

# A Guide to the Pre-Budget Report

*“Fiscally neutral” measures, with the clear focus being the state of the Economy, inter-weaving themes around the green agenda, support for business and certain revenue generating measures aimed at those with “broad-shoulders.”*

*- Alistair Darling, Chancellor of the Exchequer.*

# Welcome to our Pre-Budget Report guide

The Chancellor of the Exchequer, Alistair Darling delivered his third Pre-Budget Report to Parliament on 9 December 2009, in which he announced how he intended to balance the books, cut spending and crack down on banker's bonuses.

On page 4 you can read our Pre-Budget Report overview which looks at this much anticipated and politically charged Pre-Budget Report in which the Chancellor delivered what he described as "fiscally neutral" measures, with the clear focus being the state of the economy, inter-weaving themes around the green agenda, support for business and certain revenue generating measures aimed at those with "broad-shoulders."

The Chancellor postponed decisions on spending cuts but raised future taxes for anyone earning more than £20,000 to fund schools and hospitals. On page 6 we provide the main announcements.

To find out if you were a winner or a loser from the Pre-Budget Report, turn to page 12 and take a look at our guide to see how your finances may have fared following the Chancellors announcements, including the news relating to the changes to pensions and National Insurance contributions.

A detailed content listing of the articles featured in our Pre-Budget Report guide can be found on page 3.



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# Darling delivers third Pre-Budget Report

## Recession worse than had been predicted

In a much anticipated and politically charged 2009 Pre-Budget Report, the Chancellor, Alistair Darling delivered what he described as “fiscally neutral” measures, with the clear focus being the state of the economy, inter-weaving themes around the green agenda, support for business and certain revenue generating measures aimed at those with “broad-shoulders.”

Mr Darling postponed tough decisions on spending cuts but raised future taxes for anyone earning more than £20,000 to fund schools and hospitals.

The budget deficit Mr Darling promised would be halved in four years. Spending for 2010/11 will increase as planned, but after the election only frontline hospital, school and police services will escape the cuts.

There will be £5 billion of cuts by reducing IT projects, reforming legal aid, privatising prison management and cutting the cost of residential care. Cuts of some 14 per cent over three years across the unprotected areas will be found.

National Insurance will increase by 0.5 per cent, on top of the half-point rise commencing 6 April 2010 - for all employer, employee and self-employed rates from 2011.

The Treasury admitted that the two-year cap on public sector pay rises at 1 per cent was effectively a cut because inflation was set to rise above 1 per cent and

Mr Darling postponed tough decisions on spending cuts but raised future taxes for anyone earning more than £20,000 to fund schools and hospitals.

95 per cent of the NHS budget would remain “constant in real terms,” meaning a £3.7 billion rise in 2012/13.

Mr Darling admitted that the recession had been worse than he predicted during 2008 and confirmed Britain has suffered its worst recession since the 1930s. He downgraded his forecast for 2009 to a contraction of 4.75 per cent in 2009 compared with his Budget estimate in April. The public finances were also deeper in the red with a deficit of £178 billion this year, £3 billion more than he had predicted.

But the Chancellor said he expected growth of 1.0-1.5 per cent in 2010 - keeping to the forecast he made in the April Budget.

As expected, there was a one-off tax aimed at deterring big bonuses. Aimed at all British banks, building societies and subsidiaries of overseas banks, it will subject discretionary bonuses above £25,000 to 50 per cent tax.

# Pre-Budget: A Pre-Budget Report for business?

## Corporation Tax increase deferred for SMEs

Chancellor Alistair Darling announced in his third Pre-Budget Report that he would defer the 1p rise in Corporation Tax for small and medium sized businesses in 2010. Mr Darling said that the corporation tax rate for companies with profits of less than £1.5m would be frozen at 21 per cent until April 2011, postponing the planned 1p increase.

The Chancellor told MPs that he decided to defer an increase in Corporation Tax for small and medium sized companies to support their growth and investment early in the recovery. Gordon Brown, in his last Budget as Chancellor, announced staged increases in the tax, which is charged on profits up to £300,000 a year. It is estimated that the measure will cost the Treasury around £500m and save firms a maximum of £3,000 a year.

The planned rise in the small companies' tax rate to 22 per cent will be deferred until 2010/11.

Mr Darling also announced that the Enterprise Finance Guarantee, aimed at helping small businesses with turnover of less than £25m a year access money, will be extended for 12 months.

