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CHARTERED ACCOUNTANTS, REGISTERED AUDITORS & BUSINESS ADVISORS

2009 BUDGET SUMMARY

“Overall an ‘as expected’ budget most of the headline figures were already pretty well known before the speech, I was disappointed not to see the rumoured increase in the VAT registration threshold to £100,000 so reduce some of the red tape burden on small businesses.

Corporation main tax rates have stayed the same. The increase in capital allowance from 20% to 30% for the coming year will be useful to businesses investing heavily in machinery but for smaller businesses it would have been nicer to see the £50,000 annual investment allowance increased.” – Alistair Hayward-Wright

THE BUDGET 2009

Alistair Darling presented his second Budget on Wednesday 22 April 2009. Having acknowledged the depth of the recession, he hinted that the Budget measures would enable the UK economy to begin to grow 'by the end of the year'.

As always the timing of the changes needs to be carefully watched – some are immediate but some are delayed to 2010 and beyond.

Our summary focuses on the issues likely to affect you, your family and your business. To help you decipher what was said we have included our own comments.

If you have any questions please do not hesitate to contact us for advice.

Main Budget proposals

- Introduction of a 50% top rate of tax for those with income over £150,000 from 2010 and phased reduction of personal allowances for those with income over £100,000.
- Increases in ISA limits from October this year for those aged over 50 and for everyone from April 2010.
- Enhanced relief for trading losses extended by a further year.
- Short term increase in capital allowances on most plant and machinery.
- Extension of the furnished holiday lettings scheme to properties in the EEA but then the removal of the scheme completely from April 2010.
- Names of deliberate tax defaulters to be published where default was tax in excess of £25,000.

Previous announcements

Many of the changes detailed in this summary have been the subject of earlier announcements. Here is a reminder of some of the more important ones:

- removal of the £12,000 'expensive car' limit for capital allowance purposes
- availability of non-repayable tax credit on overseas dividends received by any individual
- removal of tax charge for companies on overseas dividends
- extension of HMRC compliance powers across all the taxes dealt with by HMRC.

PERSONAL TAX

Tax rates

As previously announced the government proposes significant changes to the system of personal allowances and tax rates. These changes which were announced last year mainly impact on those with higher levels of income. Significant changes have now been made to the original proposals.

Allowances and rates 2009/10

The 2009/10 personal allowance will be £6,475. The basic rate limit will be £37,400. Therefore an individual will pay 40% tax rather than the basic rate of 20% when their total income exceeds £43,875.

The 10% starting rate for savings income band (£2,440) is only available where an individual's non savings income (broadly earnings, pensions, trading profits and property income) does not exceed the starting rate limit.

Changes for 2010/11

The Chancellor has not only brought forward proposals which were to take place in 2011, he has also made changes to his original announcements.

The personal allowance will be subject to an income limit of £100,000. An individual's personal allowance will be reduced by £1 for every £2 of adjusted net income above the income limit. The personal allowance will be reduced to nil from this income limit instead of the proposed two stage reduction announced in 2008.

Adjusted net income for these purposes is broadly all income after adjustment for pension payments, charitable giving and relief for losses.

Instead of introducing a 45% top rate of tax in 2011, a new rate of income tax will be introduced of 50% from 6 April 2010. This will apply to taxable income above £150,000.

Dividend income is currently taxed at 10% where it falls within the basic rate band and 32.5% where liable at the higher rate of tax. A new rate of 42.5% will be introduced for dividends which fall into the income band above £150,000.

Example

The effect of the basic changes can be illustrated as follows (this assumes that the basic rate band remains unchanged):

	2009/10		2010/11	
		tax		tax
	£	£	£	£
Non dividend income	200,000		200,000	
Personal allowance	(6,475)		Nil	
Taxable income	193,525		200,000	
Taxable at 20%	37,400	7,480	37,400	7,480
Taxable at 40%	156,125	62,450	112,600	45,040
Taxable at 50%			50,000	25,000
Total tax liability		£69,930		£77,520

Trust rate

The trust rate will be increased from 40% to 50% and the trust dividend rate from 32.5% to 42.5%. These changes will take effect from 2010/11 and will apply to all trust income.

Comment

Trusts that invest for capital growth will have a significant advantage because capital gains are taxable only at 18%.

