

# Budget 2009



## Update Summary

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# Budget 2009 Overview

## Green Shoots or Shoot the Messenger?

The Budget statement started with the Chancellor announcing massive projected figures for public borrowing which he then followed with a prediction that we would be coming out of recession by the end of the year with growth reaching 3.5% by 2011. The key to the Budget will be the reaction of the markets to what many will see as optimistic forecasts.

The Chancellor had been left very little room for further fiscal expansion by the comments made by the Governor of the Bank of England and, unsurprisingly, he did very little. There were a couple of welcome measures aimed at businesses but the real headlines were intended to be political with the new top rate of 50%. It is a pre-election year after all.

We had been led to expect a Green Budget and a Budget for jobs. The environmental lobby is likely to be disappointed and the economic impact is likely to be marginal.

If you need more information about any of the issues raised in this document, call your local tax team on freephone 0808 144 5575 or e: [budgetnews@armstrongwatson.co.uk](mailto:budgetnews@armstrongwatson.co.uk)

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# Personal Tax

## Additional Rate of Income Tax and Reduction of Personal Allowance

The Chancellor announced a number of changes relating to Income Tax, particularly relating to an additional rate of Income Tax and an income-related reduction of the Personal Allowance.

With effect from 6 April 2010:

- There will be an additional higher rate of 50% for taxable income above £150,000. This measure is being introduced one year earlier than previously announced, and is greater than the 45% rate announced in the 2008 Pre-Budget Report
- The basic personal allowance for income tax will be gradually reduced to nil for individuals with "adjusted net incomes" above £100,000
- There will be increases to the trust rate and dividend trust rate to match those for income tax
- The measure includes new powers to vary the income tax rates for the charges that apply to registered pension schemes

These changes replace the announcements made by Mr Darling in his 2008 Pre-Budget Report.

### A. Income Tax Rates for Individuals and Trusts

In the current tax year, there are two main rates of Income Tax:

- The 20% basic rate of income tax applies to taxable income up to £37,400
- The 40% higher rate applies to taxable income above £37,400

From April 2010, an additional rate of tax of 50% will apply to taxable income above £150,000.

From 2010-11 there will be three rates of tax for dividends:

- Dividends otherwise taxable at the basic rate will continue to be taxable at the 10% dividend ordinary rate
- Dividends otherwise taxable at the higher rate will continue to be taxable at the 32.5% dividend upper rate
- Dividends otherwise taxable at the new 50% additional rate will be taxable at a new 42.5% dividend additional rate

From 2010-11, the dividend trust rate will be increased from 32.5% to 42.5% and the trust rate will be increased from 40% to 50%.

### B. The Personal Allowance

The basic Personal Allowance provides an amount of tax-free income for individuals. All individuals entitled to the basic Personal Allowance receive the same amount.

From 2010/11, the basic Personal Allowance will be subject to a single income limit of £100,000. Where an individual's "adjusted net income" is below or equal to the £100,000 limit, they will continue to be entitled to the full amount of the basic Personal Allowance.

If an individual's adjusted net income is above the income limit of £100,000, the allowance will be reduced by £1 for every £2 above the income limit. The Personal Allowance will be reduced to nil from this income limit.

"Adjusted net income" is the measure of an individual's income that is used for the calculation of the existing income-related reductions to Personal Allowances for those aged between 65 and 74, and for those aged 75 and over.

## Child Trust Funds

The Chancellor announced changes to payments made to Child Trust Funds for disabled children in his 2009 Budget.

Every eligible child born on or after 1 September 2002 has a Child Trust Fund account. Family and friends can contribute up to £1,200 into the account each year.

With effect from April 2010, the Government will make payments of £100 per year into the Child Trust Fund accounts of all disabled children. Severely disabled children (those who receive the High Care element of Disability Living Allowance) will receive £200 per year. These payments will not count towards the £1,200 yearly contribution limit.

The payments will start for children in receipt of Disability Living Allowance at any point in 2009/2010.

## Inheritance Tax Extension of Agricultural Property Relief to Europe

Agricultural Property Relief (APR) is a valuable relief against Inheritance Tax for farmers and owners of agricultural land and property. Subject to certain conditions the relief can exempt either 100% or 50% of the value of agricultural property from Inheritance Tax.

In January this year the EU Commission challenged the UK over the fact that APR was only given to agricultural property situated in the UK, Isle of Man or Channel Islands. The Chancellor has now responded in this Budget by extending the relief to property held in European Economic Area states from 22 April 2009. His other alternative would have been to have withdrawn the relief – a move that would have been devastating news for the farming community

The relief also has retrospective effect and it will be possible to reclaim any Inheritance Tax paid on such land since 23 April 2003. The first date that such claims can be made is 21 April 2010.

A similar extension has also been made to Woodlands Relief – which allows Inheritance Tax to be deferred until the timber on the land has been sold. Woodlands Relief is usually needs to be claimed within two years of death. The earliest date for reclaims will again be 21 April 2010.

Extending the definition of agricultural land to include land in the EEA also extends the application of hold-over relief for Capital Gains Tax and again there is potential for retrospective claims back to 2003/04.

## Taxation of Furnished Holiday Lettings

At present income from 'Furnished Holiday Lettings' is treated differently to other rental receipts. The rules provide that such income is deemed to be trading income, giving advantageous treatment in terms of losses, use of the income as relevant for pension premiums, and beneficial capital gains tax treatment.

There are numerous rules which need to be satisfied in order for a property to qualify as a Furnished Holiday Let, one of which is that it is situated in the UK. With immediate effect this is extended to all property held within the European Economic Area (EEA).

From 2010/11 the furnished holiday lettings rules are repealed, following which the tax treatment of such lets will mirror 'regular' lettings.

