J F HORNBY & CO

Chartered Accountants

The Tower, Daltongate Business Centre, Daltongate, Ulverston, Cumbria LA12 7AJ

T: 01229 588077 F: 01229 588061 E: jfh@jfhornby.com W: www.jfhornby.com

NEWSLETTER NOVEMBER 2008

PRE-BUDGET REPORT 2008

INTRODUCTION

On Monday 24 November 2008 the Chancellor of the Exchequer, the Rt Hon Alistair Darling MP, delivered his Pre-Budget Report ("the Report") to the House of Commons. Each year the Report provides a progress report on what has been achieved so far by the Government, gives an update of the state of the economy and public finances, and sets out the direction of Government policy in the run up to the spring Budget. However, this year's Report proved to be radically different from those of previous years as it concentrated to a large degree on measures to help kick-start the economy and to assist both individuals and businesses in the present economic climate.

This summary of the Report is divided into the following sections:

The economy
This year's Report is of special significance as it is set against a background of global recession. This section summarises the Chancellor's assessment of the international and domestic economy.

Individuals
This section of the summary explains what the Chancellor intends to do in relation to matters such as personal tax, National Insurance Contributions, mortgages, unemployment and assistance to be given to the young and old. Whilst a number of these measures are designed to provide financial assistance, others are intended to kick-start the economy by lowering prices and encourage spending, eg the reduction in the VAT rate.

Businesses
This section of the summary contains details of measures to assist businesses cope with the downturn in the economy, including direct and indirect financial assistance and tax relief.

The environment
The Chancellor stated that he was "determined that the present economic uncertainty does not push aside the importance of protecting the environment and our long-term needs for a greener and secure energy future". This section includes details of measures to be taken by the Government in relation to these environmental matters.

THE ECONOMY

The Chancellor commenced his Report by giving his assessment of the international economy. He stated that the present financial crisis began with the problems in the American sub-prime housing market which, in turn, spread through the entire global financial system. This caused a "disastrous tightening in credit" and undermined confidence. Dramatic falls in share prices followed, together with a substantial fall in the price of property in the United Kingdom and elsewhere.

At the same time, throughout the world, we were experiencing increases in the price of energy, food and commodities which caused inflation to soar and placed increased financial pressure on both individuals and businesses.

The Chancellor summarised the various actions taken by the Government to stabalise the situation, including measures to improve confidence in the banking system and the capitalisation of the banks by means of the Credit Guarantee Scheme.

The Chancellor also gave details of action to be taken in the future by both the United Kingdom Government and by other G20 countries. These include increasing the transparency of financial activities and better international supervision to prevent excessive risk taking by financial organisations.

The Chancellor went on to give his forecast for the public finances. He stated that because of the economic situation, tax revenues will undoubtedly fall. In the case of corporation tax this will be because companies will make less profit and, in the case of income tax because there will be a slower growth in wages. In addition, because fewer people are buying houses due to a shortage of mortgages and the fact that property prices are falling, the revenue from stamp duty will fall.

The Chancellor stated that because of the Government's commitment to maintain spending this will mean that borrowings must necessarily increase and there will therefore be a sharp increase in national debt relative to GDP. Public sector borrowing is forecast to be £78 billion in 2008/09 rising to £118 billion in 2009/10.

The Chancellor forecast that GDP growth in the United Kingdom will continue to fall for the first two quarters of 2009 but then, because of decisions taken in the Pre-Budget Report, growth will start to recover. For 2009 GDP growth is forecast to be between -¾ and -1¼ per cent. For 2010 growth is forecast to be between 1½ and 2 per cent.

It is forecast that economic growth will increase more quickly from 2010/11 onwards and that public sector borrowing will be in the region of £54 billion in 2013/14. However, the Chancellor did not expect the Golden Rule to be met until 2015/16.

Inflation is forecast to reduce to ½ per cent by the end of 2009.

The Chancellor set out a number of measures that the Government will be taking "to support the economy and the people of this country". These measures are summarised below.