National Insurance Contributions (NICs)

The NIC thresholds have been increased but the rates of Class 1 and 4 contributions have been held at their 2008/09 levels.

An increase in the rates of national insurance is proposed from April 2011. An increase of 0.5% will apply to the rates applicable to employers', employees' and the self-employed.

Foreign dividends

Individuals in receipt of foreign dividends are generally entitled to a non-repayable tax credit of one ninth of the distribution. This treatment applies to individuals who own less than a 10% shareholding in the company.

From Budget Day individuals with shareholdings in excess of 10% will also be eligible for the non-repayable tax credit. The tax credit will not be available where the source country is not a qualifying territory. A qualifying territory is one which has a double taxation agreement with the UK, with a non-discrimination article. Anti-avoidance measures will be introduced to ensure these new rules are not subject to abuse.

Individuals in receipt of distributions from offshore funds will also be eligible for the non-repayable dividend tax credit regardless of the percentage shareholding.

Pensions – freezing of allowances

The annual allowance (AA) which effectively limits the amount of pension contributions which can be made by and on behalf of an individual had previously been set for all tax years up until 2010/11, with the amount for 2010/11 being £255,000. The AA will be frozen from 2011/12 to 2015/16 at £255,000 per annum.

Pension scheme members, not having existing transitional protection, who take pension and lump sum benefits are subject to a lifetime allowance (LA). The amount of the LA had previously been set for tax years to 2010/11, with the amount for 2010/11 being £1.8 million. The LA will be frozen from 2011/12 to 2015/16 at £1.8 million.

Removal of higher rate relief on pension contributions

Pension contributions made by an individual are usually paid net of basic rate tax and where the individual is a higher rate taxpayer further relief is due which significantly reduces the net cost of the premium. For example a cash contribution of £100 receives a basic rate credit of £25 which is added into the pension fund. The gross contribution of £125 then attracts relief at 40% of £50. After taking into account the basic rate relief already given, the individual has further tax relief of £25 which takes the net cost of the contribution down to £75.

The government has announced its intention to restrict tax relief on pension savings with effect from 6 April 2011 for people with taxable income of £150,000 or more. The relief will be tapered down until it is 20%.

Legislation will be introduced to prevent those potentially affected from seeking to forestall this change by increasing their pension savings in excess of their normal regular pattern, prior to that restriction taking effect.

The forestalling measures will apply to individuals with incomes of £150,000 or more who from Budget Day, change:

- their normal pattern of regular pension contributions, or
- the normal way in which their pension benefits are accrued, and
- their total pension contributions or benefits accrued exceed £20,000 a year.

Venture Capital Trusts

Legislation will be introduced to make improvements to the scheme to relax the time limits concerning the employment of money by companies receiving investment to two years or if later two years from the commencement of the qualifying activity.

Enterprise Investment Scheme (EIS)

Changes will be made to the EIS to:

- relax the time limits concerning the employment of money invested to two years from the issue of the shares or if later two years from the commencement of the qualifying activity
- remove the link to other shares of the same class issued at the same time as the qualifying shares
- extend the period for carry back of relief and allow the full amount subscribed (subject to the overriding limit of £500,000) to be carried back
- correct an anomaly regarding the capital gains position for investors in the event of a share for share exchange.

Individual Savings Accounts (ISAs)

In 2009/10 the ISA limits for people aged 50 and over will be raised to £10,200, of which £5,100 can be held in cash. This change will be made from 6 October 2009. The current ISA limits (£7,200 of which a maximum of £3,600 can be held in cash) will be increased for all investors to the same amount from 6 April 2010.

Remittance basis

Individuals who are resident but not domiciled or not ordinarily resident in the UK have the option of using the remittance basis of taxation. Significant changes were made to the remittance basis in 2008. Following consultation minor changes will be made to these rules.

Personal allowances for non-resident individuals

Legislation will be introduced from 2010 to withdraw the entitlement for individuals to personal allowances and reliefs solely by virtue of being a Commonwealth citizen. It is expected that the majority of individuals affected will still benefit through other means, for example Double Tax Treaties.

Financial Services Compensation Scheme (FSCS)

Individuals will be charged to income tax on the payment of accrued interest paid as part of compensation from the FSCS. This measure applies to payments made by the FSCS on or after 6 October 2008.

