



# Pre-Budget Report 2009

Your guide to the Chancellor's Statement | 9th December 2009

## Alistair Darling's announcements include unexpected tax increases

In his final Pre-Budget Report before the next General Election, Alistair Darling faced the twin dilemmas of a soaring public finance deficit and a recession-driven reduction in Government income. While conceding that the economy in 2009 had shrunk by more than previously forecast, the Chancellor stuck to his predictions for a modest return to growth in 2010.

The Chancellor also outlined Government ambitions to reduce the budget deficit by half within four years. Some spending cuts were put forward, including a planned public sector pay settlement cap. As for boosting Government income, VAT returns to a standard rate of 17.5 per cent (though no higher as some feared) and there is to be a further increase of 0.5 per cent in employers' and employees' national insurance contributions as from April 2011. Time will tell whether Mr Darling's final Pre-Budget Report speeds the slow economic recovery.

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# Overview of the Pre-Budget

## Tax

- The VAT standard rate is to revert to 17.5 per cent as of 1 January 2010
- Employer and employee national insurance contributions to rise by a further 0.5 per cent as from April 2011, although the threshold for NI is to be increased so that nobody earning less than £20,000 will face extra charges
- Employer pension contributions are to be included in the definition of earnings for pension tax relief purposes but will only affect those earning more than £130,000
- From April 2012, the point at which 40 per cent income tax becomes payable is to be frozen for a year
- Increase in small company corporation tax to be deferred, leaving the rate at 21%
- One-off 50 per cent levy on bank bonuses over £25,000
- Individual inheritance tax threshold held at £325,000 for the next year
- New anti-avoidance measures to net £5 billion
- New 50p a month levy on landline phones to pay for improved broadband network

## Business support

- Time to pay scheme, which allows individuals and firms to agree extended timetables for settling tax bills to be extended
- Enterprise Finance Guarantee scheme also to be extended for a further 12 months, backing an additional £500 million of loans to businesses
- A corporation tax rate of 10 per cent to be introduced on income generated after April 2013 from UK patents granted after the legislation is approved
- Strategic Investment Fund given extra £200 million to support hi-tech projects

- Empty commercial property relief threshold to be extended to £18,000 covering 70 per cent of empty premises

## Mortgages

- Stamp duty holiday to end on 31 December 2009
- Scheme supporting mortgage interest payments for the unemployed to be extended for another six months

## Pensions

- The full basic state pension is to rise by £2.40 to £97.65 per week



# Overview of the Pre-Budget

## Employment

- From next month no-one under 24 needs to be unemployed for longer than six months, as opposed to the current 12 months, without training or work
- The minimum number of hours those aged 65 need to work in order to be eligible for tax credits is to be reduced
- Every 16 or 17 year old school leaver to be guaranteed a place in education or training next September
- Special fund to provide financial help for 10,000 undergraduates from poorer backgrounds, enabling them to join internships in industry and the professions

## Environment

- A further £200 million to support energy efficiency in 75,000 households
- New scrappage scheme to be introduced to help 125,000 households replace inefficient boilers
- Changes to be made to the climate change levy, company car tax and fuel benefit charge
- Electric cars and vans are to be exempt from company car tax for five years 100 per cent first year capital allowance for electric vans
- From April, those with home wind turbine or solar panels to receive an average payment of £900 tax-free if they send power back to the national grid

## The economy

- The economy will contract by 4.75 per cent this year, returning to growth by the fourth quarter
- The Chancellor predicted that economy will grow by between 1 per cent and 1.5 per cent next year and by 3.5 per cent in 2011/12
- Consumer inflation is set to rise to 3 per cent early next year before falling back to 1.5 per cent by the end of 2010

## Government finances

- Government borrowing is forecast to reach £178 billion this year and £176 billion in 2010 before falling further to £140 billion in 2011, to £96 billion in 2013 and to £82 billion in 2014
- Expressed as a share of GDP, borrowing will stand at 12.6 per cent this year, 12 per cent in 2010, then 9.1 per cent, 7.1 per cent, 5.5 per cent in 2013/14 and 4.4 per cent in 2014/15
- The Chancellor predicted that the budget deficit will be halved in four years