INDIVIDUALS

Income tax

The Chancellor announced a number of fiscal measures to support individuals who were on modest or middle incomes.

In May of this year he announced an increase in the income tax personal allowance, for a period of one year (ie tax year 2008/09). This increase was intended to benefit basic rate taxpayers £120 a year and was introduced to assist those individuals affected by the abolition of the 10p tax rate.

The Chancellor announced that he was making this temporary tax cut permanent and would make a further increase of £130 above indexation from April next year (ie for the tax year 2009/10).

The Chancellor pointed out that those with the highest incomes have seen their earnings double since 1996 and he announced that he was to introduce two measures which would affect those on higher incomes.

- From April 2010, those earning between £100,000 and £140,000 will have reduced personal allowances so that they get the same benefit as basic rate taxpayers. Where an individual's income is above the income limit of £100,000,the allowance will be reduced by £1 for every £2 above the income limit up to a maximum of one half of the basic personal allowance. Where an individual's gross income is above £140,000, the amount of their allowance will be further reduced by £1 for every £2 above the income limit up to a maximum of the full amount of the basic personal allowance.

- From April 2011 a new rate of income tax of 45% will be introduced for those earning over £150,000. These individuals will also be taxed at a higher rate of 37.5 per cent on dividends. The dividend trust rate will be increased from 32.5 per cent to 37.5 per cent and the trust rate of tax will be increased from 40 per cent to 45 per cent.

Set out below are the income tax personal and age-related allowances for 2008/09 and 2009/10.

	2008/09	**2009/10**	**Change**
Personal allowance (age under 65)	£6,035	£6,475	+£440
Personal allowance (age 65-74) (1)	£9,030	£9,490	+£460
Personal allowance (age 75 and over) (1)	£9,180	£9,640	+£460
Married couple's allowance (age less than 75 and born before 6 April 1935) (1) (2)	£6,535	£6,865	+£330
Married couple's allowance (age 75 and over) (1) (2)	£6,625	£6,965	+£340
Married couple's allowance – minimum amount (2)	£2,540	£2,670	+£130
Income limit for age-related allowances	£21,800	£22,900	+£1,100
Blind person's allowance	£1,800	£1,890	+£90

(1) These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic personal allowance or minimum amount of married couple's allowance.
(2) Tax relief for the married couple's allowance is given at the rate of 10 per cent.

The taxable bands for income tax are set out below.

	2008/09	**2009/10**
Starting savings rate 10% *	£0 - 2,320	£0 - £2,440
Basic rate: 20% *	£0 - £34,800	£0 - £37,400
Higher rate: 40% *	Over £34,800	Over £37,400

* There is a 10p starting rate for savings only. If an individual's non savings taxable income exceeds the starting rate limit, the 10p starting rate for savings will not be available for savings income.

The pension scheme allowances are:

	2008/09	**2009/10**	**Change**
Annual allowance	£235,000	£245,000	+£10,000
Lifetime allowance	£1,650,000	£1,750,000	+£100,000

From 6 April 2010 the lifetime allowance will increase to £1.8 million and the annual allowance to £255,000. The Chancellor also announced that he would hold the increased rates up to and including 2015/16.

National Insurance Contributions

The Chancellor stated that from April 2011 he proposed to increase by half a per cent all rates of National Insurance Contributions (NICs) for both employers and employees. Employees will pay Class 1 NICs at 11.5 per cent and at 1.5 per cent for earnings over the upper earnings limit. Employers will pay Class 1 NICs at 13.3 per cent. However, in order to assist those on modest incomes, the starting rate for National Insurance Contributions will be raised to align it with the income tax personal allowance. This will mean that no one earning under £20,000 will pay more National Insurance Contributions in spite of the increase in rates. However, those earning in excess of £20,000 will be worse off.

Set out below are the National Insurance Contributions for 2008/09 and 2009/10.