Furnished Holiday Lettings (FHL)

Unlike general property rental businesses, FHL are treated as a trade for certain taxation purposes, which is generally more preferential in terms of loss reliefs and CGT reliefs. A key condition for property to qualify as FHL is that it is situated in the UK. Due to the possible incompatibility of the rules with European law, two significant announcements have been made. The current law on FHL is to be repealed with effect from 2010/11 but until then FHL situated in the European Economic Area (EEA) are qualifying FHL provided they meet the other conditions.

Comment

Claims for FHL for properties in the EEA may be worth consideration for tax returns which have already been submitted. HMRC have indicated that late claims and amendments will be accepted in relation to this matter until 31 July 2009. This will apply to personal tax returns to 5 April 2007 and corporate returns ending on or after 31 December 2006.

CORPORATE AND BUSINESS TAX

Corporation tax rates

The main rate of corporation tax which applies to companies with profits of more than £1.5 million remains at 28%.

The small companies corporation tax rate which applies to companies with up to £300,000 of profits remains at 21%.

The effective marginal corporation tax rate for profits between £300,000 and £1.5 million is 29.75%.

Trading loss carry back

Under current rules businesses already have a number of mechanisms to relieve trading losses against other income including past trading profits.

For example unincorporated businesses can offset unlimited trading losses against income in the preceding year. In the early years of operation an unincorporated business can carry trading losses back for three years.

The main relief for companies is a carry back of unlimited trading losses against profits made in the previous year.

A proposed revision will apply for two years and will extend the period that current trading losses from businesses can be carried back against previous profits to a period of three years with losses being carried back against later years first.

The amount of losses that can be carried back to the preceding year remains unlimited. After carry back to the preceding year, a maximum of £50,000 of the balance of unused losses is then available for carry back to the earlier two years.

The measure will have effect for company accounting periods ending in the period 24 November 2008 to 23 November 2010. For unincorporated businesses, the measure will have effect in relation to trading losses for tax years 2008/09 and 2009/10.

Comment

The £50,000 limit applies separately to the unused losses of each 12 month period or tax year.

Capital allowances on plant and machinery

Additional capital allowances are to be available for expenditure incurred by a qualifying activity in the 12 month period commencing 1 April 2009 for companies and 6 April 2009 for individuals and partnerships. Most businesses have since 1 April 2008 (corporation tax) or 6 April 2008 (income tax) been able to claim the new Annual Investment Allowance (AIA) on the first £50,000 spent on most plant and machinery. Expenditure on qualifying plant and machinery not covered by the AIA will be eligible for a temporary first year allowance (FYA) of 40% instead of 20% Writing Down Allowance (WDA). The FYA will not apply for expenditure on integral features, cars, long life assets and assets for leasing.

Comment

The availability of additional capital allowances will be attractive to larger or plant intensive businesses where the AIA is insufficient, particularly groups of companies where one AIA has to be shared between all companies.

Taxation of business travel

Changes are being made to the capital allowance treatment of cars. The changes will have effect from 1 April 2009 for corporation tax purposes and 6 April 2009 for income tax. The special rules that restrict the amount of capital allowances for cars costing more than £12,000 will be abolished.

- Expenditure on cars with CO2 emissions of 160g/km or below will be allocated to the plant and machinery main pool (ie will obtain 20% WDA).
- Expenditure on cars with CO2 emissions above 160g/km will be allocated to the 'special rate pool' (ie will obtain 10% WDA).
- Cars that have an element of non-business use will continue to be dealt with in a single asset pool to enable the private use adjustment to be made but for expenditure incurred from April 2009 onwards the rate of WDA will be determined by the car's CO2 emissions.

Expenditure incurred before April 2009 will in general continue to be subject to the existing 'expensive' car rules for a transitional period of around five years. If any expenditure remains in a single asset pool at the end of the transitional period (unless there is any non-business use of the car) it will be transferred to the main capital allowances pool.

From April 2009 the special rules that restrict the amount of lease rental payments that can be deducted for tax purposes for a car with a retail price exceeding £12,000 will be reformed. The restriction will be changed to a flat rate disallowance of 15% of relevant payments and apply only in respect of cars with CO2 emissions above 160g/km.

