

The Pre Budget Report (24 November 2008)

Commentary / Information - 26 November 2008

Topics covered

- VAT
 - Business tax
 - Misc personal tax
 - Business support services
 - Other changes
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Summary

We agree with most other accountants and commentators in that we just don't understand the Chancellor's rationale for aspects of the PBR on Monday. There are some welcome pieces of news, however, we are not convinced by the benefits of some aspects and in particular his growth forecasts.

The reduction in the VAT percentage is only a temporary measure to boost the spending power of individuals. It just doesn't seem big enough to have the desired effect and is expensive to implement and then correct later. We are pleased to summarise the key announcements.

VAT – possibly the biggest issue affecting businesses

The standard rate of VAT will be reduced by 2.5% from 17.5% to 15% on 1 December 2008. This new rate will apply until 31 December 2009, when it will revert to 17.5%. Only standard-rated sales are affected. There are no changes to sales that are zero-rated or reduced-rated for VAT.

What do I need to do?

Review and amend all your invoice templates and ensure that any invoices issued after 1 December 2008 only have 15% VAT added. When reclaiming VAT check that the VAT on your supplier invoices is only 15%.

If you are cash accounting or using the flat rate scheme please contact Tracy Minns for a discussion about your position. Please refer to the news section of our website for additional information on the VAT rate change and amending Sage line 50.

Business

- The planned increase in the Small Company corporation tax 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 & 23 November 2009 and Income Tax accounts ending in 2008/09, by allowing the loss carry back to three years. The amount to be carried back under the new provision is capped at £50,000.

Misc personal tax

- The child benefit increases brought forward to 5th January 2009 instead of April.
- The personal tax allowance increases £6475, and the basic rate tax limit to £37,400 from April 2009.
- Basic Personal allowance for individuals with income over £100,000 to be reduced from April 2010.
- A new tax rate of 45% on income over £150,000 from April 2011.
- Class1 and Class 4 NICs to be increased by 0.5% from April 2011.

Business support services

The Chancellor announced that from 24 November 2008, HMRC have introduced a new, dedicated Business Support Service designed to meet the needs of businesses affected by the current economic conditions. This will provide specific help where customers are worried about being able to pay tax, National Insurance or other payments owed to HM Revenue & Customs.

What do I need to do?

If you believe you are going to struggle to pay your PAYE, VAT, Income tax or Corporation tax bill contact HMRC to discuss a sensible payment plan. It is important that you put a proposal to them that is viable and that you can keep to.

Other changes

- The duty on alcoholic drinks will be increased by 8% with effect from 1 December 2008.
 - The duty on tobacco products has been increased by 4%
 - The fuel duty rates that were suspended in the March 2008 budget will now be re-introduced as of 1 December 2008.
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