## Government spending

- Spending growth will slow to an average of 0.8 per cent a year between 2011 and 2015
- Savings of £5 billion will be made on budgets and programmes such as major IT projects
- Government contributions to public service pensions for teachers, councils, NHS and the civil service to be capped by 2012
- All public sector pay deals to be capped at 1 per cent for two years as from 2011, though with special recognition for the armed forces



# You and personal changes

## Income tax allowances and thresholds

Changes announced to income tax allowances and tax rate band thresholds are as follows:

- For 2010/11 all tax allowances and thresholds will be the same as for 2009/10
- For 2012/13 the higher rate income threshold will be frozen at the 2011/12 amount. The personal allowance will increase and the basic rate limit will be reduced by the same amount

Changes to the national insurance rates and thresholds for 2010/11 and subsequent years are announced as follows:

- For 2010/11 the lower earnings limit will increase by £2 to £97 per week. The special Class 2 rate for Volunteer Development workers will increase by 10p to £4.85 per week as this is linked to the lower earnings limit. All other NIC rates and thresholds are unchanged for 2010/11
- From 2011/12 the main rate of Class 1 and Class 4 NICs will increase by 1% to 12% and 9% respectively. The Class 1 employer rate will be increased by 1% to 13.8%. The increased rate will also apply to Class 1A and Class 1B contributions. The additional rate of Class 1 and Class 4 NICs will also be increased by 1% to 2%
- For 2011/12 the primary threshold and lower profits limit will be increased by £570 above plans announced in the 2008 Pre-Budget Report to compensate the lowest earners for the increase in Class 1 and Class 4 rates to help taxpayers earning £20,000 or less

<sup>1</sup> From the 2010-11 tax year the Personal Allowance reduces where the income is above £100,000 – by £1 for every £2 of income above the limit until the Personal Allowance is reduced to nil.

<sup>2</sup> These allowances reduce where the income is above the income limit – by £1 for every £2 of income above the limit. However they will never be less than the basic Personal Allowance or minimum amount of Married Couple's Allowance.

<sup>3</sup> Given at rate of 10%

Tax rates	2010/11
Savings starting rate band to	£2,440
Savings starting rate tax band	10%
Basic rate band	£37,400
Basic tax rate	20%
Higher rate band	£37,401 - £150,000
Higher tax rate	40%
Additional rate band – over	£150,000
Additional tax rate	50%
Tax of UK dividends within basic rate band	10%
UK dividend rate within higher rate band	32.5%
UK dividend rate within additional rate band	42.5%
<b>Allowances that reduce taxable income:</b>	
<b>Personal allowances:<sup>(1)</sup></b>	
Age under 65	£6,475
Age 65-74 <sup>(2)</sup>	£9,490
Age 75 and over <sup>(2)</sup>	£9,640
Blind person's allowance	£1,890
<b>Allowances that reduce tax:</b>	
<b>Married couple's allowance (MCA):</b>	
Age 75 and over <sup>(2), (3)</sup>	£6,965
Age 75 and over – minimum amount <sup>(2), (3)</sup>	£2,670
The age-related and married couples' allowances are progressively withdrawn if income exceeds	£22,900
<b>Non domicile charge:</b>	
Charge for adult non domiciliary applies after UK residence in 7 or more of the previous 9 years	£30,000



# You and personal changes

## 2010/11 national insurance

£ per week (unless stated)	
Class 1:	
Lower earnings limit, primary Class 1	£97
Primary threshold	£110
Upper earnings limit, primary Class 1	£844
Upper accruals point	£770
Employees' primary Class 1 rate between primary threshold and upper earnings limit	11%
Employees' primary Class 1 rate above upper earnings limit	1%
Employees' contracted-out rebate - salary related schemes	1.6%
Married women's reduced rate between primary threshold and upper earnings limit	4.85%
Married women's rate above upper earnings limit	1%
Employers' secondary Class 1 rate above secondary threshold	12.8%
Employers' contracted out rebate, salary-related schemes	3.7%
Employers' contracted out rebate, money-purchase schemes	1.4%
Class 2 rate	£2.40
Class 2 small earnings exception (per year)	£5,075
Special class 2 for share fishermen	£3.05
Class 3 rate	£12.05
Class 4 lower profits limit (per year)	£5,715
Class 4 upper profits limit (per year)	£43,875
Class 4 rate between lower profits limit and upper profits limit	8%
Class 4 rate above upper profits limit	1%