# Business Tax

## Corporation Tax Rates

The Corporation Tax main rate, already confirmed at 28% from 1 April 2009 will remain at 28% from 1 April 2010. This rate applies to companies with Profits Chargeable to Corporation Tax in excess of £1,500,000. This limit is divided by the number of active associated companies within a group or under common control.

The Small Companies Corporation Tax rate, which was due to be increased to 22%, has been held at 21% from 1 April 2009, as announced in last year's Pre-Budget Report. This rate applies to companies with Profits Chargeable to Corporation Tax not exceeding £300,000. This limit is divided by the number of active associated companies within a group or under common control.

The Small Companies rate from 1 April 2010 has not been confirmed but, based on the Pre-Budget Report, will rise to 22%.

Profits between these two bands will be taxed at the main rate, less marginal relief. This equates to an effective rate of 29.75%.

## Carry Back of Trading Losses for Businesses

In the November Pre-Budget Report legislation was proposed that would enable businesses to carry back losses three years rather than the current one year.

This was intended to assist businesses in the current recessionary times.

The relief was only intended to be for one year but after lobbying by professional bodies has been extended to include two years.

The details in full are:

### Companies

Where a company makes a loss in accounting periods between 24 November 2008 and 24 November 2010, a trading loss can be carried back three years with losses applied to later years first. However the loss for each accounting period is capped at £50,000. Thus a maximum of £100,000 could be utilised.

Using as an example a company with a year end of 31 December 2008 with a loss of £120,000, loss relief could be:

- An unlimited loss carry back against 31 December 2007 profits of say £110,000
- The balance of £10,000 could then be carried back against profits made in the year to 31 December 2006.

If the company then made a loss in the year to 31 December 2009 of say £70,000, under the new proposal it could carry that loss back to 2006. However there is an overall restriction of the loss that can be carried back of £50,000. Thus of the 2009 loss only £50,000 can be carried back. The remaining balance of the loss of £20,000 would be carried forward.

## Unincorporated Businesses

Where a business makes a loss in tax years 2008/09 and 2009/10 then a maximum of £50,000 for each year can be carried back three years. The loss again is offset against later years first against business profits, excluding other income.

This loss carry back is in addition to the existing rule that can carry back an unlimited loss against any income and gains of the previous year.

Further losses in the first three years of an unincorporated business can be carried back three years.

## Capital Allowances

### Plant and machinery temporary first year allowances

In a surprise announcement, the Chancellor introduced a new temporary first year allowance (FYA) of 40% for 12 a month period from 1 April 2009 for companies (6 April 2009 for unincorporated businesses).

There is already an annual investment allowance (AIA) of £50,000. This new measure therefore benefits businesses which have already exceeded their AIA entitlement.

Unlike the previous FYA regime the relief is not restricted to small or medium businesses. Nor are companies attached to partnerships excluded which will be good news for many of our clients. Instead the relief will be available for any individual carrying on a qualifying activity (including property businesses), any partnership and any company.

Like the old FYA regime this new FYA does not apply to expenditure on cars. Nor does it apply to integral features, long life assets and assets for leasing.

### Enhanced capital allowances for energy saving and water efficient technologies

Since 2001 there have been 100% enhanced capital allowances (ECA) available for designated energy saving and water efficient technologies. In order to qualify for the 100% capital allowance a product must be listed at [www.eca.gov.uk](http://www.eca.gov.uk).

One new technology (uninterruptible power supplies) and two new sub-technologies (air to water heat pumps and close control air conditioning systems) will be added to the list of qualifying technologies. Three existing sub technologies are to be removed and there will be a number of minor housekeeping changes to both schemes.

These changes are to take place from a date that will be announced prior to the Summer 2009 Parliamentary recess.

It always pays to take professional advice in advance of a building project to ensure that your entitlement to these reliefs as well as other capital allowances is maximised.

### Modernising tax relief for business expenditure on cars

The 2008 Budget proposed the abolition of the "expensive" cars (costing over £12,000) capital allowances rules and the associated car hire restrictions, to be replaced by rules that would be dependent on a car's CO2 emissions. The detail of the proposed changes was announced in December 2008.

The new rules will generally apply to expenditure incurred (or leases entered into) on or after 1 April 2009 for companies, or on or after 6 April for unincorporated businesses.

### Owned Cars: Capital Allowances

Expenditure on cars with CO2 emissions of 160g/km or less will be added to the main pool and will attract a 20% writing down allowance. Expenditure on cars with CO2 emissions exceeding 160g/km will be added to a special rate pool and will qualify for a 10% writing down allowance.

Cars owned by unincorporated businesses that have an element of non business use will continue to be dealt with in single asset pools to enable the private use adjustment to be made, but the writing down allowance will still be dependent on the car's CO2 emissions.

Expenditure on cars before April 2009 will continue to be treated under the old "expensive" car rules for a transitional period of about five years.

The revised legislation contains some anti avoidance rules including the prevention of balancing allowances by selling cars in single asset pools below market value.

Motor cycles are excluded from the definition of cars and are not subject to these rules. Moreover, they will also qualify for the annual investment allowance (AIA) and the new temporary first year allowance, unlike cars.

### Leased Cars

Leases entered into after 1 April 2009 for companies, or on or after 6 April for unincorporated businesses, will suffer a flat rate disallowance of 15% of relevant payments in respect of cars with CO2 allowances exceeding 160g/km. This replaces the previous regime where there was a restriction on leased payments for cars costing over £12,000.

Given that the price of the car for new leases is irrelevant to the tax relief, cars costing over £17,143 with CO2 allowances exceeding 160g/km will actually be more tax efficient under the new regime. Leases on cars costing less than £17,143 which emit over 160g/km will result in more tax under the new regime.