Under the scheme, the government guarantees 75 per cent of a loan and the other 25 per cent is guaranteed by one of 35 participating banks. Since its launch in January 2009 it is estimated that over 6,000 businesses have received nearly £700m in loans.

Mr Darling also said that VAT will rise to 17.5 per cent from 15 per cent from 1 January 2010, but there would be no further changes. It was also announced

that all National Insurance rates will rise by a further 0.5 per cent from April 2011.

### PRE-BUDGET REPORT BUSINESS HIGHLIGHTS

- Enterprise Finance Guarantee scheme for bank loans to small businesses to be extended for a further 12 months.
- 10 per cent Corporation Tax rate to be introduced on income which arises from patents in the UK.
- Strategic Investment Fund to support hi-tech projects given £200m boost.
- The Time To Pay scheme allowing firms to spread tax payments will be extended for as long as needed.
- Empty property relief threshold to be extended so that 70 per cent of all empty properties will be exempt.
- Increase in Corporation Tax for smaller companies to be deferred, leaving the 2010 tax rate unchanged.

## Pre-Budget Report: Income Tax thresholds frozen

Limits remain as they were

The Chancellor, Mr Darling announced that Income Tax thresholds would be frozen. The limits remain as they were with no tax being paid on the first £6,475 if you are under 65, followed by 20 per cent on the next £37,400. It means that the 40 per cent bracket will continue from an income at £43,875.

The much anticipated 50 per cent tax rate will apply to income over £150,000 from 6 April 2010, as announced by Budget 2009. For the tax year 2012/13, the higher rate threshold (the point at which someone starts to pay higher rate tax) will be frozen at the 2011/12 amount. The personal allowance will be increased and the basic rate limit will be reduced by the same amount.

Those earning more than £20,000 will see their National Insurance Contribution rise by 0.5 per cent from 2011, Mr Darling also announced. The increase comes on top of plans unveiled in the previous Pre-Budget Report to increase the tax by 0.55p in April 2011.

The allowance for those aged 65-74 will be kept at £9,490 and at £9,640 for older pensioners. In the 2007 Budget, Labour promised the allowance would be increased to £10,000 by 2011 for those aged over 75.

The Chancellor announced that it provided a ‘real terms benefit relative to September’s RPI’. The retail prices index measured a 1.4 per cent fall in September. But the government’s preferred consumer prices index showed a rise, up 1.1 per cent, while average ‘regular pay’ excluding bonuses rose 1.8 per cent over the same period, according to the Office of National Statistics.

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# Pre-Budget Report 2009

## The main points at a glance

The Chancellor postponed decisions on spending cuts during the Pre-Budget Report but raised future taxes for anyone earning more than £20,000 to fund schools and hospitals. These are the main points from Alistair Darling's third Pre-Budget Report.

### Economy

UK economy expected to contract by 4.75 per cent this year, with a return to growth in the fourth quarter.

Forecasts UK will grow 1 per cent-1.5 per cent next year and by 3.5 per cent in 2010/11.

Inflation to rise from 1.5 per cent to around 3 per cent early next year before falling back.

### Public finances

Provisions for potential impact from bank bail-outs on taxpayer revised down from £50bn to around £10bn.

Borrowing to hit £178bn this year and £176bn next year - higher than Budget forecasts.

As a share of GDP, borrowing to be 12.6 per cent this year, 12 per cent next year, then 9.1 per cent, 7.1 per cent, 5.5 per cent in 2013/14 and 4.4 per cent in 2014/15.

Net debt forecast to reach 56 per cent of GDP this year, 65 per cent next year, and 78 per cent by 2014/15.

UK deficit to be halved over four years.

### Tax

No change to Income Tax.

VAT will return to 17.5 per cent on January 1 as planned, with no other changes in VAT.

In April 2012 the point at which people start paying 40 per cent Income Tax to be frozen for one year.

No windfall tax on bank profits.

One-off levy of 50 per cent on bank bonuses above £25,000, to be paid by the bank, not the employee.

Employer pension contributions to be included in definition of tax income relating to pensions tax relief for those earning over £130,000.

### National Insurance Contributions

All employer, employee and self-employed rates of National Insurance to rise by a further 0.5 per cent from April 2011.

Starting point from which National Insurance is payable to be raised so that no-one earning less than £20,000 will pay any more in contributions.

### Pensions

Basic state pension will rise by 2.5 per cent in April 2010, a real-terms increase of nearly 4 per cent.

Employer pension contributions to be included in definition of tax income relating to pensions tax relief for those earning over £130,000.