## 2010/11 working and child tax credits

Working tax credit	
Basic element	£1,920
Couple and lone parent element	£1,890
30 hour element	£790
Disabled worker element	£2,570
50+ Return to work payment (16-29 hours)	£1,320
50+ Return to work payment (30+ hours)	£1,965

Childcare element of the working tax credit	
Maximum eligible cost for one child	£175 per week
Maximum eligible cost for two or more children	£300 per week
Percentage of eligible costs covered	80%
Child tax credit	
Family element	£545
Family element, baby addition	£545
Child element	£2,300
Disabled child element	£2,715
Severely disabled child element	£1,095



# You and personal changes

## 2010/11 working and child tax credits

Income thresholds and withdrawal rates	
First income threshold	£6,420
First withdrawal rate	39%
Second income threshold	£50,000
Second withdrawal rate	6.67%
First threshold for those entitled to Child Tax Credit only	£16,190
Income disregard	£25,000

Child benefit rates (from April 2010)	
Eldest/only child	£20.30
Other children	£13.40
Guardian's allowance	£14.30

## Pensions: restricting tax relief for high-income individuals (anti-forestalling)

The 2009 Budget announced the Government's intention to restrict tax relief on pension contributions with effect from 6 April 2011 for individuals with gross income of £150,000 or over. Anti-forestalling legislation was also announced at the same time. The parameters of this legislation have today been changed so that:

- The income definition for the £150,000 threshold will include the value of employer pension contributions
- Individuals with incomes of £130,000 or over whom, on or after 9 December 2009, change their normal pattern of regular pension contributions, or the normal way in which their pension benefits are accrued will be affected. This will only apply if the total pension contributions or benefits accrued exceed the special annual allowance of £20,000 (or in some circumstances £30,000)
- Tax relief for those individuals with incomes below £130,000, before the inclusion of employer's pension contributions will not be restricted unless

the existing annual and lifetime allowances are breached

- The anti-forestalling threshold will be amended in Finance Bill 2010 to income of £130,000 or over
- The operative date for these anti-forestalling provisions will be 9 December 2009 for contributions paid under money purchase pension schemes or increases in the rights accrued under defined benefit schemes
- The Government has also published a consultation document on how the restriction of higher rate tax relief for pension contributions for high-income individuals will be implemented from 6 April 2011.



# You and personal changes

## **Pensions: changes to rates for special charges and the special annual allowance charge**

Changes are to be introduced to the tax charge levied by administrators of registered pension schemes when they pay short service lump sum refunds. The current rate of tax is 20% on the first £10,800 of refunded contributions, and 40% thereafter. For refunds made on or after 6 April 2010, the tax rates will be 20% on the first £20,000, and 50% thereafter.

A tax charge is also currently payable where certain lump sums, gratuities or other benefits are received by somebody other than an individual from an Employer Financed Retirement Benefits Scheme. The tax charge is payable by the recipient and is currently 40% - this will increase to 50% for benefits received from 6 April 2010.

## **Inheritance tax: nil rate band and tax avoidance schemes**

Changes announced to inheritance tax are as follows:

- The nil rate band for inheritance tax will remain at £325,000 for 2010/11. It was originally to have been increased to £350,000
- Provisions will be introduced in Finance Bill 2010 to counter two tax avoidance schemes that have been used to reduce the inheritance tax charge arising when property is settled on a trust. The legislation will be effective in cases either where a settlor transfers property into a trust, but retains a future interest in that trust, or alternatively purchases a future interest in the trust, on or after 9 December 2009.