At present the restriction applies to all links in a chain of leases. From April 2009 it will only apply to one lease in the chain. Broadly speaking, the new rules do not apply to hire periods of under 45 days, although hire periods are aggregated in certain circumstance to prevent exploitation of this exemption.

Expenditure under leases that commenced prior to 1 or 6 April will continue to be dealt with under the old rules until the end of the lease.

### Leasing: Anti-avoidance

Legislation, which was announced in November 2008, will be introduced in Finance Bill 2009 to counter avoidance in the leasing of plant and machinery. These rules are aimed to ensure that:

- A business entering a sale and lease back or lease and leaseback does not gain more relief than it would have done under loan finance
- Tax is not avoided when a lessor grants a long funding lease (includes many leases over 5 years)
- When a long funding lease ends the lessee has obtained an appropriate amount of relief

New measures announced in the 2009 Budget will tighten up on the existing legislation that attacks sale and lease back transactions. Amendments will be made to ensure that the definitions will cover a sale and leaseback to a person connected to the seller where that person continues to use the asset in their qualifying activity after the date of sale. This change will affect sales on or after 22 April 2009.

Other amendments include ensuring that when any part of an initial payment under a lease is not taken into account for capital allowances purposes then it is taxed as income.

Anti-avoidance rules are also introduced that attack the sale of lessor companies involved in complex transactions.

### **Connected Companies and Loan Relationship Rules**

Two changes are to be introduced in Finance Bill 2009.

These apply to companies that are connected by common control.

The first change (effective from 22 April 2009) corrects an anomaly where a trade debt is released and under current rules the debtor company is taxed on the profit made by the write off but the creditor company does not obtain a tax deduction. The rules will be changed to ensure a neutral position with the debtor company no longer being taxed on the debt released.

The second change will apply to accounting periods beginning on or after 1 April 2009. This will enable a connected company to obtain tax relief on interest payable to a connected company on an accruals basis rather than a paid basis where the interest is paid later than one year after the year end.

### **Allocation of Chargeable Gains within a Group of Companies**

Where a group company makes a capital gain on a disposal outside the group, it is possible to elect for the gain to be taxed in a different group company from the company making the actual disposal.

However there were certain gains or losses, such as a negligible value claim, for which an election could not be made.

Legislation will be introduced in Finance Bill 2009 to correct this and enable the election to apply.

# Employment Tax

## Changes to Company Car Tax from 2011/12

### The changes will affect:

- Employees who pay income tax on a car that has been provided for their private use by their employer
- Employers who pay Class 1A National Insurance contributions on the taxable benefit of a company provided car

### Key changes:

- The lower threshold CO2 emissions figure (130g/km for 2010-11) will be reduced by 5g/km to 125g/km
- The £80,000 price cap that currently applies when calculating the cash equivalent of the car benefit will be abolished
- The reductions currently given for electric/petrol hybrid cars and cars propelled by bi-fuels, road fuel gas and bio-ethanol will be abolished so that the relevant factor will be the CO2 emissions figure rather than the means by which the car achieves its CO2 emissions figure
- The "appropriate percentage" applicable to electrically propelled cars first registered from 1998 onwards will continue to be 9 per cent

## Living accommodation provided by reason of employment: Payments of Lease Premiums

This proposal has in its sights on arrangements to reduce the tax due on the benefit in kind of employer provided living accommodation.

### Background

Where an employee is provided with accommodation there is a tax charge on the benefit to the employee of that accommodation. Where rent is paid by the person at whose cost the accommodation is provided the charge is based on the actual rent paid (less any amount made good by the employee), where that is more than the annual value. However, some arrangements have been entered into that involve upfront payments, which are described as a lease premium, and payment of a very small rent in order to try to avoid paying tax.

### The proposal

Legislation will be introduced in Finance Bill 2009 to stop attempts to avoid tax on the benefit of living accommodation. The measure will apply in cases where accommodation is provided to employees by reason of their employment through the payment of a lease premium.

The legislation will ensure that where a lease premium is paid for a lease of 10 years or less, the same tax treatment will follow as if the lease premium were actual rent paid. The taxable amount in any tax year will be treated as the amount of the lease premium spread over the duration of the lease plus the amount of any rent paid by the person at whose cost the accommodation is provided less any amount made good by the employee.

# Stamp Duties

## Repos / Stock-lending

A 'repo' is an agreement under which one person sells a security (typically a UK gilt) to another person and agrees to buy it back (re-purchase it) at a later date for a certain (higher) price. 'Stock' in this context relates to US securities.

In effect, the seller is a borrower and the buyer is a lender. The interest rate ('repo rate') is the difference between the amount the asset is sold for and the amount paid to buy it back.

Under these arrangements, typically, the lender (buyer) gets to keep the asset if the borrower (seller) becomes insolvent. The arrangement would also come to an end if the lender became insolvent. Once the next Finance Act is introduced the lender will no longer have a taxable gain if this happens. Also there will no longer be any charges to Stamp Duty Reserve Tax in these circumstances.

If the borrower loses a repo security because of the lender becoming insolvent he will no longer have to pay stamp duty of SDRT on buying a replacement asset.

These measures are clearly aimed at making this type of arrangement more attractive.

## Using Land to Raise Finance

Changes will make it easier for those with land to raise finance. Landowners will be able to sell land to a bond issuer (i.e. raise cash), lease the land back and then later buy the land back. This could be thought of as a land based 'repo' (described above).

This will be possible without any SDLT on the sale, lease or buy-back and without any capital gains tax on the sale. The wording of the press release suggests that this type of financing arrangement would not eat into the landowner's entrepreneurs' relief allowance.

Also, the person raising the finance would normally lose the right to capital allowances when the land is sold but under the new rules he will keep them. This means the person using the land will continue to reduce his taxable profits by a proportion of the cost of the land / buildings (notwithstanding they are owned by someone else).

