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PRE-BUDGET REPORT 2009

INTRODUCTION

On Wednesday 9 December 2009, the Chancellor of the Exchequer, the Rt Hon Alistair Darling MP, delivered his Pre-Budget Report (PBR) to the House of Commons. Each year the PBR provides a progress report on what has been achieved so far by the Government, gives an update of the state of the economy and public finances, and sets out the direction of Government policy in the run up to the spring Budget. This, of course, will be the last Pre-Budget Report before a general election.

This summary of the PBR is divided into the following sections:

The economy
As HM Treasury has stated: "This year's PBR takes place as the global economy recovers from the sharpest and most widespread downturn in more than 60 years." In this section we summarise details of the action to be taken by the Government to support jobs and growth and invest in frontline public services. In addition, we summarise the Chancellor's update on plans to manage the public finances.

Individuals
This section of the summary explains what the Chancellor intends to do in relation to matters such as personal tax, National Insurance contributions (NICs), employment and assistance to be given to the elderly.

Businesses
This section of the summary contains details of measures to assist businesses cope with the downturn in the economy, including direct and indirect financial assistance and taxation measures.

Additional measures
This section of the summary included details of measures to be introduced concerning matters such as protecting tax revenues, reducing Government spending, supporting low-carbon growth and the funding of military operations.

Further details of the Chancellor's Pre-Budget Report, including press releases, can be obtained from H M Treasury website at www.hm-treasury.gov.uk and H M Revenue & Customs website at www.hmrc.gov.uk.

THE ECONOMY

The Chancellor noted that the first half of 2009 saw a sharper deterioration across world economies than had been expected. He reported that over the year as a whole the UK economy is expected to have contracted by 4.75%. However, the Chancellor repeated his forecast made in the 2009 Budget that a return to growth was expected in the fourth quarter.

As stated in the Budget, the Chancellor again forecasted growth of between 1% and 1.5% next year. In 2011 and 2012 growth was forecasted to be 3.5%. This growth would be due to "the underlying strength of our economy, the pick-up in world demand, and the substantial spare capacity opened up by the recession".

The Chancellor also forecast that consumer inflation would rise from 1.5% to around 3% early in 2010, before falling back. He stated that this increase in inflation would be partly due to the reversal of the VAT rate from 15% to 17.5%. He confirmed that the Bank of England had forecasted that inflation would reach 1.5% by the end of 2010.

The Chancellor stated that the global recession had had an impact on the UK's public finances, with tax revenues falling and increased spending by Government being necessary to support the economy. In addition, the Government's efforts to maintain stability in the banking sector had had an impact on the public finances.

However, in the Government's opinion the risks surrounding the banking sector had significantly diminished and for this reason he was able to revise downward his provision for any impact on the public finances from £50 billion to £10 billion.

With the assistance of new legislation set out in the PBR the Government would ensure that public sector net borrowing, as a share of GDP, will fall every year and is more than halved by 2013/14 and that net debt, as a share of GDP, is falling in 2015/16.

The Chancellor stated that in the last Budget he had forecast that public sector net borrowing would be £175 billion in 2009 and fall to £97 billion in 2013/14. However, because of the severity of the recession his forecast for borrowing this year is £178 billion.

As the economy recovers and the deficit reduction plan starts to take effect, he forecast that borrowing would fall as follows:

- £176 billion in 2010/11
- £140 billion in 2011/12
- £117 billion in 2012/13
- £96 billion in 2013/14
- £82 billion in 2014/15.

The Chancellor also forecast that, as a share of GDP, borrowing will be:

- 12.6% this year
- 12% in 2010/11
- 9.1% in 2011/12
- 7.1% in 2012/13
- 5.5% in 2013/14,
- 4.4% in 2014/15.

Finally, as a result of the lower provision for possible losses on the Government's financial sector interventions, he forecasted that net debt will reach 56% of GDP this year and will then increase to 65% next year and 78% by the end of the forecast period in 2014/15. Net debt, as a share of GDP, will begin to fall the year after that.