	2008/09	**2009/10**
Lower earnings limit, primary Class 1	£90 per week	£95 per week
Upper earnings limit, primary Class 1	£770 per week	£844 per week
Primary threshold	£105 per week	£110 per week
Secondary threshold	£105 per week	£110 per week
Employees' primary Class 1 rate	11% of £105.01 to £ 770 per week	11% of £110.01 to £844 per week
	1% above £770	1% above £844
Employees' contracted-out rebate	1.6%	1.6%
Married women's reduced rate	4.85% of £105.01 to £770 per week	4.85% of £110.01 to £844 per week
	1% above £770	1% above £844
Employers' secondary Class 1 rate	12.8% above £105 per week	12.8% above £110 per week
Employers' contracted-out rebate, Salary-related schemes	3.7%	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%	1.4%
Class 2 rate	£2.30 per week	£2.40 per week
Class 2 small earnings exception	£4,825 per year	£5,075 per year
Special Class 2 rate for share fishermen	£2.95 per week	£3.05 per week
Special Class 2 rate for volunteer development workers	£4.50 per week	£4.75 per week
Class 3 rate	£8.10 per week	£12.05 per week
Class 4 lower profits limit	£5,435 per year	£5,715 per year
Class 4 upper profits limit	£40,040 per year	£43,875 per year
Class 4 rate	8% of £5,435 to £40,040 per year	8% of £5,715 to £43,875 per year
	1% above £40,040	1% above £43,875

Tobacco, alcohol and petrol duties
The Chancellor stated that the reduction in the rate of VAT (see below) lowers the amount paid on tobacco, alcohol and petrol. He therefore proposed to offset this reduction by increasing the duties on these items by an amount which would keep the overall cost to the consumer the same.

- The duty on alcoholic drinks will be increased by 8% with effect from Monday 1 December 2008.
- The duty on tobacco products will be increased by 4% with effect from 6pm on Monday 24 November 2008.
- The fuel duty rates for 2008 introduced in the Finance Act 2008 will be reinstated with effect from 1 December 2008.

Vehicle Excise Duty
The Chancellor announced that to assist motorists at this time, the previously announced new bands and rates of Vehicle Excise Duty will now be phased in over a period and the increases in duty will be lower.

In 2009, duty rates for all cars will increase by a maximum of £5. From 2010 the more polluting cars will see an increase of up to £30 compared with the previous proposal of up to £90. Less polluting cars will see no increases or a reduction of up to £30.

Savings
The Chancellor announced the setting up of the Saving Gateway to encourage those with modest incomes to save. From 2010 an individual on a low income who saves money through the Saving Gateway will have 50 pence added by the Government for every pound he or she saves.

Child Tax Credit
The two increases in Child Tax Credit previously announced by the Government and which were due to take effect next April and in 2010 will now both be introduced in April next year which will make the Tax Credit worth £2,235 for a family on a modest income.

Child Benefit
The Government had already announced an increase in Child Benefit from £18.80 to £20 in April 2009. The Chancellor announced that this increase will now take place in January 2009 – 3 months earlier than previously proposed.

Pensioners
The Chancellor stated that he wanted to do more for pensioners.

Pension Credit
The Pension Credit in to be increased from next April from £124 to £130 for individual pensioners and from £189 to £198 for pensioner couples.

State Pension
The Chancellor confirmed that the State Pension will increase in line with the highest rate of inflation this year. This will mean an increase in the basic State Pension for a single person from £90.70 to £95.25.

One-off payment
In addition to the winter fuel payment and the £10 Christmas bonus, in January next year every individual pensioner will receive a one-off payment of £60. Married couples will receive £120. The one-off payment, together with the Christmas bonus, will also be paid to children with disabilities.

Mortgages
The Chancellor stated that he wanted to take steps to improve the supply of mortgages.

Following measures taken to recapitalise the banks, the Government considers it important that these banks maintain the availability of mortgages. In addition, the Government intends to support the mortgage market by providing a temporary guarantee for securities backed by new mortgages.

