

taxbreaks

23/4/2009

Budget 2009 Highlights

Against the backdrop of a massive £175bn Government spending deficit, the Chancellor delivered a budget 'to help people through this global recession, and prepare Britain for the opportunities of the future'. This included a number of changes which will have a significant impact on high income earners. The key measures are summarised below.

50% tax rate for high earners

The 2008 pre-Budget report heralded increases in higher rate income tax from 40% to 45% on income over £150,000. These increases were intended to take effect from 6 April 2011 but in the Budget, the Chancellor announced that the increase will be to 50% and will now take effect from the earlier date of 6 April 2010. Taxpayers who may be affected by these changes should consider accelerating income to take advantage of lower rates in the current year and should also carefully consider whether income can be taken in alternative taxable forms.

Cut in tax relief for pension contributions for high earners

The Chancellor announced restrictions to the tax relief available on personal pension contributions for those with annual income over £150,000. From 6 April 2011, pension contributions paid by such taxpayers will no longer attract higher rate tax relief. The actual rate of relief will taper, with those earning £180,000 or more receiving tax relief at only 20% on any contributions. As an anti-avoidance measure, from 22 April 2009 until 6 April 2011, higher rate tax relief will only be available on contributions to a maximum of £20,000 per annum. The tax relief will be restricted to just 20% for contributions in excess of £20,000 except where taxpayers already have a history of regular larger payments.

Withdrawal of personal allowances for higher earners

From 6 April 2010, taxpayers with taxable income over £100,000 will lose personal allowances at the rate of £1 of allowance for every £2 of income in excess of £100,000. In most cases this results in the loss of all personal allowances by the time income reaches a level of around £112,000 and creates an effective taxation rate of 60% for income falling in the £100,000 to £112,000 range.

Stamp duty holiday extended

In September 2008, the Chancellor announced a temporary increase from £125,000 to £175,000 of the threshold at which Stamp Duty Land Tax becomes payable when buying a residential property. This increase was due to expire on 2 September 2009 but has now been extended to 31 December 2009. After this date the limit will revert to £125,000.

If you would like further information on any of the areas covered please contact **Scott Burkinshaw** on 0114 2667171 or email scott.burkinshaw@bhp.co.uk



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New ISA subscription limits

The maximum amount that can be invested in ISAs is to be increased to £10,200 for a stocks and shares ISA (current limit £7,200), a maximum of which £5,100 can be held in cash (current limit £3,600).

People aged 50 and over will be able to invest up to the new limits for 2009-10 from 6 October 2009. All ISA savers will be able to take advantage of the new limits from 6 April 2010.

Car scrappage scheme

This is a voluntary scheme for motor dealers. Where a car or small van registered in the UK on or before 31 July 1999 is traded in, the dealer will deduct £2,000 from the cost of a new vehicle if the old one is scrapped.

The dealer will be responsible for checking that the old vehicle and the new vehicle both meet the rules of the scheme. When the sale is agreed, the dealer will sort out the necessary paperwork and arrange for the old vehicle to be scrapped.

The scheme will run from mid May 2009 to March 2010, unless the Government's fixed budget runs out sooner.

Furnished holiday lettings

Where certain criteria are met, the receipt of income from furnished holiday accommodation in the UK by individuals, partnerships and companies, is currently treated as a trade for many taxation purposes. This secures tax advantages including beneficial relief for losses, entitlement to capital allowances and capital gains tax reliefs.

From 6 April 2010, the furnished holiday lettings rules are to be abolished for properties both in the UK and the EEA. Once abolished, income from furnished holiday lettings will lose the tax advantages mentioned above and will be taxed as normal property income.

The above abolition is because HMRC consider that the generous treatment afforded to furnished holiday lettings may not be compliant with European Law so with immediate effect, the furnished holiday lettings rules can also apply to furnished holiday accommodation in the European Economic Area. HMRC will accept claims for previous years provided claims are made within the relevant time limits.

Taxation of foreign profits

After a long consultation period, the proposals announced in the 2008 pre-Budget report relating to the taxation of foreign profits in companies have been introduced with a couple of welcome changes.

Firstly, the exemption from UK corporation tax for foreign dividends will be introduced for companies of all sizes for dividends received on or after 1 July 2009. The exemption was originally only intended to apply to large and medium sized groups.

Secondly, the cap on the UK tax relief available for group interest payments will only apply to large companies and will not apply until 1 January 2010.

Capital allowances

Capital allowances are the method by which tax relief is given for the depreciation of assets. For expenditure incurred on plant and machinery in the 12 month period beginning 1 April 2009 for companies and 6 April 2009 for unincorporated businesses, a temporary first year capital allowance of 40% is available for expenditure incurred in excess of the existing annual investment allowance. This results in 100% first year capital allowances on the first £50,000 of expenditure. The 40% first year allowance will not apply to integral features, long-life assets, expenditure on cars or leased assets.

Enhanced loss reliefs

Companies and unincorporated businesses can currently offset trading losses against profits of the previous year. A temporary extension to these loss reliefs was announced in the 2008 pre-budget report enabling a further £50,000 of trading losses to be available to offset against profits for the two years prior to that previous year. This applied to losses arising in company accounting periods ending during the period 24 November 2008 to 23 November 2009 and to losses suffered by unincorporated businesses during the year to 5 April 2009. This extension will now be extended for a further year to company accounting periods ending 23 November 2010 and to losses suffered by unincorporated businesses during the year to 5 April 2010.

HMRC toughen their stance

HMRC has announced that it intends to publish the names of those who are charged a penalty for deliberately understating their tax liabilities to the tune of £25,000 or more.

A new power is to be granted to HMRC to require companies and businesses to provide them with contact details for people who owe tax.

From April 2010, penalties are to be charged for the late payment of PAYE and national insurance contributions. The penalty regime for the late payment of other taxes will also be hardened over the next few years.

VAT changes

Numerous changes to VAT were announced which will be covered in a separate VAT edition of Tax Breaks.

Taxpayers who feel that they may be affected by the above measures should take professional advice.

Please refer to our website for further details:

www.bhp.co.uk/content/taxcentre_budget/index.html

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