat rate percentages will have effect on and after 1 January 2010.

### **More News**

#### **PAYE scheme pooling**

HMRC is considering the policy and practicalities of allowing large connected employers to combine or pool their PAYE references, thereby reducing their administration time and costs. HMRC has already carried out informal discussions about PAYE pooling with selected employers and representative bodies. Following on from this HMRC expects to publish draft PAYE Regulations for formal consultation early in 2010 in order to seek wider views and comments.

Members will welcome this opportunity to pool PAYE references; many have been trying for years to work with HMRC to instigate these pragmatic changes but have often found obstacles that prevent them from succeeding.

#### **National Minimum Wage and "Travel Schemes"**

HMRC and the Department for Business, Innovation and Skills are to consult in the New Year on proposed changes to the National Minimum Wage Regulations to tackle the problem of arrangements commonly called "travel schemes". These travel schemes take advantage of the tax and National Insurance expenses rules relating to travel to a temporary workplace. Where temporary workers paid through such arrangements are paid at or near the NMW, such arrangements are potentially exploitative as they can impact adversely workers' entitlements to earnings related social security benefits.

#### **Late filing, late payment penalties**

HMRC is consulting on draft clauses to complete the modernisation and alignment of penalties for late filing of tax returns and late payment of tax.

## **Personal Accounts**

The Chancellor made mention of the commitment for the phased approach to Personal Accounts. Detail not provided in the PBR itself; however this is something that the IPP Policy team frequently keeps members up to date on and we will continue to do so.

We have seen some reports that the employer contribution phase in has been further delayed and we hope to provide more information in News On Line on 14 December.

## **Time to Pay Schemes**

In the words of the Chancellor "For as long as is needed".

The 2009 Pre-Budget Report announces that HMRC will continue to offer the Business Payment Support Service.

Around one in every thousand "Time to Pay" requests concerns an amount of £1 million or over. As the economy moves into recovery, it is important both for the businesses concerned and to protect taxpayers that HMRC can make an informed decision in these few, highly complex cases. The 2009 Pre- Budget Report announces a new requirement for businesses asking for additional time to pay for debts over £1 million to provide an independent review of their needs.

## **Corporation Tax**

To provide further support for small companies during the recovery, the government is deferring, for an extra year, the planned increase in the Small Companies' Rate of corporation tax. The rate will remain at 21% during 2010 / 11. Further information can be viewed at [section 4.8 of the Pre-Budget Report](#).

## **Government support to bring people back into work**

This additional support includes bringing forward the young persons guarantee, so that 18-24 year olds claiming Jobseeker's Allowance for six months will now be guaranteed a job, work placement or work-related skills training.

## **Basic State Pension**

To support pensioners more broadly, the level of the basic State Pension will increase in line with the government's existing commitment by 2.5% in April 2010, meaning a full basic State Pension will increase by £2.40 to £97.65 a week. Further information can be viewed at [section 5.43 of the Pre-Budget Report](#).

## **Under graduates on poor incomes**

In response, the government will contribute £8 million towards a financial support scheme to provide bursary-style support for undergraduates undertaking short unpaid internships in professions with historically poor access. The details of the scheme will be developed with the Higher Education sector and the professions, and it is intended that the government funding will be used to leverage in other contributions. Support will be available as early as summer 2010 and once fully operational the scheme will support around 10,000 internships a year. Further details will be published in the government's full response to the Report, due early in 2010.

## **Public sector pay**

The government has already proposed awards in the range of up to 1% in 2010-11 for key public service workforces not in multi-year deals. Going forward, the 2009 Pre-Budget Report announces that the government will seek a 1% cap on basic pay uplifts across the public sector for 2011-12 and 2012-13, generating savings of £3.4 billion a year by 2012-13. Further information can be viewed at [section 6.49 of the report](#).

The Chancellor also announced reforms to public service pensions to save £1 billion a year from 2012-13 onwards. He stated that such as Local Government and Teachers Pensions would be capped from 2012; however no further detail is provided in the PBR.

## **Consultation Repose “Working with Tax Agents”**

A response to the consultation [Modernising Powers, Deterrents and Safeguards: Working with Tax Agents](#) has been published.

Finally, [click here](#) for a link to the HM Treasury “Tax Ready Reckoner and Tax Relief’s” which provides rates for all taxes covering 2009 / 10, 2010 / 11 and 2011 / 12.