The Chancellor announced his intention to set up a new body, the Lending Panel, which will monitor lending to businesses and households.

Repossessions
The Chancellor stated that the repossession of a house by a lender should be the last resort and he confirmed that this has been recognised by lenders. He announced that the major lenders had agreed to wait for at least three months after a borrower had fallen into arrears with his or her repayments before initiating repossession proceedings. This period would help give lenders and borrowers time to find a solution.

The Chancellor announced funding of £15 million for free and impartial debt advice which would be available to everyone.

The Chancellor also announced an increase of £100,000 to the upper limit of the Support for Mortgage Interest Scheme.

The Government is to extend the Mortgage Rescue Scheme which assists vulnerable homeowners who are facing difficulties in staying in their homes. The scheme will now cover those who are at risk through taking out a second mortgage.

New homes
The Chancellor announced an acceleration of capital spending for new social rented homes and shared equity schemes. An additional £775 million this year and again next year will be available to invest in new and modernised social homes and in regeneration projects.

Unemployment
The Chancellor recognised that, as the economy slows, it is crucial that the impact on employment is minimised. He announced the expansion of the Rapid Response Service which provides support for those facing redundancy. In addition, more pre-redundancy re-training will be provided through the Train to Gain initiative.

The Chancellor also announced the creation of the National Employment Partnership, to be chaired by the Prime Minister, which will help fill over half a million unfilled vacancies.

BUSINESSES

Value added tax
The Chancellor stated that to prevent the recession deepening it was necessary to put money into the economy. He concluded that the "best and fairest" approach was to cut VAT from 17.5 per cent to 15 per cent for a period of 13 months commencing on Monday 1 December. He stressed that this was to be a temporary reduction in the rate which would revert to 17.5 per cent on 1 January 2010 when the economic recovery was underway.

Only standard-rated sales are affected. There are no changes to sales that are zero-rated or reduced-rated for VAT. There are no changes to the VAT exemptions.

The reduction in the VAT rate is designed to stimulate retail spending and for this reason the Chancellor asked retailers to pass on the reduced rate as quickly as possible.

The Chancellor has given businesses very little time to implement the new VAT rate and all invoices issued after 1 December 2008 should use the new rate. There is an exception if the business provided the goods or service more than 14 days before the issue of the VAT invoice or the invoice was paid before 1 December 2008.

The threshold above which retailers cannot use a published VAT retail scheme is to be increased from £100 million to £130 million.

Corporation tax
The planned increase in the Small Companies Rate from 21% to 22% from 1 April 2009 has been deferred until 1 April 2010.

The loss carry back rules are to be extended, for Corporation Tax accounts ending between 24 November 2008 and 23 November 2009 and Income Tax accounts ending in 2008/09, by allowing the loss carry back for three years (previously one year). The amount that can be carried back to the previous year remains unlimited but there is a maximum carry back of £50,000 in total to the earlier two years.

Additional measures
The Chancellor stated that "small and medium firms are the engine of our economy" and that they employ around 60 per cent of the private sector workforce. He acknowledged that in today's economic climate these businesses are facing difficulties in relation to cash flow and credit.

The Chancellor announced the following measures to assist such businesses:

- The introduction in 2009 of an exemption for foreign dividends for large and medium-sized businesses.

- The improvement of UK rules for taxing Controlled Foreign Companies.

- A temporary increase for small businesses in the threshold for empty property relief. For the year 2009/10, empty commercial properties with a ratable value below £15,000 will be exempt from business rates. In addition, in order to reduce the cash flow impact on businesses, the Government will legislate to give more time to pay certain backdated business rates bills issued before 31 March 2010. Businesses having to pay these bills will be able to pay their liability for previous years in equal interest-free installments over 8 years, rather than immediately.

- Assistance to small businesses who need time to pay their tax bills. H M Revenue & Customs, through a new, dedicated Business Support Service will provide specific help to businesses to enable them to spread payment of their taxes on an agreed timetable that the business can afford. This will include corporation tax, income tax, national insurance and VAT.