State contributions to public service pensions for teachers, councils, NHS and the civil service to be capped by 2012, saving £1bn a year.

### Public sector

Senior civil service pay bill to be cut by up to £100m over three years.

Any new government appointment over £150,000 and all bonuses over £50,000 to require Treasury approval.

All public sector pay settlements capped at 1 per cent for two years from 2011, while recognising the special circumstances of the armed forces.

State contributions to public service pensions for teachers, councils, NHS and the civil service to be capped by 2012, saving £1bn a year.

### Inheritance Tax

Individual Inheritance Tax allowance to be frozen at £325,000 for the next year.

### Jobs/unemployment

Support for mortgage interest payments for the unemployed to be extended by six months.

Financial support for 10,000 undergraduates from poor backgrounds to take up internships in industry and the professions.

Guarantees of a place for every 16 and 17 year-old in education or training to be available to school-leavers again in September 2010.

Minimum number of hours those over 65 will need to work to receive Working Tax Credit to be reduced.

### Benefits

Benefits linked to inflation, such as Child Benefit, will rise by 1.5 per cent in April 2010.

Support for Mortgage Interest Scheme will be extended for further 6 months.

### Property

Stamp duty holiday to end on 1 January 2010.

Empty property relief threshold to be extended, 70 per cent of all empty properties will be exempt.

### Green

Government to finance four carbon capture and storage demonstration projects.

An extra £200m to be released from April 2010 to help with energy efficiency, with an extra 75,000 households helped by the Warm Front scheme.

New scrappage scheme to help up to 125,000 homes replace inefficient boilers, and changes to be made to the Climate Change Levy, company car tax and fuel benefit charge.

From April 2010, people with a home wind turbine or solar panels that send power back to the National Grid to receive an average tax-free payment of £900 a year.

### Defence

An extra £2.5bn to be set aside next year for military operations in Afghanistan.

£5m allocated to help ex-service personnel set up their own businesses.

### Education

Minimum real-terms increases in spending on schools guaranteed for two years from 2011.

Free school meals extended to 500,000 primary school children of low income working parents.

### Health

Minimum real-terms increase in spending on front line NHS.

### Police

Minimum real-terms increase in spending on front line policing.

### Transport

Electric cars to be exempted from company car tax for five years, with a 100 per cent first year capital allowance for electric vans.

### Telecoms/Digital

Super-fast broadband to be extended to 90 per cent of population by the end of 2017, funded by 50p-a-month duty on landlines.



# Q&A: Pre-Budget Report

Your questions answered

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## Q: Following the Pre-Budget Report will I have to pay more tax?

**A:** The Chancellor announced a further 0.5 per cent increase in National Insurance contributions from April 2011 although those who earn less than £20,000 a year will pay marginally less because of a higher starting threshold. If you earn more than £20,000 per annum you will be subject to a 1 per cent increase in your National Insurance contributions from April 2011. This applies to both employers and employees. A cap on public sector pay rises of 1 per cent for two years from 2011 was also announced.

## Q: Will I receive less tax relief on my pension contributions?

**A:** Mr Darling had already announced in his 2009 Budget that pension tax relief would be tapered from 40 per cent to 20 per cent for people with incomes over £150,000. During his Pre-Budget Report he clarified that employer pension contributions would be included in the definition of 'income' for this tax measure. However, irrespective of the size of employer pension contributions, no one with an income below £130,000 will be affected.

## Q: Have any changes been made to the personal allowances?

**A:** Personal allowances will be frozen in 2010/11. This is because the Retail Prices Index, the measure of inflation, is currently negative. Your personal allowance for 2010/11 will remain at £6,475 if you are under 65; £9,490 for people aged between 65 and 74; and £9,640 for those aged 75 and over. The basic and higher rates of income tax will remain at 20 per cent and 40 per cent respectively.

## Q: What provision has been made to tax bank employee bonuses?

**A:** Following the Pre-Budget Report banks will have to pay a 50 per cent tax on any bonus that it pays to employees worth more than £25,000. The Chancellor, Mr

Darling reiterated that bank employees would still have to pay income tax on bonuses as normal.

## Q: How did the Pre-Budget Report impact on the property sector?

**A:** The Chancellor confirmed that stamp duty holiday on properties purchased for less than £175,000 will end in January 2010, when the threshold at which buyers would have to pay the tax returns to £125,000. To help some people who might be in danger of having their home repossessed, the Support for Mortgage Interest scheme, which is available to those who have lost their jobs and are on means tested benefits, will be extended for another six months.