## SDLT Avoidance

It also appears that the Government are on track to introduce a regime later in the year that will require anyone using a SDLT avoidance scheme when buying a house for more than £1 million to notify HMRC of how the scheme works. The aim of this is to highlight to the Government how the current law should be updated and the effect is likely be to kill off some of the weak schemes that we see at the moment.

In the meantime we can expect to see scheme providers make more of a push with their products. As always, if you are considering using a SDLT scheme you should speak to our SDLT expert for a second opinion.

## First-time Buyers

The SDLT threshold for residential properties is going to stay at £175,000 until 31 December 2009. This will typically help first-time buyers. The threshold will then drop back to £150,000 which had been expected in September.

There are ways of bringing the relevant date for SDLT forward (before a house purchase has completed) if it looks like it won't complete until after that date.

Another structure which helps first-time buyers is the Rent to HomeBuy (RtH) scheme under which the buyer first takes a lease of a property with an option to buy it in stages. RtH is an example of buying a house through a shared ownership arrangement. Where this type of arrangement is entered into with a Registered Social Landlord the SDLT charge can be deferred until the tenant-buyer makes capital payments against the purchase price of the house (rather than paying up front).

Profit-making companies are soon to be allowed to enter into these arrangements and the relaxed SDLT rules will apply to those bodies as well as existing RSLs. These 'Registered Providers of Social Housing' will be able to claim the relief if their purchase has been assisted by public subsidy.

### **Blocks of Flats**

There are statutory powers that allow leaseholders to buy the freehold of the block of flats they live in. There would normally be a SDLT charge on buying the freehold (if the amount paid exceeds the SDLT threshold) but a new relief is being introduced so the tenants don't have to pay SDLT.

This relief has previously been available to 'Right to Enfranchisement Companies'; however, the Government hasn't introduced any legislation to allow those companies to exist.

# VAT

## VAT - Threshold and Duties

Registration limit increased to a taxable turnover of £68,000, and the de-registration limit increased to a VAT exclusive figure of £66,000. These changes are effective 1 May 2009.

The registration and de-registration threshold for relevant acquisitions from other EU Member States will also be increased to £68,000. This change is effective 1 May 2009.

Fuel scales charges used for calculating the VAT benefit for the supply of fuel for private use in cars will be amended for VAT periods commencing on or after 1 May 2009 to reflect changes in fuel prices.<sup>1</sup>

The reduced rate of VAT applicable to children's car seats will be extended to include bases for such seats as of 1 July 2009.

## Landfill Tax

The standard rate of landfill tax will be increased by £8 per tonne to £48 per tonne for any standard rated disposal of waste made, or treated as made, on or after 1 April 2010.

Legislation in Finance Bill 2009 (and associated secondary legislation) will make certain uses of material on a landfill site subject to tax, in order to address the situation, arising from a recent court case, that uses of waste are not taxable, and will also remove provisions which may cause confusion in the light of the court case. These arrangements will come into effect on 1 September 2009.

## Climate Change Levy

A restricted entitlement to claim relief from Climate Change Levy will be introduced which will affect manufacturers of some plastic products. This restricted entitlement, applying to supplies of electricity and liquefied petroleum gas only, will ensure compliance with State aid rules and enable the Department for Energy and Climate Change to extend eligibility to enter the Climate Change Agreements Scheme to certain manufacturers in this sector. This new provision will have effect on and after the date that the Finance Bill 2009 receives Royal Assent, but the plastics sector will need to wait until the DECC lays down its regulations before being able to enter into a Climate Change Agreement.

A mechanism to enable HM Revenue & Customs to recover levy where a facility that claims relief from Climate Change Levy fails to meet its target(s) under a Climate Change Agreement, and is in a sector that fails to meet its sector level target(s) in the same period is to be introduced and will apply to CCA certification periods starting on or after 1 April 2009. Recovery, when applied, would be proportionate to the extent to which the facility had failed to meet its target(s).

Supplies of low value solid fuel valued at no more than £15 per tonne will become subject to climate change levy for relevant supplies made on or after 1 January 2010.

## Amusement Machine Licence Duty

Legislation will be introduced in Finance Bill 2009 to increase the amount of amusement machine licence duty (AMLD) for all categories of gaming machines. The legislation will also make additional classes of gaming machines exempt from AMLD, increase the stake and prize levels for Category C machines and make changes to 'special licences' and 'seasonal licences'. The new duty amounts will have effect for any

licence applications received at HMRC Greenock accounting centre after 4pm on 22 April 2009. All other changes will take effect on 1 June 2009.

## Warehousing for Export Drawback Scheme

The warehousing for export (WFE) drawback scheme relating to alcoholic liquors is withdrawn as part of the Government's renewed *Tackling Alcohol Fraud* strategy. Persons will be unable to claim repayment of duty on 'duty paid' consignments of alcoholic liquors that are warehoused for export. Alcoholic liquors warehoused for export on or after 1 June 2009 will not be eligible for repayment of excise duty.

## Hydrocarbon Oils Duty Rates

Legislation will be introduced in Finance Bills 2009 to 2013 to amend fuel duty rates, which will affect business producing or importing hydrocarbon oils and alternative fuel products. The 2009 changes have effect on and after 1 April 2009 or 1 May 2009 and 1 September 2009. Changes in future years will take effect on and after 1 April in that year.

The duty rates for the main road fuels (i.e. unleaded fuel and heavy oil (diesel)) were increased by 1.84 pence per litre (ppl). These will be further increased on 1 September by 2ppl and on 1 April 2010 to 2013 by 1ppl above indexation in each year.

On and after 1 May 2009 the duty rate for light oil rather than unleaded petrol or aviation gasoline will be increased by 1.84ppl. This will be further increased by 2ppl on 1 September 2009.