## **Changes to company car tax**

Legislation will be introduced in the Finance Bill 2010 to change the level of the company car tax charge for 2012/13. The main changes will be as follows:

- The current graduated table of company car tax bands will be extended down to a new 10 per cent band
- All CO<sub>2</sub> emissions thresholds will be moved down by 5g/km on 6 April 2012 so that the 10 per cent band will apply to company cars with CO<sub>2</sub> emissions up to 99g/km

- Qualifying low emissions cars will no longer exist as a separate category
- The appropriate percentage for electric cars for the purposes of company car tax will be reduced from 9% to 0% for 5 years from 6 April 2010. This eliminates the car benefit charge for electric cars in this period.

## **Van benefit charge: electric vans**

Legislation will be introduced in Finance Bill 2010 to set a nil flat rate benefit charge for electric vans for the purposes of the van benefit charge. The current flat rate is £3,000 for all vans that can be used for private motoring. The Class 1A charge for employers will be removed for qualifying electric vans.

The measure will have effect on or after 6 April 2010 for 5 years.

## **Cars and vans: changes to fuel benefit tax**

The changes to fuel benefit tax from 6 April 2010 are as follows:

- The fuel benefit charge multiplier used as the basis for calculating the benefit of private fuel received for a company car which is chargeable to income tax and Class 1A NICs will increase from £16,900 to £18,000
- The figure used as the basis for calculating the benefit of private fuel received for a company van which is chargeable to income tax and Class 1A NICs will increase from £500 to £550.

## **Capital gains tax: private residence relief and adult placement carers**

The Finance Bill 2010 will include measures to ensure that entitlement to private residence relief is preserved where an adult placement carer uses part of their home exclusively for their business as a carer.

The fact that part of the home is being used for a business will not prevent the private residence exemption being available for that part of the property.



# You and personal changes

## Seafarers' earnings deduction

With effect from 6 April 2011 the seafarer (generally, a person who works on a ship) 100 per cent UK tax relief deduction for earnings from carrying out duties as a seafarer wholly or partly outside the UK is claimable by EU or European Economic Area residents. Currently one of the qualifying conditions for the Seafarers' Earnings Deduction is that the claimant must be ordinarily resident in the UK; the relief is extended in order to comply with the EU Treaty.

## Furnished holiday lettings

With effect from April 2010 (unincorporated owners from 6 April, corporate owners from 1 April) the favourable tax treatment of furnished holiday lettings (FHL) will be aligned with those for other property businesses. This change affects individuals, partnerships, trustees and companies who have income or capital gains from the commercial letting of furnished holiday accommodation. The changes do not affect hoteliers and bed and breakfast owners.

The FHL rules provide for flexible loss relief, additional capital allowances, certain capital gains reliefs and relevant UK earnings for pension purposes. Thus those who let furnished holiday accommodation will no longer be treated as if they were trading for certain tax purposes. Instead they will be taxed for all tax purposes under the normal rules for property businesses.

In addition to the press releases issued with the Pre-Budget Report, HM Revenue and Customs also issued a number of detailed guidance notes. If you currently have income from furnished holiday lettings, do please contact us to discuss the implications of these changes.

## Shared lives carers

A new relief is to be introduced in 2010/11 for qualifying Shared Lives carers that will largely mirror the existing Foster Care relief.

Shared Lives carers include adult placement carers, Staying Put carers and those receiving a Scottish Kinship Care Allowance.

The relief will consist of a tax-free allowance and replaces the current income tax arrangements that HM Revenue and Customs apply for some Shared Lives carers.

The tax free allowance will be available per household, and consists of:

- £10,000 fixed amount per year;
- £200 per week (or part week), per placement aged under 11; and
- £250 per week (or part week), per placement aged 11 or over.

The arrangement and detail of the allowance and the applying conditions will be finalised after discussions between HM Revenue and Customs and representative bodies and other stakeholders before legislation is drafted and included in the Finance Bill 2010.

## A taxpayer concession

Where income or corporation tax returns are not filed on time HM Revenue and Customs is able to issue an estimate of the tax due (a determination). This estimate can only be replaced by the tax return being filed within five years (reducing to three years from April 2010) from the statutory filing date or 12 months from the date of the issue of the determination. Currently HM Revenue and Customs by concession collect only the sum that would have been due for the period had the taxpayer filed the return on time. Legislation will be introduced to permit HM Revenue and Customs to continue to apply this treatment provided certain conditions are met.

