

# Pre-Budget 2009 – Headlines

9 December 2009

“If the aim is to frighten high earners then the Government has succeeded”

**Francesca Lagerberg**  
Head of Tax

## Prospects for growth

“The Chancellor admitted today that the economic recovery had not gone to plan, with GDP forecast to plunge by 4.75% in 2009, significantly more than 3.5% forecast in the last Budget in April,” says Stephen Gifford, Chief Economist at Grant Thornton.

“The Chancellor failed to pull a rabbit out of the hat to restore much needed confidence both home and abroad. His PBR was largely neutral for 2010-11 as expected but started to put the pressure on with tax rises of £3.5 billion in 2011/12 and £5.1 billion in 2012/13. But there was little detail behind his projections and considerable reliance was placed on the economy recovering quickly.”

“The path of the economic recovery is critical to the Chancellor’s plan to halve public borrowing. Although the Chancellor did not change his borrowing forecasts much, the level is still very high at £178 billion for 2009/10 and £176 billion in 2011/12. Lower corporation

taxes from the financial services sector and less stamp duty and income tax revenue were the key reasons cited for plummeting tax revenues from 2009/10”.

“The UK has overextended itself. The Chancellor went some way to tackling the level of government debt today, but did not go far enough. Whilst it may not be sensible to cut spending in the midst of a recession, the markets and the international community are crying out for a realistic plan to restore confidence in the UK economy.”

“The Chancellor today put the squeeze on higher earners and bankers. Although well intentioned, it may have the unintended consequence of harming the UK’s competitiveness. In such an interdependent global economy, businesses and individuals can easily invest or relocate elsewhere. It remains to be seen whether these tax rises will lead to an exodus of talent offshore or whether high earners knuckle down and accept the new reality.”



### **Chancellor launches pre-emptive strike on 50% tax payers**

Alistair Darling has signalled his intention to clamp down on tax avoidance schemes, including those designed to combat the 50% rate for high earners, with plans to extend the requirements for tax advisers to inform HM Revenue & Customs of clients who adopt certain planning measures says leading business and financial advisers Grant Thornton.

Francesca Lagerberg, Head of Tax at Grant Thornton said: “Following the short consultation period, if the proposed measures are adopted, tax planners will periodically throughout the year have to register lists of clients who are taking up certain arrangements, giving HMRC an early indication of taxpayers’ activities.

This is to be introduced in conjunction with a change in the definition of what is a ‘tax avoidance scheme’ for this purpose which may catch some fairly benign tax planning arrangements, introducing further uncertainty for high earners who simply wish to plan their affairs within a complex tax system.

“In conjunction with the 50% tax rate, the 1% increase in National Insurance from 6 April 2011 and the removal of higher rate pension relief, those wealthy individuals who are internationally mobile are now likely to start booking their flights out of the UK.

### **New labour plays hard ball with bankers’ bonuses**

Alistair Darling’s decision to impose a super tax on bonuses of City bankers will go a long way to appease public anger over the role of the UK banks in the credit crisis but this move, if adopted on a longer term basis, could seriously damage the UK’s position as a leading financial centre.

Today’s announcement is a bold move by New Labour to show the Government is listening to public dissatisfaction over the salaries and bonuses of wealthy City bankers with an election only months away,” says Dana Ward, Financial Services Tax Partner at Grant Thornton.

“The Chancellor’s decision to impose a temporary 50% levy on UK banks paying bonuses on amounts in excess of £25,000 if they choose to pay substantial bonuses instead of rebuilding their capital base, will mean banks will have to consider their options carefully.

Whilst it is preferable that the measures are aimed at an institutional level, they could be counter productive and seen as an attempt to regulate pay within financial institutions when what is really needed are longer term measures to achieve the cultural shift within organisations to ensure that their remuneration policies are not contrary to public interest.

Fiscal policy must be seen to be implemented equitably and responsibly. Arguably the current measures will be seen by some as a form of fiscal retribution given their targeted nature. This could lead to highly paid individuals seeking to take themselves out of the UK tax net.

The devil is indeed very much in the detail as the measures require banks to report details of all bonuses over £25,000 awarded between 9 December and 5 April 2010 irrespective of whether they believe bank payroll tax applies or not. The banks will clearly be subjected to much tougher scrutiny in relation to their bonus arrangements which will inevitably lead to difficult negotiations with HMRC.

### **Government tax amnesty gets teeth 200% penalty to be imposed on those who do not declare offshore taxable assets.**

The Government has blown the final whistle on those who hold offshore accounts in today’s Pre-Budget Report (PBR) as HM Revenue & Customs (HMRC) announced a 200% penalty for those failing to declare tax held in offshore bank accounts.