The provisions also aim to ensure that only one lease restriction will apply where there is a chain of leases and that in limited circumstances there is no disallowance. One example of this is where a business rents such a car on short term hire not exceeding 45 days. Expenditure under leases that commenced prior to 1 or 6 April 2009 (that is where the car is made available before April 2009) will continue to be subject to the existing rules.

Motorcycles are to be excluded from the definition of cars and will not therefore be subject to these rules. Expenditure incurred on motorcycles on or after 1 or 6 April 2009 will qualify for the AIA or alternatively the temporary FYA.

Comment

The 100% FYA regime for low emission cars was extended to 31 March 2013 in Budget 2008 and therefore will still apply. The current threshold for CO2 emissions is 110g/km (so not many cars qualify).

Further extension of green technology lists

Businesses purchasing designated plant and machinery which meet energy saving or water technology criteria are eligible for 100% capital allowances. The qualifying technologies are published in lists which are reviewed annually to ensure the criteria are still relevant. This year one new technology - uninterruptible power supplies - will be added. It has also been announced that there will be other additions and removals to the sub-technology lists when all the lists are reissued later in 2009. The current lists are available on the internet at www.eca.gov.uk.

Groups and chargeable gains

A capital gains group is able to relieve a chargeable gain in one group company with an allowable loss in another group company provided the disposal was to a third party.

Changes are proposed to the legislation. Instead of deeming a transfer of an asset from one group company to another before the disposal, it transfers a gain or loss from the company making the disposal to one or more other specified companies within the group when they jointly elect. The former restrictions on the type of asset, and the circumstances under which the gain or loss arises no longer apply.

Taxation of foreign profits

The government will bring forward a package of reforms to the taxation of corporate foreign profits in Finance Bill 2009.

Foreign dividends are currently chargeable to UK corporation tax with a credit for foreign tax depending on the precise circumstances. Such dividends will generally be exempt for all companies where received on or after 1 July 2009. This will apply regardless of the level of shareholding in the foreign company.

Targeted Anti-Avoidance Rules will apply to protect against any avoidance activity seeking to exploit these dividend exemptions. The exemption will be supported by a worldwide debt cap on interest and changes to the Controlled Foreign Company rules. In addition the existing Treasury consent rules will be reformed.

Comment

The government is attempting to enhance the competitiveness of the corporate tax system to make the UK a more attractive location for multinational business. There have been a number of high profile plans by some UK businesses to relocate outside the UK.

Corporation tax: loan relationships

Legislation will be introduced in Finance Bill 2009 to amend the loan relationships rules affecting connected companies. Two companies are ‘connected’ under the loan relationships rules if one controls the other, or they are both under common control - so companies in the same group are connected.

The amendments cover:

- the release of trade debts between connected companies
- the late payment of interest between connected companies.

A creditor that formally releases a connected debtor from a trade or property business debt is denied a deduction for the loss on the debt but currently the debtor may be taxed on its ‘profit’ in certain circumstances. Under the first change, the debtor company will not be taxable on the release.

This is to be effective for such debts released on or after Budget Day.

Interest payable is normally allowed on the accruals basis. However a deduction for interest payable to a connected creditor that is outside the UK is allowed on a paid basis if paid more than 12 months from the end of accounting period in which it accrued. It is proposed to change this rule. Where the interest is payable to a company, unless that company is located in a tax haven, interest will be deductible as it accrues in the accounts, not when it is paid.

This change will have effect for company accounting periods beginning on or after 1 April 2009. An election for a paid basis to continue will be available for the first such accounting period only.

Goodwill and the intangible asset rules

The intangible asset regime only applies to companies and was introduced on 1 April 2002. Legislation will be introduced in Finance Bill 2009 to confirm that goodwill includes internally-generated goodwill. It also confirms that all goodwill is created in the course of carrying on the business in question and is subject to rules determining whether goodwill is treated as created on or after 1 April 2002.

EMPLOYMENT ISSUES

Company cars

Where a company car is provided for an employee's private use, a taxable benefit arises which is based on the list price of the car and its CO_2 emissions. The percentages range from 15% to 35% for most cars. There are currently discounts available for environmentally friendly cars.

