

### MPL's Pre-Budget Overview

With an election coming up next year, this pre-Budget statement was always going to be a populist announcement. There will be punitive taxation on bankers' bonuses, 'fiscal drag' in inheritance tax and allowances - but also lots of measures designed to appeal to the elderly and the low-paid as the current Government see these groups as those most likely to vote at the next election. The main points of the pre-Budget report are summarised as follows:

#### **Economics**

- GDP contraction for 2009/10 has been assumed at 4.75% - substantially larger than forecast in April - with small growth next year, and 3.5% growth in 2011/12.
- Net debt requirement to hit £178bn in 2009, slightly above the Chancellor's previous prediction, falling to £140bn in 2012/13 and eventually £82bn by 2014/15.
- Losses on investment in support of the banking industry have now been forecast at £10bn against the original £50bn forecast back in April.

#### **Taxation**

- VAT is to revert to 17.5% from midnight on 31st December 2009.
- The Inheritance tax threshold is to remain unchanged at £325,000 instead of rising to £350,000.
- The threshold at which 40% income tax becomes due is also to remain unchanged (£37,400 for 2010/11) and will not be raised in line with inflation for 2012/13.
- Discretionary bonuses of more than £25,000 in the banking sector are to be taxed at 50% (on employers) in addition to the normal marginal rate of income tax.
- National Insurance contributions are to rise by a further 0.5% from April 2011 on top of the 0.5% announced in this year's main Budget.
- The National Insurance threshold is also set to rise to £20,000 from April 2011.
- Bingo tax is to fall from 22% to 20% despite the fact that it was raised from 15% in the previous Budget.
- A flat rate charge of 50p per month tax is to be levied on all telephone lines to fund 'superfast' broadband.
- Profits from UK patents granted after 2011 will be taxed at a reduced rate of 10% from April 2013, this is unlikely to draw companies back to the UK given that both Denmark (10%) and Luxemburg (6%) are also operating similar reliefs.
- The rise in smaller companies' corporation tax to 22% from 21% is to be deferred by one year until April 2011.

- The exemption of vacant commercial property with a rateable value below £18,000 from local property taxes is to be extended for a further year until April 2011.
- Electric cars will be exempt from annual road tax for the next five years.
- It was also announced that the government is examining wider solutions to the 'problem' of trusts being used to avoid IHT.

### **Stamp Duty Land Tax (SDLT)**

- The Disclosure of Tax Avoidance Schemes (DOTAS) is to be extended to include certain avoidance schemes in relation to SDLT in respect to residential property with a value of at least £1 million.

### **Furnished Holiday Letting rules (FHL)**

- From April 2010, the special rules for furnished holiday lettings will be withdrawn, so that FHL businesses will be treated in the same way as other property businesses in that the income arising will no longer be considered as trade for tax purposes and will impact on the claiming of loss relief, and certain capital allowances.

### **Pensions**

- The plans for automatic enrolment and Personal Accounts will be phased in more slowly, in order to save on the cost of tax relief; however the DWP has confirmed that the start date remains unchanged at October 2012.
- Taxpayers earning over £130,000 will have private pension contributions from their employer taken into account in assessing whether their income exceeds the £150,000 threshold, above which tax relief on pension payments is reduced.
- The charges arising on the repayment of short service pensions are to be changed to 20% on the first £20,000 and 50% on the balance for refunds made on or after 6<sup>th</sup> April 2010.
- Basic State Pension is to rise 2.5% to £97.65 per week, despite a negative Retail Price Index (RPI) and the government has committed to keep rising this either by RPI or 2.5%, whichever is higher.

### **Government Spending**

- Spending plans for 2010/11 are to remain in place, but the growth rate going forward is expected to slow to 0.8% of GDP thereafter.
- Spending on health, education and policing will continue to rise above inflation.

Our shortly available report on financial planning for higher earners will focus on both conservative and alternative strategies that are still available – the innovators are not dead yet!

*The MPL Wealth Management Team*