On and after 1 May 2009 the duty rate for aviation gasoline (Avgas) will be increased by 2.31ppl. This rate will be increased further on 1 September 2009 by the same percentages as the rates for the main road fuels.

On 1 April 2009, effective rates of duty (i.e. the relevant duty minus the relevant rebate) for non-road fuels were increased by the same percentage as main road fuels. These rates will be increased similarly on 1 September 2009 and on 1 April each year from 2010 to 2013.

On 1 April 2009, the duty rates for bio-diesel and bio-ethanol were increased by 1.84ppl. These rates will be increased further to maintain the current 20ppl differential on 1 September 2009. The current duty differential for bio-fuels for road use will cease from 2010 and duty will thereafter be charged at the same rate as for main road fuels.

On 1 April 2009, the duty rate for natural gas was increased to maintain the differential with main road fuels in pence per litre equivalents, and the duty rate for liquefied petroleum gas, commonly referred to as LPG, was increased to reduce the differential with main road fuels by the equivalent of 1 penny on a litre of petrol. These rates will be increased further on 1 September 2009 to maintain their differential with main road fuels. From 2010 to 2013, the duty differential for natural gas will be maintained, whilst the duty differential for LPG will be reduced annually by the equivalent of 1 penny on a litre of petrol.

## Tobacco Duty Rates

The rates applicable to tobacco products imported into, or manufactured in, the United Kingdom will be raised. The new rates are:

Cigarettes	24% of the retail price plus £114.31 per thousand
Cigars	£173.13 per kilogram
Hand Rolling Tobacco	£124.45 per kilogram

Other smoking  
and chewing tobacco £76.12 per kilogram.

The changes represent an increase of 2 per cent on the current duty levels and will have effect on and after 6pm on 22 April 2009.

### Alcohol Duty Rates

The rates applicable to alcohol will rise by 2 per cent from their current levels. The impact on the changes on retail prices for typical alcoholic drinks is equivalent to:

- 13 pence on a 70cl bottle of spirits
- 1 pence on a pint of beer
- 1 pence on a litre of still cider
- 4 pence on a 75cl bottle of sparkling cider
- 4 pence on a 75cl bottle of wine/made wine
- 5 pence on a 75cl bottle of sparkling wine

The changes will have effect on and after 23 April 2009.

<sup>1</sup> Fuel Scale charges will be as follows:  
12 Month Return Period

CO <sub>2</sub> band, g/km	VAT Fuel Scale Charge – 12 month period, £	VAT Fuel Scale Charge – 3 month period, £	VAT Fuel Scale Charge – 1 month period, £
120 or less	505.00	126.00	42.00
125	755.00	189.00	63.00
130	755.00	189.00	63.00
135	755.00	189.00	63.00
140	805.00	201.00	67.00
145	855.00	214.00	71.00
150	905.00	226.00	75.00
155	960.00	239.00	79.00
160	1,010.00	251.00	83.00
165	1,060.00	264.00	88.00
170	1,110.00	276.00	92.00
175	1,160.00	289.00	96.00
180	1,210.00	302.00	100.00
185	1,260.00	314.00	104.00
190	1,310.00	327.00	109.00
195	1,360.00	339.00	113.00
200	1,410.00	352.00	117.00
205	1,465.00	365.00	121.00
210	1,515.00	378.00	126.00
215	1,565.00	390.00	130.00
220	1,615.00	403.00	134.00
225	1,665.00	416.00	128.00
230	1,715.00	428.00	142.00
235 or more	1,765.00	441.00	147.00

# Other VAT Changes

## VAT: Change of Standard Rate

The standard rate of VAT will return to 17.5 per cent from 1 January 2010.

The 2008 Pre-Budget Report announced a temporary reduction in the standard rate of VAT to 15 per cent for a 13 month period from 1 December 2008 to 31 December 2009.

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 per cent, such as domestic fuel and power, are not affected by this change.

## Change of Standard Rate: Anti-Forestalling Legislation

Targeted legislation will be introduced to counter schemes that purport to apply the 15 per cent VAT rate to goods or services to be supplied on or after the date that the rate returns to 17.5 per cent.

The measure provides that in certain circumstances a supplementary charge to VAT of 2.5 per cent will be due on supplies of goods or services on which VAT of 15 per cent has been declared.

Forestalling works by the supplier issuing an invoice or receiving payment before the rate rises. This fixes the VAT due at 15 per cent even though the goods are not due to be delivered or services to be performed until on or after the date that the rate reverts to 17.5 per cent.

The legislation prevents forestalling by introducing a supplementary charge to VAT on the supply of goods or services (or the grant of the right to receive goods or services) where the customer cannot recover all the VAT on the supply and one of the following conditions is met:

- The supplier and customer are connected parties
- The supplier funds the purchase of the goods or services (or grant of right)
- A VAT invoice is issued by the supplier where payment is not due for at least six months

## VAT and Excise: VAT Exemption for Gaming Participation Fees and Other Miscellaneous Amendments

Anyone making a gaming machine available for play, casinos, and any business, club or institution offering non-remote or remote bingo or other games of chance will be affected by this measure.

### General description of the measure

These measures:

- Remove VAT on participation fees for playing bingo and other games of chance (participation fees are charges that a gaming operator makes to customers for participating in gaming)
- Increase the money prize limit for bingo duty exemption that may be offered on small scale amusements provided commercially at, for example, family entertainment centres and adult gaming centres from £50 to £70

- Increase the rate of bingo duty to 22 per cent
- Remove the need to list individual games for the purposes of gaming duty and extend the scope of gaming duty to include charges for commercially provided equal chance gaming
- Raise the gross gaming yield (GGY) bandings for each gaming duty band in line with inflation
- Extend the scope of remote gaming duty to include remote bingo and remove remote bingo from the scope of bingo duty
- Clarify the existing excise definitions of 'gaming' and 'gaming machine'

VAT will be removed from participation fees on and after 27 April 2009.