From 2011/12:

- the lower threshold CO_2 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 for electronic/petrol hybrid cars and cars propelled by bi-fuels, road fuel gas and bioethanol will be abolished. The discount given for Euro IV standard diesel cars registered before 1 January 2006 will also be abolished
- electrically propelled cars will continue to be taxed at 9%.

Comment

The removal of the long standing £80,000 price cap will create a significant increase in the car benefit for some!

The abolition of the reductions for electric/petrol hybrid cars and others will change the focus of the legislation from the means by which the car achieves its CO_2 emissions figure to the CO_2 emissions figure itself.

Living accommodation

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'.

Legislation will be introduced 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 (spread over the period of the lease).

The legislation will apply to leases entered into or extended on or after Budget Day.

CAPITAL TAXES

Inheritance tax (IHT) and Agricultural Property Relief (APR)

APR reduces the value of agricultural property chargeable to IHT. Before Budget Day APR was restricted to property in the UK, the Channel Islands or the Isle of Man. Finance Bill 2009 will extend relief to agricultural property in the European Economic Area (EEA).

IHT due or paid on or after 23 April 2003 in relation to agricultural property located in an EEA state at the time of the chargeable event will become eligible for relief.

Property qualifying for this extended IHT relief will also qualify for capital gains tax (CGT) hold over relief. Hold over relief allows deferral of a CGT charge (on a gift or sale at undervalue of a business asset) until the asset is disposed of by the recipient.

Hold over relief will be available in respect of disposals of agricultural property located in a qualifying EEA state in the past. The time limit for claiming hold over relief is five years from 31 January following the tax year to which the claim relates. Claims to relief in respect of the tax year 2003/04 can therefore be made until 31 January 2010.

Comment

Legislation in Finance Act 2008 reduced time limits for hold over relief claims to four years from 1 April 2010. Claims in respect of 2004/05 and 2005/06 will therefore also need to be made by this date.

IHT and Woodlands Relief (WR)

Where conditions are met, WR allows IHT to be deferred on the value of timber or underwood until it is sold. Before Budget Day WR could only apply in respect of land located in the UK. Finance Bill 2009 will extend WR to property in other qualifying EEA states.

For deaths before 22 April 2009, property located within an EEA state will become eligible for WR. The time limit for obtaining WR is usually within two years of the date of death.

Stamp duty land tax (SDLT)

The Chancellor announced a ‘holiday’ from SDLT in September 2008 which exempted from SDLT any acquisitions of residential property of not more than £175,000. The measure applied to acquisitions between 3 September 2008 and 2 September 2009 inclusive.

Legislation will be introduced to extend the increased threshold to land transactions where the effective date for SDLT is before 1 January 2010.

After that date the SDLT threshold for residential property will revert to £125,000.

Comment

The effective date is normally the date of completion, not the date of exchange of contracts. However the effective date may be earlier than the date of completion if the contract is substantially performed, for example, if the purchaser takes possession or pays a substantial part of the purchase price in advance of completion.

VAT

VAT thresholds

The VAT registration limits increase with effect from 1 May 2009 as follows:

- the threshold for compulsory registration is £68,000
- the threshold for voluntary deregistration is £66,000.

Change of the standard rate of VAT

The standard rate of VAT was reduced from 17.5% to 15% for the 13 month period 1 December 2008 to 31 December 2009. HMRC have confirmed their intention that the standard rate of VAT will revert to 17.5% from 1 January 2010.

Legislation will be introduced to counter schemes which purport to apply the 15% VAT rate to goods or services to be supplied on or after the date that the rate returns to 17.5%. The measures will apply where the customer cannot recover all the VAT on the supply and:

- the supplier and customer are connected parties or
- the supplier funds the purchase of the goods or services or
- a VAT invoice is issued by the supplier where payment is not due for at least six months.

A supplementary charge will also apply where a pre-payment in excess of £100,000 is made before the rate rise in respect of goods or services to be provided on or after the date of the rate rise.

The effect of the measures will be to charge supplementary VAT of 2.5% on which VAT of 15% has been declared.

Children's car seat bases

The reduced rate of VAT currently applies to children's car seats and applies to the combination of a safety seat and a related wheeled framework, booster seats and booster cushions. The reduced rate will be extended to apply to children's car seat bases from 1 July 2009.

