

# Grant Thornton's wish list for the Pre-Budget Report

“The Prime Minister and Chancellor have now both conceded that spending cuts are on the way and some public sector projects will be abandoned. This Pre-Budget Report (PBR) will focus on how the Government intends to lead the UK out of the recession, moderate the rate of inflation and slow down the pace of unemployment. The PBR will not be handing out generous tax benefits but will be more focused on tax efficiencies and is expected to shy away from broad, harsh tax raising measures with an election only six months away. However, more targeted tax rises are possible and, already in the firing line, are high net worth individuals (who face a 50% tax rate from next April) and those who hold funds in offshore centres.”

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Head of Tax, Grant Thornton



## Business taxes

**VAT:** The lower rate of VAT that was introduced at last year's PBR has done little to help many businesses in the long term. In this PBR, the Government should focus its attention on easing the burden for businesses by enabling them to improve their cash flow management.

With that in mind, we would like to see the cash accounting scheme made available to include businesses that have a taxable annual turnover of up to £10 million. At present, a business is eligible for cash accounting if the turnover is no more than £1.35 million and we believe this benefit should be extended to more businesses during these difficult times. This would mean that businesses in the scheme would only have to account for output tax when payments have been received from customers.

We would also like to see the bad debt relief rules reviewed so that claims can be made earlier than at present. Most non-retail suppliers currently have to account for output tax even if they have not been paid for a supply. Where payment has not been received within six months of the date that it was due, the supplier can reclaim the output VAT previously declared on the supply. We would like to see this period reduced to three months to assist businesses with cash flow difficulties caused by the late payment of debts.

We would also like to see a more flexible approach to the payment on account scheme so that a smaller decrease in business activity, of say 10%, would enable the payments to be reduced. A review is currently permitted but only after the turnover has declined by 20% or more.

**Cut to the corporation tax rate:** We would like to see the headline (mainstream) rate of corporation tax reduce from the current 28%, to 25%. This reduction would encourage multinational groups with European headquarters to remain in the UK and might also attract other groups to decide to locate their headquarters in the UK rather than in other European countries. A substantial reform or abolition of the controlled-foreign company regime will also boost the UK's attractiveness as a location for business. Work has already started on this project but there is still much to do.

**Small companies rate change:** We ask that the Government further delays the planned increase in the small companies' rate of corporation tax to 22%. The rate increase was scheduled to come into force in April 2009 and it was announced at last year's PBR that the increase would be delayed until April 2010. Grant Thornton would like to see the increase delayed until April 2011, allowing small companies to get back on an even keel before this rate increase is enforced.

Employment measures around training and getting people back into work: Businesses would like to see the availability of grants to employ those currently unemployed. We also call for a temporary National Insurance Contributions (NIC) holiday for employers who employ the recently unemployed and younger entrants to the workforce.

**Empty Property Business Rates to be abolished:** Under the existing rules, when a business loses a tenant, not only does it lose the income that arises from that tenant but they then face picking up the cost of business rates too and therefore we would call for empty property business rates to be abolished.

**Reconsider the proposals concerning false self-employment in construction:** Tackling tax inequality is a laudable aim but further work is required if the proposals for the construction industry are to work. We suggest that specific legislation should be introduced to determine a worker's employment status under employment law which can then be applied unilaterally across all industries. The income tax/NIC treatment will naturally follow on from this.

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## Personal taxes

**Full utilisation of the New Disclosure Opportunity (NDO):** We urge all those who hold offshore trusts, structures and assets to register to declare any previously undisclosed income and gains arising under the NDO before the deadline of the end of November. We expect the Government to take strong measures, including increasing penalties, for those who do not use this opportunity.

**Clarity on the rate of Capital Gains Tax (CGT):** We call for greater clarity on the rate of CGT. With the collapse of tax receipts during the recession, there may be a temptation to simply raise CGT to bridge the growing gap between capital and income tax rates. We ask the Government not to make any changes to this area of taxation. Any change in rate will have a huge impact on the entrepreneurial community in the UK who have already been hit hard by the introduction of the 50p income tax rate from next year.

**Stamp Duty Land Tax (SDLT) review:** For first time buyers, we believe the SDLT threshold should be increased to £200,000 and the Government should consider providing tax relief on mortgage payments to help them get on the property ladder. We would like to see a review of the current SDLT thresholds with a more sensible banding system and would call for the abolition of the 'slab system' that causes artificial price ceilings around the thresholds.

**Increase the personal allowance threshold:** The personal allowance for 2010-11 has yet to be announced and if the normal rules were to apply, then there would be no increase for 2010-11 owing to an annual decrease in the retail price index to September 2009. We call for an increase in the personal allowance threshold to help those on the minimum wage and other low income earners.

**Pensions and tapering of relief:** The proposed tapering of tax relief on pension savings from 2011 flies in the face of the general policy of encouraging pension saving. We would therefore welcome greater consideration given to ways to encourage long term savings.

**We would welcome the introduction of a Statutory Tax Residence Test:** A statutory and comprehensive residence test would bring greater clarity to individuals who need to understand whether they are or are not resident in the UK. The current rules, guidance and conflicting case law leads to confusion and if a test is not possible in this Finance Bill cycle we would welcome a public commitment to pursuing this issue for the near future.