

Budget – Headlines

22 April 2009

Chancellor admits true peril of UK economy but his prediction of an optimistic rebound puts off difficult decisions

The 2009 Budget has exposed the real state of the public finances and the downturn in the economy. The Chancellor outlined another fiscal stimulus package for this year, but significant tax rises to come, all against the backdrop of the worst economic turmoil for 60 years and an over optimistic path to recovery.

Stephen Gifford, Chief Economist at Grant Thornton, says “The Chancellor’s view of 1.25% growth in 2010 is wildly optimistic and out of line with the consensus. Predicting such a quick bounce back allows him to conveniently put back sorting out the public borrowing and debt until after the next election”.

This Budget has outlined seriously higher taxes in the future, with the tax burden next year predicted to fall by £5.1 billion in 2009-10 but an increase of £5.2 billion in 2011/12 and by £10.1 billion in 2012/13. Efforts to invest and grow the economy included employment support, training for unemployed young people, assistance for small businesses and green incentives.

Chancellor targets high income earners to plug tax shortfall

Individuals earning over £150,000 have been dealt a triple blow in the Budget as the Government attempts to recoup dwindling tax receipts.

The increase in the top rate of income tax from the current 40% to 50% from April 2010 and the tapering down of tax relief for pension contributions, both hitting people earning over £150,000 and a reduction in the personal allowance for those with incomes over £100,000 will hit business owners, professionals and City workers.

From April 2011, tax relief on pension contributions will be restricted for those with incomes over £150,000 and then tapered down to 20% for incomes over £180,000.

Chancellor forced to eat his words on ‘non-doms’

In an acknowledgement of the complexity of the rules that were introduced for non-domiciled (non-doms) and not ordinarily resident individuals in 2008, the Government has had to back down on its commitment not to revisit the tax rules in the current and next parliamentary term.

Chris Mills, director at Grant Thornton says, “These ‘minor’ amendments will in the main help to clarify the rules, but are an admission of the complexity created last year. Many of these amendments have been backdated to April 2008 when the original legislation became effective. This shows what happens when legislation is conceived, drafted and introduced too quickly.”



Chancellor offers small life line to businesses during the downturn

The Chancellor today announced a series of measures to help businesses as they struggle to cope during the economic downturn. These include increased help for businesses facing temporary financial difficulties and an extension of the loss carry-back rules for businesses, which were first announced in the Pre-Budget Report.

Francesca Lagerberg, head of tax at Grant Thornton, welcomes the news that the loss carry-back rules for businesses have been made more flexible. “The measures announced today come at a time when many businesses are incurring losses and have insufficient cashflow. Being able to carry back losses up to three years with more flexibility will allow losses incurred now to be offset against past profits, resulting in a cash flow boost. The previous proposals were more restrictive and this would have limited their usefulness to small businesses so the enhancements are helpful in a tough market.”

More good news is that the Government has stated its on-going commitment to helping struggling businesses with its ‘time to pay’ tax measures plus offering incentives for new investment.

Disappointing budget for the property sector

The Budget has delivered little real support for the property sector. One of the Chancellor’s key announcements was a measure to help businesses generally, through the extension of the ability for businesses to carry back trading losses for up to three years.

Clare Hartnell, Head of Property and Construction says, “Although a good

headline, in fact the relief only allows up to £50,000 of trading losses to be carried back to years 2 and 3 and this restriction means the relief will not be as valuable as it could have been.”

The Stamp Duty Land Tax (SDLT) holiday for the acquisition of residential homes costing not more than £175,000 has been extended by four months to 31 December 2009.

“This will be of help to some trying to get on the housing ladder and house builders trying to sell new homes but given the average house price is just over £150,000 nationally, this is not going to have a dramatic effect.”

In terms of tackling SDLT avoidance no new measures were announced but there is an intention to publish a list of tax planning schemes that they consider don’t work and this could include SDLT schemes,” says Hartnell.

Chancellor provides some good news for multinational companies

Today’s Budget announcements have at last included the start dates for the proposed new rules on the taxation of foreign profits for UK resident companies. This should reduce uncertainty for companies helping stem the tide of companies leaving the UK although the scope of the current UK controlled foreign company (CFC) issues still needs to be addressed.

A dividend received by any UK resident company, which has a 10%+ shareholding in a foreign company, will now be exempt from UK taxation if it is received on or after 1 July 2009. The big change is that this exemption will now include small sized companies as well, which was not the case with the previous proposals introduced in the Pre-Budget Report in November 2008.

The widely criticised new ‘debt cap’ rules, which will restrict tax deductions for interest expenses, will only apply for accounting periods commencing on or after 1 January 2010. Changes to the UK controlled foreign companies rules will apply for accounting periods commencing on or after 1 July 2009. The deferral of the start date for the debt cap rules is welcomed as it will enable companies to understand the impact of the rules before they need to report their results.

No change to VAT rate welcome but where is the help for business?

Today’s decision by the Chancellor Alistair Darling to keep the standard rate of VAT at 15% until the end of the year will be welcomed by businesses and consumers alike. At a time when they are struggling to deal with difficult market conditions, businesses would not have welcomed another rate change that could deter sales and increase administrative costs.

What would really have helped businesses from a cash flow perspective would have been a major increase in the cash accounting threshold.

Increasing the threshold from £1.35 million to, say, £10 million would have significantly widened the net within which smaller businesses can delay the payment of their VAT liabilities until they are paid by their customers. In the economic climate that we currently find ourselves, smaller businesses would have welcomed this cash flow relief and avoided the need for accounting for VAT on debts that are increasingly turning bad.

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