Opting to tax land and buildings

Simplifications will be made to the procedures for opting to tax land and buildings, in respect of which the tax payer has made previous exempt supplies. The simplification will be made by the replacement of an automatic permission condition (APC) for tax payers who would otherwise have to seek permission from HMRC before opting to tax.

The new APC will have effect from 1 May 2009. Two related extra statutory concessions will also be withdrawn but not until 30 April 2010.

Comment

HMRC expect that the new APC will result in more taxpayers being able to opt to tax land and buildings without having to contact them.

VAT system for cross-border trading

A package of measures is being introduced to simplify and modernise the VAT system for cross-border trading and to counter fraud with effect from 1 January 2010 across the EU. The measures include:

- changes to the basic place of supply of services rules
- changes to the time of supply rules
- European Sales List (ESL) reporting for supplies of cross-border services
- a new electronic refund procedure for VAT incurred in other EU Member States.

Place of supply of services rules

Changes will be made to the complex rules on the place of supply of services rules which determine the country where a supply of services is made and where any VAT due is payable. The rules also determine whether, if VAT is due on a supply, it should be accounted for by the supplier or their business customer.

The proposal is that, as far as possible for business to business supplies, VAT is due in the country where the service is consumed. This will have the effect of reversing the present general rule.

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

Comment

Businesses will be liable to account for UK VAT on most services provided by their overseas suppliers under the reverse charge procedures.

Time of supply rules

The tax point for the supply is generally when the supply is paid for. Where the consideration is non monetary the tax point will occur at the end of the VAT accounting period when the service is performed.

From 1 January 2010 the rules will be amended to change the tax point to when a service is performed. A distinction will also be made between single and continuous supplies. For single supplies the tax point will occur when the service is completed or when paid for if earlier. For continuous supplies the tax point will be the end of each billing or payment period. Where no billing or payment period applies the tax point will be 31 December each year unless a payment is made beforehand which creates a tax point.

European Sales List reporting

There will be a requirement for UK businesses which supply services which will be accounted for under the reverse charge procedure to complete an ESL for each calendar quarter. Further rules will be introduced to reduce the time available to businesses to submit the ESLs from six weeks to 21 days for electronic returns.

VAT refund procedures

A new electronic VAT refund procedure is being introduced across the EU from 1 January 2010 to replace the current paper based system.

From 1 January 2010 UK businesses will submit claims for overseas VAT electronically on a standard form to HMRC rather than direct to the Member State where the VAT was suffered.

HMRC POWERS

Tax payments, repayments and debts

Three separate changes to the current law will be introduced in Finance Bill 2009 to:

- introduce voluntary managed payment plans (MPPs). These will allow taxpayers to spread their income tax or corporation tax payments equally over a period straddling the normal due dates
- allow HMRC to collect small debts they are owed through the Pay As You Earn (PAYE) system
- provide a third party information power requiring companies and businesses to supply HMRC with contact details for people who are in debt to HMRC with whom they have lost contact.

Making MPPs available requires necessary changes to HMRC's computer and accounting systems and therefore they will not be introduced before April 2011. The collection of small debts through PAYE will also require changes to HMRC's systems, and is likely to begin from April 2012.

The third party information power to trace missing debtors will have effect on and after the date that Finance Bill 2009 receives Royal Assent.

Comment

The introduction of MPPs will help taxpayers with their cash flow, by allowing them to spread their payments over a number of instalments before and after the normal due date. The plans will be voluntary and taxpayers will be protected from the normal interest and penalties consequences of paying late. However we will have to wait some time before it is operational.

Compliance checks

Legislation will be introduced to apply the compliance checking framework that has recently been introduced for the main taxes to all other taxes which HMRC administers.

The legislation will apply to the environmental taxes (aggregates levy, climate change levy and landfill tax), IHT, insurance premium tax, SDLT, stamp duty reserve tax and petroleum revenue tax.

The compliance framework will consist of the following elements:

- aligned record-keeping requirements
- new inspection and information powers including a modernised HMRC valuation power
- better aligned time limits for making tax assessments and claims.

The record-keeping requirements, information and inspection powers are intended to have effect from 1 April 2010. Time limits for making assessments and claims need a transitional period and are not expected to become fully operative until 1 April 2011.