The increase in the money prize limit for small scale amusements will have effect for bingo played on and after 1 June 2009.

The bingo duty increase will have effect for any accounting period beginning on or after 27 April 2009.

Gaming duty will have effect for charges made in connection with equal chance gaming in casinos on and after 27 April 2009.

With effect on and after 27 April 2009 dutiable gaming for the purposes of gaming duty will no longer depend on games individually specified in law.

The changes to the GGY bandings have effect for accounting periods starting on or after 1 April 2009.

The changes to remote bingo will have effect for remote bingo games starting on or after 1 July 2009.

The amendments to the legal definitions of 'gaming' and 'gaming machine' have effect on and after the date that Finance Bill 2009 receives Royal Assent.

# Changes to Customs' Powers

International travellers using major airports will be affected by changes to Customs Powers. From Royal assent Customs Officers will be able to check whether a movement is in fact between the Member States, without having to have reasonable grounds for believing that the movement is not in fact between Member States. Officers will then be able to make selective and proportionate checks to collect Community customs duties or enforce import prohibitions and restrictions, without having to demonstrate reasonable belief that such checks are necessary in each case.

## VAT: Simplifying the procedure for opting to tax land and buildings

The measure simplifies the procedure for opting to tax supplies of land and buildings, in respect of which taxpayers have made previous exempt supplies. It will be achieved through the replacement of an existing automatic permission condition (APC) for taxpayers that would otherwise need to seek permission from HMRC before opting to tax land or buildings. Taxpayers that have previously made exempt supplies of land and buildings and now wish to opt to tax them require HMRC's formal permission to do so, unless they meet any one of four automatic permission conditions. This measure introduces a new APC from 1 May 2009, which should apply to more taxpayers than the APC which it replaces. This will allow more taxpayers to opt to tax without seeking HMRC's prior permission.

The new APC legislation and associated guidance (also covering the informal concessions) is due to be published shortly in an Information Sheet.

## Cross Border VAT Changes 2010: Place of supply of service rules

For any business that is involved in cross border supplies of services will be affected by the new changes to the place of supply of service rules to be phased in from 1 January 2010 to 1 January 2013.

The place of supply rules determine the country where a supply of services is made and where any VAT is payable. They also determine whether, if VAT is due on a supply, it should be accounted for by the supplier of a service or their business customer. The new rules aim to ensure that, as far as possible, VAT is due in the country in which the service is consumed rather than where the supplier is established. The result for UK business customers is that they will be liable to account for UK VAT on most services provided by their overseas supplier under the reverse charge provisions, rather than the supplier charging VAT.

The measure forms part of a package of changes to simplify and modernise the VAT system for cross border trading and to counter fraud that will come into effect from 1 January 2010 across the EU. The package includes:

- New time of supply rules for services
- European Sales List (ESL) reporting for supplies of cross-border services and changes to ESLs for goods
- A new electronic refund procedure for VAT incurred in other EU Member States

The current basic rule is that VAT is due where the supplier has established their business. That is the case for supplies to both business and non-business customers. From 1 January 2010, the new basic (or general) place of supply rule for business to business supplies will be where the customer is established.

The basic rule for supplies to non-business customers will remain unchanged, i.e. it will be where the supplier is established.

There will continue to be exceptions to the new general rule. Supplies to both business and non-business customers of cultural, artistic, sporting, scientific, educational, entertainment and similar services, as well as valuation and work on goods, are currently taxed where the service is performed. There will be no change to the taxation of these supplies when made to non-business customers.

For supplies to business customers:

- From 1 January 2010, valuation and work on goods will be taxed where the customer is established under the new general place of supply rule
- From 1 January 2011, most supplies of cultural, artistic, sporting, scientific, educational, entertainment and similar services will be taxed where the customer is established, under the new general place of supply rule. However, supplies of admission to cultural, artistic, sporting, scientific, educational and entertainment events will remain taxable where the event takes place.

Land related services are currently deemed to be supplied where the land is situated. This will remain unchanged.

Currently there is a single treatment for the place of supply of hire of means of transport for supplies to business and non-business customers. This is where the supplier is established (basic rule). From 1

January 2010, there will be a distinction between short-time hire (no more than 30 days or 90 days for vessels) and long-term hire. For short-term hire, the place of supply will be where the vehicle is put at the disposal of the customer. For long-term hire, the place of supply will fall under the new general rule. However, from 1 January 2013, the place of supply of long-term hire to non-business customers will be where the customer is established (except for long term hire of pleasure boats to non-business customers which will be treated as supplied where the boat is actually put at the customer's disposal if the supplier has an establishment there).

Under the current rules the place of supply of intermediary services is in the same place as the service being arranged. This is subject to a simplification measure for supplies to business customers registered for VAT in another EU Member State. From 1 January 2010, the services provided by intermediaries to business customers will fall under the general rule. Supplies to non-business customers will be unchanged.

The place of supply of the transport of goods is where the transport takes place, except for intra-Community transport which is supplied in the place of departure. This rule will remain the same for supplies to non-business customers. Supplies to business customers will fall under the new general rule from 1 January 2010.

The place of supply of certain intangible services, e.g. legal advice, will continue to be treated as supplied where the customer belongs when provided to non-business customers outside the EC.

Ancillary transport services (such as loading, unloading or handling services) are deemed to be supplied where they are physically carried out. From 1 January 2010, these services will fall under the general rule when supplied to business customers. Supplies of these services to non-business customers will continue to be taxed where performed.

The place of supply of passenger transport services, the use and enjoyment provisions and electronically supplied services (for non-business customers) will remain unchanged.