INDIVIDUALS

Income tax

- The main rates for income tax for 2010/11 will remain at 20% for basic rate taxpayers and 40% for higher rate taxpayers. As announced in the 2009 Budget an additional rate of tax of 50% will apply on incomes over £150,000.
- As announced in the PBR 2008, the Chancellor confirmed that income tax allowances will be frozen in 2010/11 at a time when RPI is negative. This will result in taxpayers receiving a benefit in real terms.

Set out below are the personal and age-related allowances for 2010/11, together with the comparative figures for 2009/10.

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

(1) These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic personal allowance or minimum amount of married couple's allowance.
(2) Tax relief for the married couple's allowance is given at the rate of 10 per cent.

The taxable bands for income tax are set out below.

	2010/11	**2009/10**
Starting savings rate 10% *	£0 - £2,440	£0 - £2,440

Basic rate: 20%	£0 - £37,400	£0 - £37,400
Higher rate: 40%	£37,401 - £150,000	Over £37,400
Additional rate: 50%	Over £150,000	Not applicable

* 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
In a similar approach to that adopted for income tax rates and allowances, the Chancellor froze all but two figures for National Insurance contributions. The increases are £2 per week on the lower earnings limit and 10p on the special Class 2 rate for volunteer development workers.

Employee, employer and self-employed rates of NICs will increase by 0.5% in April 2011 in addition to the 0.5% increase announced in the 2008 PBR. To protect the lowest earners the level at which people start to pay NICs will increase in April 2011 by £570 above the level previously announced.

Inheritance tax
The Chancellor reversed his earlier decision to increase the inheritance tax threshold and announced a freezing of the threshold at £325,000 for individuals and at £650,000 for married couples and civil partners.

Tax Credits and Child Benefit
As announced in the 2009 Budget, the Chancellor confirmed that the child element of the Child Tax Credit will rise by £20 above indexation in April 2010. This represents an increase of £65 in cash terms.

An increase by 1.5% in April 2010 will be made in relation to the following benefits:

- Child Benefit
- Guardian's Allowance
- The disability elements of the Child Tax Credit
- All elements of the Working Tax Credit (apart from the childcare element)
- The disregard for Working Tax Credit in Housing Benefit

The threshold for the receipt of the maximum Child Tax Credit award will be increased to £16,190. All other rates and thresholds in tax credits are unchanged.

State Pension and Pension Credit
In April 2010 the basic State Pension will increase by 2.5%. A full basic State Pension will then be worth £97.65 a week. A full couples' rate will increase to £156.15 a week.

There will be an increase in the Pensions Credit's minimum income guarantee to £132.60 for single pensioners and £202.40 for couples.

Pensions tax relief
The Chancellor announced changes to the tax relief on pension contributions which had previously been announced in the 2009 Budget. At that time the Chancellor announced that tax relief on pension contributions would be restricted from April 2011 for individuals with incomes of £150,000 or more. The Government has now announced that the restriction will apply to those with gross incomes of £150,000 or more, where gross income incorporates all pension contributions, including the value of any pension benefit funded by, or eventually funded, by an individual's employer.

Employment
The Chancellor announced that a guaranteed offer of a job, work placement or work-related skills training will be made to all young people aged 18 to 24 who have been unemployed for six months. (This time period has been reduced from the previously announced period of twelve months.)

The Chancellor also announced a contribution of £8 million for undergraduates undertaking short unpaid internships in professions with historically low access. The support will commence in summer 2010 and is expected to assist some 10,000 internships.

Stamp taxes and duties
The Chancellor confirmed that the stamp duty "holiday" for residential properties up to a value of £175,000 would end after 31 December 2009.