## Salary sacrifice and workplace canteens

A raft of rule changes to section 317 of income tax legislation come into effect from 6 April 2011 designed to restrict the tax exemption for workplace canteens.

These restrictions apply where employers and employees have developed remuneration arrangements involving salary sacrifice or flexible benefits to take advantage of the tax exemption. The effect of these arrangements has been to allow some employees to purchase meals out of gross pay, and thus reduce the liability to tax and national insurance.



# You and your business

## Corporation tax

The Chancellor announced a one year deferment for the increase in the small companies' corporation tax rate which remains at 21%.

## Capital allowances

The only significant change announced to the existing capital allowance regime is bringing in a 100% first year allowance for expenditure on new electric vans thus bringing them into line with electric cars and cars with very low emission levels of 110g/km or less. The allowance has effect for expenditure incurred on or after 1 April 2010 for corporation tax and 6 April 2010 for unincorporated businesses.

The Government temporarily introduced an enhanced first year capital allowance of 40 per cent for expenditure incurred in 2009/10, however this will come to an end as planned in April 2010.



An anti avoidance measure was also announced which will prevent tax avoidance in circumstances where there are tax-motivated sales of companies which have plant and machinery tax written down values of in excess of the corresponding book values. This measure has effect for transactions on or after 9 December 2009.

## Research and development tax relief

A restriction which denied the enhanced tax relief for research and development expenditure unless the claimant company held the derived intellectual property has been removed for expenditure incurred by a SME company in an accounting period ending on or after 9 December 2009.

## Film tax relief

The Pre-Budget Report removes an unintended anomaly which had restricted the tax credit in certain circumstances. Generally this anomaly arose where the film production was spread over two or more accounting periods and there was an overseas expenditure element. This amendment to the rules has effect for accounting periods on or after 9 December 2009.

## Sale of lessor companies

The Chancellor has announced an option for lessor companies when they are sold to be able to elect for an alternative treatment from that prescribed in the 'Sale of Lessor Companies' legislation. The option will allow such companies to escape the immediate charge but alternatively to ensure that tax is levied on the leasing business following the sale. The measure is effective for transactions on or after 9 December 2009.



# You and your business

At the same time an anti avoidance measure has been introduced to deal with lessor companies owned by consortia. There was a weakness in the existing legislation which could be exploited by changes in indirect control within the consortium. This has been blocked for transactions on or after 9 December 2009.

## Tax and financial instruments

Following the proposed amendments to IAS 39 regarding financial instruments and the consequent anticipated amendment to the UK's own standard FRS 26 dealing with this topic the Chancellor has announced that legislation will be introduced in the Finance Bill 2010, to ensure that the tax treatment of the effects of these new accounting standards still results in a fair and efficient tax charge. This will have effect for company accounting periods starting on or after 1 January 2010, but changes to the tax regime will only apply once the accounting changes have been finalised.

## Bank payroll tax

This much anticipated measure will affect both banks and other financial institutions as well as groups of companies which include such businesses. The tax will be payable by the employer at a rate of 50% in cases where an individual employee receives either a discretionary or contractual bonus in excess of £25,000. This measure will affect bonus payments made on or after the time of the announcement on 9 December 2009 until 5 April 2010. There is an exemption for contractual bonus entitlements where the payer has no discretion as to the amount because of a contractual obligation existing prior to 9 December 2009. The measure will include anti-avoidance rules to be announced. The special tax charge will not be an allowable deduction from profits for corporation tax purposes.

## Anti avoidance

A number of anti-avoidance measures were also announced in this Pre-Budget Report including the following:

- Risk-Transfer schemes: Companies have in some cases chosen to over or under hedge foreign

currency exposure in such a way that there is an effective transfer of risk to the Exchequer. This was achieved by fragmenting the transactions around the group and in some cases obtaining a larger tax loss than the overall economic cost to the group. In future such losses would be ring fenced and will only be available for use against the hedging arrangements. This has effect for accounting periods beginning on or after 1 April 2010 with special rules for accounting periods straddling that date.