For cross border supplies, in most cases, the business customer will account for the VAT using the reverse charge procedure as happens now for a wide range of non basic rule services.

# HMRC Powers

The Budget included a number of measures designed to challenge tax evasion and avoidance. These measures include:

## Disclosure of Offshore Accounts

There is to be a 'New Disclosure Opportunity' for UK residents with unpaid tax connected to an offshore account. The NDO will run from the autumn 2009 for a limited period to give the offshore account holders a final opportunity to disclose previously undeclared sources of income, and pay the attendant tax liabilities. Those who do so will pay a penalty which is likely to be lower than the level they would suffer under normal rules. The level of penalty will be made known before the disclosure period commences.

## Tax Accountability for Senior Accounting Officers

Senior accounting officers for large companies as defined by the Companies Act 2006 will face personal tax penalties for the careless or deliberate failure to meet tax obligations or for the giving of a careless or deliberate incorrect certificate or notification.

This will be set out in legislation introduced in the Finance Bill 2009 and will be effective for returns due to be made for accounting periods commencing after Royal Assent.

The legislation will require senior accounting officers to:

- Take reasonable steps to establish and monitor accounting systems for their companies that are adequate for the purpose of accurate tax reporting
- Certify annually that the accounting systems in operation are actually adequate for the purpose of accurate tax reporting or if not specify the nature of any inadequacies
- Confirm that any inadequacies have been notified to the company's auditors

Further, the company is to notify HMRC of the identity of the senior accounting officer.

Penalties will be chargeable on both the senior accounting officer and the company for any failures under the above.

## Developing the disclosure of avoidance schemes regime

Disclosure of Tax Avoidance Schemes (DOTAS) is part of the tax framework giving HMRC early warning of avoidance schemes. HMRC will begin discussions with interested parties with a view to extending the 'hallmarks' used to identify avoidance schemes.

## Spotlight on selected avoidance schemes

HMRC will shortly publish a Spotlight giving notice of selected avoidance schemes that are thought to be ineffective to discourage potential users. HMRC will challenge these schemes when encountered.

## Transfers of Income Streams

Since the introduction of the 18% rate for Capital Gains Tax (CGT) legislation which took effect from 6 April 2008, there has been an increased incentive if gains can be created as opposed to receiving income.

Legislation already exists to prevent sales of rights to future income streams being subject to CGT, instead ensuring that such receipts are taxed under income tax rules.

New legislation, which is effective from 22 April 2009, strengthens the legislation in this area, making the re-categorisation of what is effectively income as capital gains more difficult to achieve.

### **Naming and Shaming of Tax Defaulters**

The Budget includes provision to report the names and addresses of any individual or company who has committed certain tax wrongdoings which led to a loss of tax of more than £25,000. Currently, usually only the names of tax defaulters convicted in the courts are made public.

The defaults could include over-claiming reliefs or losses or understating the tax due.

The details of defaulters will be updated quarterly and displayed for one year.

The disclosure will not cover tax credit defaulters and will only apply where the default was deliberate or concealed. There will be no disclosure of those who simply failed to take reasonable care.

# Late Filing Penalties

Legislation will be introduced in Finance Bill 2009 to reform the penalty regimes for late filing of tax returns and late payment of tax. The implementation of the new penalties will be staged over a number of years starting in 2010. The key elements of the new penalty models are:

**Penalties for late filing where the obligation to file the return is annual or Occasional (e.g. income tax Self Assessment, CT, IHT) include:**

- **£100 penalty immediately after the due date for filing (whether or not the tax has been paid)**
- Daily penalties of £10 per day (annual obligations only) for returns that are more than three months late, running for a maximum of 90 days
- Penalties of 5 per cent of tax due for the return period for prolonged failures (over 6 months and again at 12 months)
- Higher penalties of 70 per cent of the tax due where a person fails to submit a return for over 12 months and has deliberately withheld information necessary for HMRC to assess the tax due (100 per cent penalty if deliberate with concealment)

**Penalties for late payment where the obligation to make payment is annual or occasional (e.g. income tax Self Assessment, CT, IHT) include:**

- Penalties of 5 per cent of the amount of tax unpaid, generally one month after the payment due date (or at the filing date of the relevant return for CT and IHT)
- Further penalties of 5 per cent of any amounts of tax still unpaid at 6 and 12 months
- Suspension of late payment penalties where the taxpayer agrees a time to pay arrangement (where a tax debt is paid over time) with HMRC

**Penalties for late filing of CIS returns include:**

- A fixed penalty of £100 for failure to submit any return by the filing date
- An additional fixed penalty of £200 if any return is outstanding more than 3 months after the filing date
- Penalties of 5 per cent of deductions due for the return period for prolonged failures (over 6 months and again at 12 months)
- Higher penalties of 70 per cent of the deductions due where a person fails to submit a return for over 12 months and has deliberately withheld information necessary for HMRC to assess the tax due (100 per cent penalty if deliberate with concealment)

**Penalties for late payment of taxes and deductions collected through the PAYE system:**

- The amount of the penalty will depend on the number of defaults in any 12 month period. The first time the taxpayer defaults, they will not receive a penalty

- A second late payment and any subsequent failures in the default period will attract a penalty of 2 per cent of the tax unpaid rising to 5 per cent of tax unpaid
- Further penalties of 5 per cent of any amounts of tax still unpaid at 6 and 12 months
- Late payment penalties will not be charged during an agreed time to pay arrangement with HMRC unless the taxpayer defaults or misuses the arrangement

The measure includes a right of appeal against all penalties using a common formulation of reasonable excuse. Taxpayers will not have to pay penalties before they can appeal.