“The new requirement going forward to notify HMRC when opening offshore banks accounts in certain jurisdictions indicates that HMRC will stop at nothing to claw back missing tax revenue to UK shores. The severity of HMRC’s pursuit should come as no surprise as David Hartnett has consistently made it clear that there is no second chance,” says Paul Roberts, Head of Tax Investigations at Grant Thornton.

“Such a draconian penalty relating to tax evasion existed for many years but fell away in the late 1980s. But its reintroduction demonstrates the resolve of HMRC to ensure that those opening offshore accounts going forward are under no illusions and that they must meet their compliance obligations with the UK tax authorities”.

In a further development, HMRC have stated that from 6 April 2009 the failure to disclose UK taxable earnings from offshore income will be treated as deliberate evasion for the purposes of penalties chargeable. This would be a minimum 35% penalty if HMRC instigate the tax investigation.

### **National insurance increase may hinder economic growth**

The measures announced in today's Pre-Budget Report to guarantee work for the young unemployed are welcome, but this must be compared with the increases in National Insurance which means that the cost of employment will increase.

Ellie Gamble, Senior Tax Manager at Grant Thornton comments, "At a time when encouraging employment is one of the Government's stated aims it seems curious that they have chosen to increase the cost of taking someone on and increased the costs of existing employees. This increase may well affect employers' hiring decisions.

"Employers had already been warned that from 2011, the rate of employer's National Insurance would go up from 12.8% to 13.3%. Today's announcement that there will be a further increase to 13.8% could impact upon hiring decisions at a time when any economic recovery is going to be hugely affected by employment statistics.

"It is disappointing that the Government did not take this opportunity to think more creatively about the options available, which could have included a rebate or holiday for national insurance contributions when a job was offered to bring someone back into the workforce."

### **Mixed message for business as hike in National Insurance Contribution (NIC) offsets good news**

"Businesses will welcome the announcement not to raise the small companies' corporation tax rate for a further year and the other targeted measures that were announced, but this will be tempered with the announcement of the increase in National Insurance Contributions in 2011," says Paul Cooper, tax partner at Grant Thornton.

"Chancellor Alistair Darling gave us a nasty surprise with the announcement to raise NIC rates by a further 0.5% from April 2011 on top of the 0.5% increase announced at the 2008 pre-Budget Report. This is effectively a tax on jobs. Businesses will have to foot that bill unless employees accept a cut in their income."

### **Intellectual property rights given a boost by the government – Further good news for Multinationals**

Today's Pre-Budget Report announcement of a 'patent box' regime with a 10% rate of corporation tax on income from patent rights will help stem the exodus of businesses with intellectual property (IP) rights from the UK - BUT only from April 2013.

Similar provisions have been in place in the Benelux countries for a number of years where the tax rate is closer to 5% and the scope is wider to include other intellectual property as well as patent rights.

"Today's announcement is a step towards making the UK a great place from which to operate as a multinational business. The Treasury will raise much more tax by introducing the 10% rate on IP income than it would by maintaining the current tax system and encouraging groups to locate their IP abroad. It is just such a shame that the new rules will not come into force until 2013. Businesses need all the help that they can get and any delay is not helpful" says Paul Smith, Head of International Tax at Grant Thornton.

"Another welcome announcement for international groups is that the Government is looking at exempting foreign branch profits from the scope of UK corporation tax. This is unlikely to be a significant tax cost for the Government as a credit for foreign tax on foreign branch profits reduces pound for pound any UK tax on such profits. However, it will reduce the administrative burden on companies with such foreign branches. It will also avoid the need for companies with foreign branches in low taxed countries (i.e. where the tax rate is below the UK tax rate of 28%) to incorporate in order to avoid further UK tax on the foreign branch profits," concludes Smith.

### **Missed opportunity to announce relaxation of research & development tax relief rules**

Today's Pre-Budget Report was a missed opportunity for the Government to publish R&D tax relief guidelines relaxing rules on claims for indirect activities. HMRC is expected to publish new guidelines to clarify the interpretation of 'qualifying indirect activities' against which R&D tax relief can be claimed. While none of this was announced today, instead we did get some helpful information enabling more people to be able to claim relief.

"There is a welcome relaxation in the requirement for Small and Medium Enterprises to own the Intellectual Property derived from Research & Development (R&D) for enhanced relief purposes. This will continue to ensure that R&D relief will remain a valuable incentive to business." said Sam Vanags, R&D Tax Partner at Grant Thornton.

---

**For further information please contact us on:**

**T +44 (0)20 7383 5100**  
**E [clientsfirst@gtuk.com](mailto:clientsfirst@gtuk.com)**