Vehicle Excise Duty

The Chancellor announced an increase in the rates of Vehicle Excise Duty for motorcycles. The 2010/11 rates are as follows:

VED band	***Change from 2009/11 to 2010/11***	***2010/11 rate***
Up to 150cc	-	£15
151 – 400cc	-	£33
401 – 600cc	+£2	£50
Over 600cc	+£4	£70

Telephone Landline Duty
In order to fund the proposed increase in the speed of a superfast broadband, a Landline Duty at a rate of 50p per month would be introduced for each landline from 1 October 2010.

Alcohol and tobacco duty rates
Alcohol and tobacco duty rates will remain at their current levels when the standard rate of VAT returns to 17.5% on 1 January 2010.

Bingo Duty
There will be a reduction in Bingo Duty to 20% in the 2010 Budget.

BUSINESSES

Value added tax
As previously announced, the Chancellor confirmed that the current 15% rate for VAT would revert to 17.5% on and after 1 January 2010.

A “period of grace” will be given for businesses trading across the midnight deadline. These businesses will be able to charge the lower 15% rate until they close (or until 6.00am, whichever is earlier). There are also plans to allow shops to add the extra VAT to prices at the tills for up to 28 days, giving them extra time to complete the re-pricing of their stock.

Sectorial rates for the VAT Flat Rate Scheme will be updated. This will affect those businesses with turnover up to £150,000 who use this scheme.

Corporation tax
No changes were announced to corporation tax on profits. The rates are set out below:

Profits (£ per year)	***2010/11***	***2009/10***
£0 - £300,000	21%	21%
£300,001 - £1,500,000	Marginal Relief	Marginal Relief
£1,500,001 or more	28%	28%

The planned small companies’ rate increase to 22% is deferred until 2011/12.

In order to strengthen the incentives to invest in innovative industries, from April 2013 the Government will introduce a reduced rate of corporation tax applying to income from patents

Company car tax
The Chancellor confirmed that from 2012 the CO_2 emissions thresholds for company car tax bands will be shifted down by 5g CO_2 per km. In addition, the graduated table of CCT bands will be extended downwards to a new 10% band for cars emitting up to 99g CO_2 per km, in place of the existing 10% band.

Bank payroll tax
The Chancellor acknowledged that the Government “attached great importance to tackling the remuneration practices that contributed to excessive risk taking by the banking industry”. Where bank or building society employees are awarded discretionary bonuses above £25,000 in the period from 9 December 2009 to 5 April 2010, employers paying these bonuses will pay an additional bank payroll tax of 50% on the excess over this threshold. This one-off tax will not be deductible in computing the taxable profits of affected companies.

Fuel duties
In the 2008 Budget the Chancellor announced that the duty differential for biofuels will cease from 1 April 2010. In this year’s PBR the Chancellor announced that the duty differential will continue for a further two years for biofuels made from used cooking oils.

Fuel Benefit Charge
In order to support public finances and encourage fuel-efficient travel, the fuel benefit charge multiplier for the private use of a company car will increase from £16,900 to £18,000 from 6 April 2010.

First year allowance on electric vans
Legislation will be introduced to provide a 100% first-year allowance for business expenditure on new, unused electric vans for expenditure incurred on or after 1 April 2010 for corporation tax and 6 April 2010 for income tax.

Business Payment Support Service (BPSS)
This service was announced in the 2008 PBR. BPSS allows businesses facing temporary financial difficulties more time to pay their tax bills. The Chancellor announced that HMRC will continue to offer this service to businesses as part of its time to pay arrangements.

Empty Property Relief on Business Rates
The 2008 PBR announced that empty properties with rateable values of up to £15,000 would be exempt from business rates for 2009/10. The Chancellor announced that the Government will extend the temporary increase in the threshold for empty property relief for a further year. For 2010/11, empty commercial properties with rateable values up to £18,000 will be exempt from business rates.

Enterprise Finance Guarantee
The Chancellor stated that the Government recognised the continuing challenges that small businesses (SMEs) face in accessing finance He therefore announced that the Enterprise Finance Guarantee scheme will be continued for a further twelve months, providing an additional £500 million of bank lending available to SMEs.