## Q: What is happening to VAT?

**A:** VAT reverts from 15 per cent back to 17.5 per cent from 1 January 2010.

## Q: I run a small business, what impact will the Pre-Budget Report have on me?

**A:** The Chancellor announced that the banks will have to develop a £500 million "growth fund" to fund lending to small businesses, although the details have still to be clarified. The government's Enterprise Finance guarantee Scheme, which provides government-guaranteed loans for small and medium enterprises in the recession, has been extended for another 12 months.

The increase in Corporation Tax for small businesses will be deferred, meaning the rate will still be 21 per cent next year. From 2011, it will increase to 22 per cent. There will also be a new 10 per cent tax on income from patents to boost science development.

The government's popular Business Payment Support Service, which allows small businesses to defer their tax payments, will be extended for "as long as needed."

## Q: Will I have to pay more green taxes?

**A:** There were no increases in fuel duty or air passenger tax but both were already increasing during 2010. On January 1 petrol will go up by about 3p a litre when VAT returns to 17.5 per cent and in April fuel duty will rise by 1p a litre. Air passenger duty will also increase in April, taking the tax on a long-haul flight to a maximum of £170.

## Q: Will my children pay more Inheritance Tax following the Pre-Budget Report?

**A:** The rate at which people pay Inheritance Tax has been frozen at £325,000 until 2011, meaning more estates are likely to be liable for the tax. Middle class households would have been hoping for an increase in the rate.

The government announced on 9 December that, with immediate effect, it was closing two artificial schemes designed to avoid Inheritance Tax charges on relevant property trusts. First, where a person transfers property into a trust in which they retain a future interest they will be charged Inheritance Tax if they become entitled to an actual interest under the trust. Second, where a person purchases an interest in a trust, that interest will be treated as part of their estate for Inheritance Tax purposes.

## Q: How did pensioners fare from the Pre-Budget Report?

**A:** The state pension is set to increase by 2.5 per cent, to £97.63 per week. However, the winter fuel allowance has been frozen at £250 for the under 80s and £400 for the over 80s.

Warm Front, the government's energy efficiency scheme aimed at pensioners and low income households, will also receive an extra £200 million in funding. Energy suppliers will have to spend an extra £1 million on social tariffs, which offer vulnerable households the cheapest deal.



# Pre-Budget Report: Inheritance Tax artificial schemes closed

Wider solutions to the problem of trusts being examined

The government announced on 9 December that, with immediate effect, it was closing two artificial schemes designed to avoid Inheritance Tax (IHT) charges on relevant property trusts. First, where a person transfers property into a trust in which they retain a future interest they will be charged IHT if they become entitled to an actual interest under the trust.

Second, where a person purchases an interest in a trust, that interest will be treated as part of their estate for Inheritance Tax purposes.

The government is also to examine wider solutions to the problem of trusts being used to avoid Inheritance Tax charges.

During the Pre-Budget Report the Chancellor Alistair Darling announced that the IHT nil rate band would be held at £325,000 in 2010. He defended his decision, citing that 'fewer than 3 per cent of estates pay the levy.

The threshold at which IHT becomes payable, at a flat rate of 40 per cent, was originally due to rise from its present level of £325,000 for a single person to £350,000 from April 2010.

During the Pre-Budget Report the Chancellor Alistair Darling announced that the IHT nil rate band would be held at £325,000 in 2010.

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# Further pension changes on the horizon for higher earners

Contributions restricted on a tapered basis from 2011

From 6 April 2011, tax relief on all pension contributions, including employers' contributions, will be restricted on a tapered basis for those with annual total incomes of £150,000 and over with full loss of higher rate relief for those with income of £180,000 or more.

Alistair Darling, the Chancellor, announced during his Pre-Budget Report that a further restriction on pension contributions for high earners will apply. It is now proposed that 'income' will include the value of employer contributions - i.e. pension benefits funded by, or eventually funded by, the individual's employer.

Individuals with pre-tax incomes of less than £130,000 (including their own pension contributions and charitable donations but excluding employer contributions), will be excluded from the restriction and will not need to value their employer-funded benefits (reducing uncertainty and administration costs).

The government has already introduced complex "anti-forestalling" measures to prevent earners above £150,000 from making top-ups of more than £30,000 a year to their pensions before 2011. These rules now also apply to those earning more than £150,000 under the new "gross earnings" calculation.