It provides a statutory basis for removing late payment penalties where taxpayers have agreed a time to pay arrangement with HMRC. The removal of penalties whilst in a time to pay arrangement was first announced in the 2008 Pre-Budget Report. The use of this provision was brought forward to provide more help for taxpayers struggling to meet their payment obligations and has been applied on a case-by-case basis to penalties under existing legislation with effect from 24 November 2008.

The measure will enable HMRC to re-impose penalties in some circumstances where the taxpayer has defaulted on the time to pay agreement.

### Interest Harmonisation

It is intended that legislation will be introduced in Finance Bill 2009 to create a harmonised interest regime for the first time for all taxes and duties administered by HMRC with the exception of corporation tax and petroleum revenue tax. This will replace the current range of interest regimes.

It is expected that the legislation to apply the harmonised interest regime to corporation tax and petroleum revenue tax will be introduced in Finance Bill 2010.

The new provisions replace the current range of differing regimes with a single legislative framework for interest chargeable on late payments, and payable on repayments of overpaid tax.

The measure will provide for interest to be charged from the date the tax was due to be paid to HMRC until the date it is paid. HMRC will also pay interest on repayments from the date the tax was due to be paid or, if later, the date the payment was actually received, to the date the repayment is made.

The measure will provide for differential interest charged and paid by HMRC to be based around the Bank of England base rate. Regulations will establish the basis for calculating and applying the rate of interest charged and paid.

### HMRC Charter

It is intended that legislation will be introduced in Finance Bill 2009 requiring HMRC to prepare and maintain a Charter. The Charter will set out standards of behaviour and values to which HMRC will aspire in dealing with taxpayers and others. In addition, the legislation will require the Commissioners for Her Majesty's Revenue & Customs to report annually on how well HMRC is doing in meeting the standards in the Charter. The Charter must be in place by 31 December 2009. HMRC plans to launch the Charter by Autumn 2009. This measure is likely to affect everyone who has dealings with HM Revenue & Customs (HMRC).

# Financial Planning

## Personal Planning

### Individual Tax Relief on Pensions for High Earners

From April 2011 tax relief on pension contributions for those who earn in excess of £150,000 p.a. will be restricted on a tapered basis with earners over £180,000 being restricted to 20% relief the same as basic rate payers. In the meantime legislation will be introduced to stop these earners from making large one-off contributions to use reliefs before the change takes place.

### ISA Allowances Increased

Personal ISA allowances will be increased with effect from 6 October 2009 for anyone over 50 and 6 April 2010 for everyone else to an overall allowance of £10,200, of which a maximum of £5,100 can be invested in cash ISAs.

### Mortgages and House Purchase

The current exemption from Stamp Duty for those buying a house with a value up to £175,000 will be extended to midnight on 31 December 2009.

### Child Trust Funds

The Government will support Child Trust Funds for disabled children with an extra payment of £100 p.a. up to £200 p.a. for the most severely disabled.

### Offshore Funds

New disclosure Opportunity for Offshore account holders with unpaid tax to 31 March 2010.

### EIS and VCT funds

#### Enterprise Investment Scheme (EIS)

From 22 April 2009 easements have been announced in the timescale for investment into these funds instead of 80% of money raised being invested within 1 year and the remainder within a further 12 months, now there will be a simpler rule requiring the EIS to invest all money received within 2 years. In addition restrictions on carry back of relief to the previous tax year will be removed allowing up to £500,000 in each tax year.

#### Venture Capital Trust (VCT)

From 22 April 2009 easements have been announced in the timescale for investment into these funds. Instead of 80% of money raised being invested within 1 year and the remainder within a further 12 months, there will now be a simpler rule requiring the EIS to invest all money received within 2 years.

#### Financial Assistance Scheme - forerunner of Pension Protection Fund

Changes will be made so that payments from this scheme will be treated for tax purposes in the same way as if they were made from a registered pension scheme.

## Corporate Changes

Some subtle changes have been made to rules regarding the following:

### Authorised Investment Funds (Investment Trust Companies) and Offshore Funds

In order to make them more competitive with overseas counterparts they will be able to elect to move tax burdens currently paid by them onto individual tax payers holding the investment. The net effect should

be the same, but it makes the taxation structure for the fund cleaner. There will be more to come on these issues in the run up to implementation on 1 December 2009.

### **Financial Services Compensation Scheme**

Rules on payment of interest on defaulting banks and their tax treatment for individuals have been simplified. This is an issue which will only arise with banks in default.

### **Life Insurance Companies**

Restrictions have been introduced on the movement of assets from one company to another and the use of funds from large share issues and re-attributions. This should not unduly affect any clients.

### **Save As You Earn Scheme**

Simplification of the way in which interest rates are authorised and electronic communications with HMRC and Government.

### **Other Points of Interest**

The Chancellor announced various measures to support different parts of the economy, and it is worth noting that many of these may form the backbone of future niche market investment funds making use of tax breaks and allowances:

- PILOT-CITY Regions - Manchester and Leeds - support of unified infrastructure, job creation etc.
- Support for renewable energy and low carbon emission projects
- Support for beginning or re-starting of new home building dormant sites - £600 million
- Further exploration of the tax treatment of Intellectual Rights
- A new North Sea Fiscal regime aimed at supporting the unlocking of the UKs remaining oil and gas reserves.

# About us

## Real support through thick and thin

How many sleepless nights have you had through financial worries? How often have you longed to be able to have some experts on board to help you through the difficult times as well as giving you sound, friendly and informal advice through the better times?

From the makeshift home office to the London HQ, from the pride in taking on your first employee to tackling the first AGM, whether you're a budding entrepreneur or the chief executive of a plc, you need people to call on who specialise in the complexities of finance.

People who can remove unnecessary stress to let you get on with your job.

Armstrong Watson is an accountancy practice with personal and business financial advisers and strategists to help you every step of the way. If you want to add some real value to your business, we're with you.

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