Growth Capital Fund
The Chancellor announced the creation of the Growth Capital Fund to invest in small and medium size businesses. The Fund would target growing companies seeking amounts of between £2 million and £10 million.

ADDITIONAL MEASURES

Child poverty
The Chancellor announced further support to families, reinforcing the Government's commitment to the Child Poverty Bill. The measures include:

- Extending the entitlement to free school meals to primary school aged children of low income working families.
- Allowing parents to divide a period of paid leave between them in the second six months of their child's life.
- Providing guidance and advice regarding the provision of grants for school uniforms.
- Action to improve and join up delivery of local services.

Protecting tax revenues
The Chancellor announced a number of measures to protect the UK tax system from abuse and to ensure that all individuals and businesses paid their fair share of tax. These measures include:

- New penalties and powers to combat offshore evasion.
- Enhancements to strengthen the disclosure regime.
- A code or practice on the taxation of banks.
- Closing down inheritance tax avoidance schemes.
- Closing down insurance premium tax avoidance schemes.
- The targeting of tax avoidance using index-linked gilts.
- Countering finance leasing avoidance.
- The prevention of sale of lessor companies avoidance.
- The prevention of the avoidance of stamp taxes on shares.

Supporting low-carbon growth
The Chancellor acknowledged that the UK is playing a leading role on climate change. In relation to low-carbon emission recovery, the Chancellor announced a number of measures to assist in this regard, as follows:

- Additional support for offshore wind projects.
- The doubling of our commitment to fund carbon capture and storage.
- Encouraging further investment in low-carbon projects.
- Providing £120 million for low-carbon industries in the UK.
- The provision of £200 million to improve energy efficiency.
- Offering up to £400 to householders who upgrade their old boilers to more efficient models.
- Making tax free any income received by households who generate small-scale renewable electricity.

- Increasing support to more vulnerable households with their energy bills.
- Increasing support for low-carbon vehicles by exempting electric cars from company car tax from 2010 and by introducing a first-year allowance on electric vans.

Housing
The Chancellor announced a number of measures which would be introduced to maximise the delivery of high-quality, energy efficient homes. These measures include:

- Ensuring that more land is brought forward for development.
- Ensuring that legislation does not unduly constrain house building.
- The extension of the HomeBuy Direct scheme.
- Freezing at 6.08% the Standard Interest Rate used to calculate Support for Mortgage Interest. The rate will be frozen for a further six months.
- Reducing the 2010/11 average guideline rent increase for local authority tenants from 6.1% to 3.1%.

Government spending
The Chancellor announced a number of measures to reduce public spending to help support the economy through the downturn. These measures include:

- Savings through "smarter Government", including the greater use of online systems for providing advice to the public and the cutting of consultancy spending by 50%.
- Savings through targeting and prioritising spending.
- A 1% cap on public sector pay settlements.
- Reforms of public service pensions.

Funding military operations
An additional £2.5 billion would be made available to continue to meet the cost of military operations in Afghanistan.

Support for ex-service personnel
The Government is to provide new funding of up to £5 million for service personnel (including disabled personnel) returning from conflict. This funding will be in the form of enterprise support to assist those individuals in setting up a new business.

THE 50% TAX RATE AND THE USE OF SERVICE COMPANIES

As many of our readers will be aware, a new 50% tax rate is to come into force from 6 April next year and will apply to those individuals with taxable income in excess of £150,000 a year.

Whilst only a minority of individuals will be subject to the new rate, nevertheless many of those who will be affected will be anxious to keep their tax bills as low as possible.

One approach which is worthy of consideration is for the individual to provide his or her services through a company. For companies with a turnover of less than £300,000 tax is payable at 21%. In addition, a company does not pay National Insurance contributions (NICs) on its income.