# New Disclosure Opportunity

Tackling offshore evasion of taxes

The Chancellor, Alistair Darling reiterated the government's commitment to in the Pre-Budget Report by announcing a new tougher penalty for anyone not taking advantage of the recent amnesties.

Referring to the New Disclosure Opportunity (NDO) and the Liechtenstein disclosure facility, Mr Darling announced that legislation would be brought forward to ensure that those failing to declare offshore tax liabilities will face the tough penalties attracted by deliberate tax evasion.

There will also be a new requirement to notify HM Revenue & Customs when opening offshore bank accounts in certain jurisdictions, supported by a separate penalty

regime. Evading tax offshore could therefore result in combined penalties of up to 200 per cent of the unpaid tax.

The total package of measures to protect tax revenues raises £165m by 2011/12 and protects around £5bn of tax receipts a year from erosion by tax evasion and avoidance.

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# Pre-Budget report: The Pre-Budget- Report winners and the losers

How did you fare?

## The winners Mortgage interest support

The government has announced that it is extending the mortgage interest support scheme (SMI) for a further six months. The scheme is designed to offer “breathing space” for home owners who are struggling to pay their mortgage, often as a result of redundancy.

The scheme enables eligible borrowers who suffer a temporary loss of income to cut their mortgage interest payments for up to two years to help them deal with their finances. The standard interest rate used to calculate SMI will be maintained at 6.08 per cent for a further six months.

## Pensions

The Chancellor confirmed that the Basic State Pension will rise by 2.5 per cent in 2010, despite inflation falling in September, the usual figure on which any rise in the State Pension is based. It will increase by £2.40 to £97.65 in April, the full couple's rate will increase by £3.85 to £156.15 a week. Pension credit will increase by £2.60 to £132.60 for single pensioners and by £3.95 to £202.40 for couples.

## Energy efficiency tax breaks

There will be tax breaks for those people who own wind turbines, solar panels and electric cars, although only a minority of people in the UK will benefit.

People will also be incentivised to scrap their old boiler for a new one, with a new scheme, similar scrappage scheme that has been running for most of this year.

## Individual Savings Accounts

As previously announced, the annual limit on Individual Savings Accounts (ISAs) was increased to £10,200, from £7,200 in October for the over-50s, but will be open to all eligible investors from 6 April 2010.

## Older people

The government has extended its 2008/09 increase to Cold Weather Payments so that eligible households are receiving £25 for each seven day cold spell recorded or forecast where they live.

## Children

April's Budget pledged that the child element of the child tax credit would increase by £20 a year from April 2010. It also announced that children with disabilities would have an extra £100 a year added into their child trust fund, with severely disabled children receiving an extra £200. The Chancellor also announced that Child Benefit and some disability benefits would rise by 1.5 per cent from April.

## Fuel

Fuel duty rose by 2p a litre in September and is set to go up 1p per litre in real terms each year from 2010 to 2013.

## The losers Higher-rate taxpayers

The threshold at which people start paying tax at 40 per cent remains the same at £43,875 from April 2010 which could mean that an additional 70,000 people may now become higher-rate taxpayers.

The top rate of tax for people earning more than £150,000 is to rise to 50 per cent from 40 per cent as of April 2010. It is believed that this new 50 per cent band will affect around 350,000.

A further 350,000 people who earn between £100,000 and £150,000 will see their tax-free allowances phased out after April 2010.

Pension tax relief will be restricted for those on incomes over £150,000 from April 2011. It will be gradually tapered to the same 20 per cent rate received by most people. The Chancellor, announced during his Pre-Budget Report that a further restriction on

pension contributions for high earners will apply. It is now proposed that ‘income’ will include the value of employer contributions.

## National Insurance

There will be a 0.5 per cent increase in National Insurance contributions from April 2011, although those earning less than £20,000 a year will be unaffected. It means that a worker earning £50,000 a year will pay an extra £1,248 a year from the National Insurance increase.

## Public sector workers

Public sector pay rises are to be capped at 1 per cent for two years from 2011, although exceptions will be made for the Armed Forces.

Public sector workers earning more than £100,000 a year will be required to contribute more to their pension scheme.

## VAT

There was no extension given to the cut in VAT. VAT will rise back to 17.5 per cent on 1 January 2010 as previously announced.

## Inheritance Tax (IHT)

The Chancellor has frozen the IHT threshold at £325,000, abandoning his previous plan to raise the threshold to £350,000.

## Home buyers

The moratorium on stamp duty on homes costing up to £175,000 will return to £125,000 in January 2010.

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