- Index linked gilts: Companies which have taken advantage of the tax free return on gilts where the increase in value is within the RPI movement will no longer be able to do so on any gilts held on or after 9 December 2009 if they are not economically exposed to the inflation linked return.
- Leasing of plant and machinery: Legislation will be introduced to counter two types of schemes. The first involves lessor companies generating tax losses by claiming capital allowances without bringing in the rental income into charge to corporation tax. The second involved converting a temporary tax timing advantage into a permanent one by selling the rights to the future rental income. Both of these schemes are blocked where either the expenditure on the plant and machinery was incurred or a rebate of rentals becomes payable on or after 9 December 2009 or the business ceases to be chargeable to corporation tax on or before that date.



# Duties

## Stamp duty land tax

As previously announced stamp duty land tax thresholds revert as follows:

Rate	Residential in disadvantaged areas	Residential outside disadvantaged areas	Non-residential
	Total value of consideration		
Zero	£0 - £150,000 after 31 December 2009 (£0 - £175,000 until 31 December 2009)	£0 - £125,000 after 31 December 2009 (£0 - £175,000 until 31 December 2009)	£0 - £150,000
1%	Over £150,000 - £250,000 after 31 December 2009 (Over £175,000 - £250,000 until 31 December 2009)	Over £125,000 - £250,000 after 31 December 2009 (Over £175,000 - £250,000 until 31 December 2009)	Over £150,000 - £250,000
3%	Over £250,000 - £500,000	Over £250,000 - £500,000	Over £250,000 - £500,000
4%	Over £500,000	Over £500,000	Over £500,000

## Stamp duty land tax avoidance schemes

A raft of announcements was made extending the Disclosure of Tax Avoidance Schemes.

Certain disclosure to HM Revenue and Customs with regard to property schemes is required and these announcements relate to the users of all SDLT avoidance schemes, for both commercial and residential property. These announcements, which largely apply to residential property with a value of at least £1 million, are targeted at promoters of tax avoidance schemes including accountancy firms! These changes are due to take effect no later than 1 April 2010.

## Biofuels duty

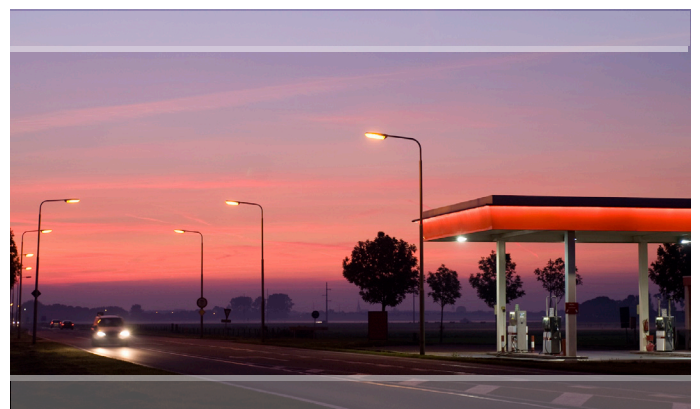
The current 20 pence per litre (ppl) duty differential for biodiesel and bioethanol will cease from 1 April 2010 and duty will in future be charged at the same rate as main road fuels. As previously announced main road fuels will increase on 1 April from 2010 to 2013 by 1ppl above indexation in each year.

A relief scheme is to be introduced so that producers can continue to benefit from a 20 ppl differential in relation to biodiesel produced only from waste cooking oil. The scheme which will last for two years will allow producers to offset an allowance of 20 ppl against the duty that is payable.

## Climate change levy

The reduced climate change levy is to be amended from 20 to 35 per cent on and after 1 April 2011.

Currently climate change agreements provide facilities in energy intensive sectors with an entitlement to pay a 20 per cent reduced rate of climate change levy. Facilities claim the reduced rate by certifying to their energy suppliers the extent of their entitlement to the levy relief. The requirement to give new certificates takes effect on and after 1 April 2011 and are required to be given by the completion of the claimant's first annual review after 1 April 2011.





# Duties

## Air passenger duty

The basis for this duty changed from 1 November 2009 to be a duty based on the mileage travelled between London and the capital city of the destination country. The duty changed on this date and also further increases with effect from 1 November 2010. These changes will affect all air passengers, airlines and travel agents.