Providing services through the medium of a company (sometimes referred to as "service companies") is not new and still worth considering at the present time as higher rate tax is 40%, still considerably more then the 21% paid by small companies. However, with the higher rate due to increase to 50%, the service company is growing in popularity.

In addition to the tax advantages, there are other advantages that can accrue to companies, including the off-setting of tax losses against other income and the use of entrepreneurs' relief if the circumstances allow.

Another possible advantage is that in certain situations companies can split income between a husband and wife who both own shares in the company. This will enable each person to utilise their own personal tax allowance and, in some situations, may enable tax to be paid at the lower tax rate rather than the higher rate of 40% - or 50% as from next year. This practice, known as "income splitting", has been attacked by the Revenue in the past without success, although it could be that the Revenue may return to this subject in the future, if new legislation is enacted.

However, there are potential problems with service companies. The main problem is the ability to prove to the Revenue that you are self-employed or whether you are merely using the company as a "veil", behind which you are still an employed person. The Revenue apply strict rules relating to self employment which, in the main, will centre around who controls your working environment. So if, for example, you only carry out work for one organisation which decides where, when and how you work, the chances are that you will not be able to claim that you are self-employed through your own company and will be classed as employed and therefore liable to tax at the personal tax rates.

One final point to bear in mind is that the service company will only pay tax at 21% on profits which it does not distribute. As soon as the individual withdraws monies from the company in the form of a wage or salary, he or she will be subject to the usual personal tax rates, although the use of dividends could be considered as a way of withdrawing monies from the company as this can be tax efficient.

BANK CHARGES – THE COURTS RULE IN FAVOUR OF THE BANKS

In a recent high-profile case heard in the newly-created Supreme Court, the Office of Fair Trading (OFT) was unsuccessful in its attempt to have the right to assess the fairness of bank charges made by banks.

In its shock decision, the Court held in favour of the eight banks who were defending charges made on individuals in the UK many of which, it was argued, were excessive. Numerous stories abound about charges of up to £40 being made on each cheque issued by an individual, if that person had an unauthorised bank overdraft. The main thrust of the OFT argument was that any charges should fairly represent the additional work undertaken by the bank in relation to the charge. To do otherwise, it was argued, amounted to a penalty and was therefore unfair.

So it looks as though, in the absence of a fresh move by the OFT, their argument is lost. In addition, there is nothing to prevent the banks from continuing to levy these charges although the banks, in an effort to avoid further bad press, are now communicating more transparently with individuals and making them aware of possible charges when overdrafts are unauthorised.

Be that as it may, it is still worth considering asking for a refund from your bank if you feel that you have suffered an excessive charge. Whilst you may or may not have a legal right to a refund or a reduction your bank, in the interests of an on-going relationship, may make an ex gratia refund. The following steps should be followed:

1 Have a look at what agreement was made between you and your bank. Is there any correspondence in existence which states what charges your bank can make if you have an unauthorised overdraft? If you had not been informed of your rights you may have an argument that you should have been told.

2 Make sure that you have all the details relating to your charges. Go back through your bank statements and note in writing (or take copies) of any instances when you have suffered what you consider to be an excessive charge. Remember that you have a legal right to details of all charges made by your bank. This will either take the form of copies of bank statements or a schedule supplied by your bank if you have not retained your statements. Calculate the total of all the above charges. When requesting the above information, always quote the relevant part of the Data Protection Act as your bank cannot charge you if they have to supply information under the Act.

3 Contact your bank in writing giving them all the details referred to above, together with copy statements etc. Ask your bank to refund the excess charges.

4 Consider your bank's response. If you are not happy with this response write back to your bank stating that in your opinion the charges are unlawful. It is important that you inform your bank that you are aware of the law and the legal options available to you. If the charges are less than £5,000 state that you will consider an action through the small claims court. Banks will often attempt to bamboozle individuals. Do not be put off with their arguments if you feel that this is the case. In the case of smaller claims, many banks will be loath to incur more bad publicity and will in some cases be prepared to make some sort of refund.