- The monitoring by the Government of commitments given by banks to treat their business customers fairly and decently. In particular, those banks that have received Government funding should maintain the availability of lending to small and medium-sized businesses at 2007 levels and not increase overdraft prices for at least one year, in line with the commitment given by the Royal Bank of Scotland.

- Improving access to finance for small and medium-sized businesses by means of loans from banks that have received funds from the European Investment Bank and through credit provided by the Government through the temporary Small Business Finance Scheme.

- In 2009 the Government, through Business Link, will launch a new portal for credit-worthy small and medium-sized businesses who are having problems accessing credit.

- Additional support, through the Export Credit Guarantee Scheme, for smaller companies that export.

Income shifting
Some individuals are able to benefit financially from shifting part of their income to someone else who is subject to a lower rate of tax. This procedure is known as income shifting. It was thought that the Government would introduce measures to prevent this practice in the 2009 Finance Bill. However, because of the current economic challenges, the Government is deferring action but will instead keep this issue under review.

Capital allowances for business cars
The Chancellor confirmed that the Government is to modernise the tax relief for business expenditure on cars. The existing arrangements will be replaced by an emissions based approach and will take effect from 1 April 2009 for corporation tax and 6 April 2009 for income tax.

THE ENVIRONMENT

The environment
The Chancellor announced a number of specific measures to help protect the environment.

Air Passenger Duty
Air Passenger Duty rates are to be changed to a four-band system so that those who travel further pay more.

The new Air Passenger Duty rate changes will take effect from 1 November 2009 and from 1 November 2010.

Band and distance of capital city of destination country in miles from the UK	In the lowest class of travel (reduced rate)		In other than the lowest class of travel (standard rate)	
	2009/10	2010/11	2009/10	2010/11
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

Aviation emissions
The Chancellor announced that the Government had successfully secured inclusion of aviation in the EU Emissions Trading Scheme from 2012.

House insulation
The Government is to provide an additional £100 million in new money and bring forward a further £50 million to help up to 60,000 more householders insulate their homes.

Energy prices
Ofgem is to monitor any price changes in the cost of energy and is to publish quarterly reports detailing the link between wholesale and retail energy prices. This measure is intended to ensure that the fall in price of wholesale energy is reflected more quickly in reduced household bills. The Chancellor also stated that the Government would use statutory powers to end unfair gaps in pricing between payment methods.

Support for low carbon growth
The Government will support low-carbon growth and jobs by accelerating £535 million of capital spending on energy efficiency, rail transport, and adaptation measures.

Fuel increase
Pump prices have fallen by over 20 pence per litre from their summer peaks. The Government will therefore go ahead with the postponed two pence per litre fuel increase on 1 December 2008. However, due to the reduction in the VAT rate, motorists should see no increase in the price they pay at the pump this year.

REDUCTION IN VAT RATE – MAKE SURE YOU GET IT RIGHT

In his Pre-Budget Report delivered on 24 November, the Chancellor announced a reduction in the standard rate of VAT from 17.5% to 15%. The new rate will apply from 1 December 2008 which gives businesses little time to take any necessary action. H M Revenue & Customs has prepared guidance for businesses and we set out below this guidance.

"VAT – CHANGE IN THE STANDARD RATE: A SUMMARY GUIDE FOR VAT-REGISTERED BUSINESSES

In his Pre-Budget Report on 24 November 2008 the Chancellor announced that the standard rate of VAT will be reduced to 15% on 1 December 2008. This guide sets out the key points which businesses need to be aware of as they implement the change. It also tells you where you can get further information. A copy of this guide is being sent to all VAT-registered businesses in the UK.

What do I have to do?
For any sales of standard-rated goods or services that take place on or after 1 December 2008 you should charge VAT at the new rate of 15%. This means that cash businesses which currently calculate their VAT using the VAT fraction of 7/47 should, from 1 December, use the new VAT fraction of 3/23.

