



Pre-Budget Report December 2009

The dog that didn't bark

Like the dog in the Sherlock Holmes story, the 2009 PBR is as notable for its silences as for noise. High on the list of non-events come the decisions not to increase income tax rates generally for high earners, or to reduce the starting level for the 50% tax rate. Capital gains tax rates have not moved from the current 18% flat rate, and the existing entrepreneurs relief limits have been left in place. VAT will revert to its previous rate of 17.5%, rather than increasing.

For the most part, no news is good news here, although we still wait in vain for clarification of the definition of residence for tax purposes the lack of which causes genuine practical problems for an increasing number of people. From a practitioner's point of view, it would be nice to think that the relative dearth of news in the PBR will result in a short Budget and Finance Act, but perhaps it is more realistic to think that the lack of news now means that, whoever wins the Election next year, we should expect a bumper Budget in the summer!

Turning away from what has not happened, there is one obvious headline grabbing (and much leaked) announcement to come out of the PBR:

Bank Payroll Tax

The Chancellor announced a new tax specifically directed at bankers' bonuses. A windfall tax on bank profits or a direct tax on employees was expected, but this new "Bank Payroll Tax" is something entirely different. At first glance, this looks hideously complicated to administer, but this will give rise to planning opportunities surrounding the tax.

Simply put, banks will be charged tax of 50% on the amount of all bonuses exceeding £25,000 paid between today and April 5, 2010 or awarded for the period. This tax will be payable on August 31, 2010 and is not deductible for corporation tax purposes. It is in addition to the usual income tax and NIC payable.

The Chancellor announced that this would be a one-off tax, but the technical note which was also published today warns that the Government will consider extending the period of charge.

Banks, UK resident investment or financial trading companies and building societies are all caught. At present the legislation does not catch partnerships (such as most hedge funds), but this could change if necessary. The tax will only apply to employees who are involved directly or indirectly in regulated activities, such as taking deposits, making loans or dealing in or arranging investments.

The Government is proposing a complicated formula to calculate the amount of bonus caught by the legislation. This involves adding up each employee's earnings plus the value of their benefits and any relevant loans. Regular salary and benefits, payments under contractual obligations which arose before today and certain approved share awards are then deducted and the resulting figure, minus £25,000, is subject to the Bank Payroll Tax.

Unsurprisingly, there is a targeted anti-avoidance rule to prevent banks avoiding the new tax. It aims to ensure that all bonuses, however structured, fall within its scope. The technical note specifically mentions that the use of loans and employee benefit trusts will not avoid the charge arising.

Trust tax rates

As previously announced, from April 6, 2010, all trusts will pay tax at 50% on income above £1,000. Dividend income will be taxed at 42.5%. Trustees should therefore consider taking steps before the end of the tax year to reduce the tax exposure of the trust.

National Insurance Contribution (NIC) rates and thresholds

The single largest tax raising measure in the PBR is to increase NICs from April 6, 2011, by 0.5%. This is on top of the 0.5% rise announced in the 2008 PBR and means that for most higher rate taxpayers, NICs will be 12% on income up to approximately £44,000 and 2% thereafter. The self-employed will pay 9% and 2%, while the employers' rate will rise to 13.8%.

Pension changes

Further changes were announced to the pension 'anti-forestalling' provisions introduced in the Finance Act 2009. For employees who earn more than £130k, employer's pension contributions, which were previously ignored, are to be brought back into the calculations of taxable income, so that they are now caught by the new provisions

Inheritance tax

The planned increase to the inheritance tax nil rate band will not take place and the threshold will be frozen at £325,000 for 2010/11. Two specific schemes enabling assets to be added to trust without incurring an upfront IHT charge have been closed.

Offshore bank accounts

In a Consultative Document published with the PBR, HMRC are proposing that taxpayers who open new bank accounts in certain high risk jurisdictions (without information exchange agreements with the UK) will be required to notify them. Bank accounts in Jersey and Guernsey will not be affected.

The penalties for non-disclosure of both the bank account and the income generated could result in a penalty of up to 200% of the unpaid tax.

In introducing such provisions, HMRC appear to be following the approach of the IRS in the US who already require taxpayers to notify them of all offshore bank accounts.

Cashback for clean energy producers

From April 2010 people with a home wind turbine or solar panels who sell any excess energy to the national grid will receive an average of £900 tax free. Bearing in mind David Cameron's well publicised use of such a turbine, is this a rare case of the Chancellor trying to help the Opposition?

Boiler Scrappage Scheme

Following on from the success of the car scrappage scheme, the Chancellor has announced another scrappage scheme to give a cash incentive to 125,000 households with the most energy inefficient boilers. A £400 incentive will be given to those who upgrade their boilers to a more efficient model.

Company car / van tax

From April 6, 2010, no tax will be payable when employers provide employees and directors with company cars for their private use that are powered solely by electricity.

From the same date, employers will also pay no tax for 5 years on any benefit associated with electric vans provided for their employees' private use.

As such, can we expect to see a dramatic increase in the use of the G-Wiz?

Bingo!

The biggest cheer in the Chamber during the Chancellor's speech came from an unexpected source. All those of you who are keen bingo players will share the delight of Parliamentarians that bingo duty is to be reduced from 22% to 20% in April.

Anti Avoidance

The Chancellor announced that he would be protecting or raising tax of £5 billion by the use of anti-avoidance measures.

The Press Releases reveal that most of these are targeted at tax avoidance undertaken by companies and groups of companies.

The small print also reveals a Consultation Document on the tightening up of the "disclosure rules". These require taxpayers who enter into tax avoidance schemes to include a reference number on their tax return. HMRC believe that a small number of promoters are circumventing the rules in order to avoid disclosing schemes and are therefore proposing a significant tightening of the rules. If they are implemented as proposed, almost every taxpayer will need to include a reference number on their return!

Contact Us

Louise Somerset
Tax Director
RBC International Wealth Planning
+44 (0) 1242 548 448
louise.somerset@rbc.com

Andrew Robins
Tax Director
RBC International Wealth Planning
+44 (0) 1242 548 403
andrew.s.robins@rbc.com

Rachel de Souza
Tax Director
RBC International Wealth Planning
+44 (0) 20 7029 7756
rachel.desouza@rbc.com

RBC International Wealth Planning

The Quadrangle
Imperial Square
Cheltenham
Gloucestershire
GP50 1PZ

www.rbcwminternational.com



This publication has been issued by RBC International Wealth Planning.

RBC International Wealth Planning is a trading name of RBC Wealth Planning International Limited. Registered Office: La Motte Chambers, St Helier, Jersey, Channel Islands, JE1 1PB, registered company number FC023283.

The summary has been carefully prepared based upon information that is believed to be accurate at the time of writing and is intended for general guidance only. You should always obtain independent professional advice particular to your individual circumstances before making decisions on any specific matter. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors and we can not be held responsible for any errors, omissions or misinterpretation.

® Registered trademark of Royal Bank of Canada. ™ Trademark of Royal Bank of Canada. Used under licence.