Late filing and late payment

Legislation will be introduced to reform penalty regimes for late filing of tax returns and late payment of tax. The new regimes will replace the current variety of penalties and will treat late payment and late filed returns separately.

The filing and payment obligations covered include those where the obligation to file or pay is annual (eg income tax and corporation tax) or occasional (eg IHT) and in addition taxes and deductions collected through the PAYE system and Construction Industry Scheme (CIS).

Whilst the obligations are broadly aligned across the taxes they are modified for PAYE and CIS.

Penalties will be applied for the first time to all employers who are late in making monthly PAYE and NICs payments and companies paying corporation tax late. There will be provisions for removing late payment penalties where taxpayers have agreed a time to pay arrangement with HMRC, whilst creating a more robust response to prolonged and repeated delay.

Implementation of the new penalties for late filing and late payment requires changes to HMRC's computer systems and is to be staged over a number of years, starting with penalties for late payment of 'in year PAYE' from April 2010.

Comment

VAT is not part of the proposed measures but the government intends to introduce legislation for VAT in 2010.

Interest harmonisation

Legislation will be introduced 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.

The legislation will make provision for the automatic setting and implementation of interest rate changes. This will replace the current range of interest regimes. HMRC will still be allowed to charge a higher rate of interest on late paid tax than they pay on late repayments.

Implementation of interest harmonisation again requires changes to HMRC's computer systems and is to be staged over a number of years. Interest on late payments of 'in year PAYE' is expected to be introduced from April 2010.

Deliberate tax defaulters

Legislation will be introduced to enable HMRC to publish the names and details of individuals and companies who are penalised for deliberate defaults leading to a loss of tax of more than £25,000. Names will not be published of those who make a full unprompted disclosure or a full prompted disclosure within the required time.

The new provisions will be brought in from a date yet to be announced.

Comment

Currently the names and details of those who are convicted for deliberate tax defaults are published but those who are subject to a civil penalty for such defaults remain confidential unless exceptionally, their appeal against any penalty reaches *the courts. The proposed change ensures consistency of treatment for tax fraud, whether investigated through civil or criminal proceedings*.

Tax simplification

A tax simplification measure will be introduced to permanently align the three-line account threshold for income tax self assessment with the VAT registration threshold. This will enable around an additional 800,000 businesses to submit shorter tax returns.

HMRC Charter

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. The Charter must be in place by 31 December 2009.

Comment

Although the former departments that merged to make up HMRC have had charters in the past, none of these has had a statutory basis.

OTHER MATTERS

Child Trust Fund

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.

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 in April 2010.

Charities: substantial donors

The substantial donors rules potentially apply to all charities carrying out transactions with their largest donors (where tax relief is available in respect of their donation(s)).

If a charity enters into a specified transaction with a substantial donor the transaction will be treated as non-charitable expenditure which is subject to a tax charge.

Existing legislation defines a substantial donor as a person that makes tax relievable donations of:

- £25,000 or more in 12 months or
- £100,000 or more in a period of six years.

Such a person is treated as a substantial donor of the charity for all chargeable periods falling wholly or partly within that 12 month/six year period, and for a further five chargeable periods. A chargeable period for a charitable trust is a tax year and for a charitable company is its accounting period.

Regulations will increase the threshold of relievable gifts which a person may make before becoming a substantial donor. The relievable gifts threshold of £100,000 in a period of six years will be increased to £150,000 from 23 April 2009. The annual threshold of £25,000 will remain the same.

Comment

These rules were introduced to tackle those who influence or set up charities with a view to avoiding tax rather than with any charitable intent but the rules need to be considered carefully if substantial donations are being made.

Landfill tax

Legislation will be introduced to increase the standard rate of landfill tax by £8 per tonne to £48 per tonne. The new rate will have effect for any standard rated disposal of waste made, or treated as made, on or after 1 April 2010.

The Business Payment Support Service

The Business Payment Support Service was launched following the Pre-Budget Report in November 2008. It is designed to assist businesses which whilst viable are currently having difficulties paying tax liabilities due to economic conditions. The aim is to allow businesses to spread payments over a period of time to suit individual business circumstances. This service will continue and in making an agreement with

HMRC, consideration will now be factored in where a loss is anticipated for the current period.

The Budget proposals may be subject to amendment in the Finance Act. You should contact us before taking any action as a result of the contents of this summary.