Which of my sales are affected?
Only standard-rated sales are affected. There are no changes to sales that are zero-rated or reduced-rated for VAT. Similarly, there are no changes to the VAT exemptions. Any sales you make at these rates are unaffected.

For your standard-rated sales, it depends how you normally account for VAT: **If you are a retail business making mainly cash sales to customers not registered for VAT (e.g. a shop, restaurant, takeaway, hairdresser)**	
You should use the new rate for all takings that you receive on or after 1 December 2008 …	… **except** for where your customer pays for something they took away (or you delivered) **before 1 December** (e.g. where customers have an account with you). In this case, your sale took place before 1 December and you must use the old rate of 17.5%.

If you are a business that sells mainly to other VAT-registered businesses and have to issue VAT invoices	
You should use the new rate for all VAT invoices that you issue on or after 1 December 2008 …	... **except** for where • you provided goods or services **more than 14 days before you issue the VAT invoice**. For example, if you issue a VAT invoice on 1 December for goods or services provided before 18 November 2008, or • you were paid **before 1 December.** In these cases, your sale took place before 1 December and you must use the old rate of 17.5%.

What about continuous supplies of services e.g. work in progress?
For continuous supplies of services, such as ongoing construction work, you should account for the VAT due whenever you issue a VAT invoice or receive payment, whichever is the earlier. In these cases, invoices issued or payments received on or after 1 December will be subject to 15% VAT.

Are there any special rules for sales spanning the change of rate?
Yes. If you have received a payment or issued an invoice before 1 December 2008 for goods that will be provided (or services delivered) after 1 December 2008, you have a choice. You can choose to account for VAT at the new rate of 15% on the amounts already received or invoiced. You don't need to tell HMRC if you do this. In these circumstances, any payments received or invoices issued after 1 December will always be subject to the new rate of 15%. But you do need to issue a credit note to your customer if you have already issued a VAT invoice showing the old rate of VAT.

What VAT can I claim back on my business purchases?
The general rule is that you claim back the VAT you have been charged by your supplier in the normal way. You will still be receiving invoices after 1 December 2008 showing 17.5% VAT – that will be expected – as these will be invoices relating to purchases you have made before the rate change. In these cases you can claim back the 17.5% VAT.

What do I do about my VAT return?
You will continue to receive or file VAT returns in the normal way i.e. either monthly, quarterly or annually. The deadlines for submitting your VAT returns and making payments are unchanged. For return periods that cover both before and after 1 December 2008, you will need to add together the VAT on sales charged at 17.5% and the VAT on sales charged at 15% to work out the total VAT on sales to be included in Box 1 of your VAT return.

What if I use a computer, VAT software or an electronic till?
If you have a software package that automatically calculates the VAT, you will need to ensure that the VAT rate is changed from 17.5% to 15% from 1 December 2008. This may be something that you can do yourself – otherwise you will need to contact your software provider or supplier for assistance. Most software packages should have the in-built capability to deal with changes in the rate.

You may be able to adjust your electronic till yourself but if not you will need to contact your till supplier for assistance. If your till has not been amended to calculate 15% (rather than 17.5%) by 1 December you will need to calculate the VAT manually. You simply take the standard-rated gross takings calculated by your till and multiply that sum by the new VAT fraction of 3/23 – this will give you the amount of 15% VAT.

What if I make an error associated with this change?
If you discover that you have made an error you can correct it in the normal way by making a voluntary disclosure or correcting it on your next return (subject to the normal limit).

HMRC recognises that this is a change that businesses will have to implement in a short timescale. Therefore we will adopt a “light touch” in relation to errors or mistakes made in the first VAT return after the change. We will take into account the difficulties a business has faced in adjusting to the change.

What about the special VAT schemes for small businesses?
The Cash Accounting and Annual Accounting Schemes remain unchanged. However, the Flat Rate Scheme percentages are changing to reflect the new rate of VAT. If you are on the Flat Rate Scheme please refer to the additional information on the HMRC website . You will need to use the new rates for your sector from 1 December 2008.”

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