



9th December 2009

Pre-Budget Report

The Chancellor of the Exchequer delivered his Pre-Budget speech at 12:30 on Wednesday 9 December. Perhaps the biggest surprise was the relatively benign nature of the report given the position of the economy and that the Chancellor chose to ignore some obvious income raising opportunities such as increasing Capital Gains Tax.

With a general election looming, it is possible that not all of the announcements, some of which are not due to come in for a year or two, will come to fruition. With the increased likelihood of two budgets in 2010, it is prudent for individuals to make use of the planning opportunities that exist today and there remains significant scope to maximise the efficiency of personal finances through planning. In summary, the key announcements were:

Taxation of bank bonuses

In a widely anticipated headline grabbing move, a new one-off tax of 50% will be levied on bankers' bonuses above £25,000, payable by the bank and effectively taxing these payments twice. There is some speculation that this may encourage banks to relocate individuals to avoid this tax.

VAT & Stamp Duty

VAT will revert back to 17.5% and stamp duty will return to its previous thresholds on 1 January. This is welcome news as there was some speculation that VAT, which is one area of taxation that is generally lower in the UK than other countries, may be increased.

Small Companies Corporation Tax

The Small companies corporation tax rate, which was to increase in 2010/11 will remain at this year's level of 21%, providing some assistance to struggling companies, though not to those making short term losses. The rise has instead been deferred until April 2011.

Inheritance Tax

The Nil Rate Band for Inheritance Tax will remain unchanged at £325,000 for tax year 2010/11. This announcement stops the provision in the Finance Act for the nil-rate band to rise to £350,000 and will result in more households being drawn into the IHT net.

It was also announced that legislation will be introduced to the 2010 Finance Bill to counter two tax avoidance schemes that have been designed to avoid IHT charges on property in trusts.

This measure will apply where an individual transfers property into a trust in which they or their spouse retain a future interest or where an individual purchases a future interest in a trust. It will apply to transfers into a trust where the settlor retains a future interest, or where a future interest in a trust is purchased on or after 9 December 2009 and interests purchased in trusts on or after 9 December 2009.

From our first reading and based upon the information available, we do not believe that the draft legislation will impact traditional Discounted Gift Trust or Loan Trust arrangements.

National Insurance

It is proposed that National Insurance rates will increase by 0.5% in 2011 whilst the National Insurance threshold will rise at the same time. This is in addition to a 0.50% increase already announced providing for a potential 1% total increase in employee and employer National Insurance in 2011/12.

Pension Rules

Perhaps the most significant measure is yet more interference with the complicated rules relating to the 'Special Annual Allowance Charge' on pension contributions.

In summary, these rules mean that any individual with 'relevant income' of £150,000 will face a 20% tax penalty on pension contributions over £20,000 in total in the year, whether paid personally or by an employer. The Pre-Budget report introduces a new definition of relevant income and impacts individuals whose relevant income would previously have been defined as below £150,000 but was at least £130,000.

Individuals in these circumstances will now have all pension contributions added back to their income to determine whether or not it is above £150,000 and therefore subject to the new rules. It is therefore vitally important to review pension contributions for all individuals whose income is close to the threshold. Before the announcement, an individual's company could have made a contribution right up to the Annual Allowance of £245,000 without triggering a tax charge for the individual provided his relevant income was under £150,000. The pension contribution will now be included in the calculation of relevant income if the individual's income is £130,000 or more.

Employer contributions resulting from any new salary sacrifice arrangements entered into from 9 December 2009 will be included in the relevant income definition for threshold testing. Accruals and contributions already received into schemes by close of business yesterday will be protected from any special annual allowance charge. The changes, however, may restrict future use of pension arrangements.

Offshore disclosure

Legislation will be brought forward to levy tough penalties on those that fail to declare offshore tax liabilities. There will also be a new requirement to advise HMRC when opening offshore bank accounts in certain jurisdictions. We await further details on these measures.