Band and distance of capital city of destination country in miles from London	In the lowest class of travel (reduced rate)		In other than the lowest class of travel (standard rate)	
	Current rate	On or after 1 Nov 2010	Current rate	On or after 1 Nov 2010
Band A (0-2000)	£11	£12	£22	£24
Band B (2001-4000)	£45	£60	£90	£120
Band C (4001-6000)	£50	£75	£100	£150
Band D over 6000	£55	£85	£110	£170



# VAT

## Standard rate of VAT to revert to 17.5%

As previously announced, on 1 January 2010 the standard rate of VAT reverts to 17.5% after a period of 13 months at 15%. The reduction was welcome during a time of recession but now it is back to 'as you were'.

Clearly, the main impact will be on private individuals, who are 'final consumers' in that they are unable to reclaim any VAT they pay on goods or services. However, retailers, exempt and partly exempt businesses will also be affected in real terms, but is there anything they can do to mitigate the impact of the rise?

HM Revenue and Customs will allow the basic tax point to apply to goods delivered or taken away before 1 January but paid for on or after that date. Consequently, the 15% rate will still apply to such sales. It will also be possible to take deposits or prepayments before the change relating to supplies, which take place after it. However, there are anti-avoidance provisions to prevent abuse.

The trade of certain types of business will span midnight on 31 December 2009 and thankfully, HM Revenue and Customs has acknowledged it would be unfair to expect them to stop what they are doing on a busy New Year's Eve and change their systems to cope with an extra 2.5% VAT. Businesses will be allowed to continue applying the 15% rate until their trading session ends that night, or until 6am, whichever is the earlier. The types of business affected are:

- pubs, clubs, restaurants and similar
- retail shops
- telecommunications providers

Exempt and partly exempt businesses (and those with non-business activities, notably charities) should particularly consider taking advantage of early deliveries of goods or deposits or prepayments as explained above, where supplies received will be used in full or in part other than for taxable purposes because by so doing, they will minimise irrecoverable input tax. Business owners should also note that where a supply of services spans the change, i.e. it starts before 1 January 2010 but does not

finish until on or after that date, the supplier may choose to split his invoice to show amounts due at the two rates. As that treatment is optional, recipients of such services, whose input tax is not fully recoverable, should encourage their suppliers to take up the option.

Other businesses affected by the changes include those using cash accounting, who must clearly identify receipts before and after the change date, and those using the flat rate scheme as percentages will revert to their November 2008 levels. All should remember that the VAT fraction for determining the VAT amount from a VAT-inclusive figure reverts to 7/47, from 3/23, and apart from gross takings, this will also affect, for example, fuel scale charges.

Like no other time, rate changes demand a full understanding of the tax point rules so businesses are encouraged to review these along with the helpful transitional rules, covered in a detailed guidance document from HM Revenue and Customs, available on its website.



# VAT

## Changes to the Flat Rate Scheme

Changes to the flat rate scheme have been announced, which were generally expected and necessary because the standard rate of VAT is to revert back to 17.5% on 1 January 2010, after 13 months at 15%.

The scheme allows small businesses with an annual turnover up to £150,000 to pay HM Revenue and Customs a fixed percentage of their turnover, rather than the usual payment of output tax and recovery of input tax on actual positive rated outputs and inputs. The percentages are based on the norm for particular business sectors based on statistics available to HM Revenue and Customs.

The percentages were revised downwards on 1 December 2008 when the standard rate was reduced to 15%. However, the changes from 1 January 2010 will not only reflect the reversion to the 17.5% standard rate, but also take into account business patterns across the various sectors over the last year.

Joining the scheme is optional and businesses are entitled to leave it any time. Leaving the scheme retrospectively is at HM Revenue and Customs's discretion. However, HM Revenue and Customs have stated that they will apply this sympathetically if businesses consider it is no longer helpful to them after the changes.

Since its introduction in 2002, the flat rate scheme has generally been helpful to small businesses, so the forthcoming changes afford an opportunity for all qualifying businesses to assess its relevance to them.

