

For Immediate Release

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THE CHANCELLOR'S PRE-BUDGET REPORT – MORTGAGING OUR FUTURE

As leaked at the weekend, the headline-catching elements of the Pre-Budget Report are the reduction in the rate of VAT and the introduction of a new 45% rate of Income Tax for those with income over £150,000 (albeit with its introduction deferred until April 2011). Let's first examine those two points a little more closely.

The VAT change, costing some £13 billion, is to reduce VAT from 17.5% to 15% (the lowest standard rate permissible under EU law) for a 13-month period from 1 December 2008 to 31 December 2009. The government "is looking to businesses to pass on the benefit to consumers, and has encouraged them to do so". Fair enough: but bear in mind firstly that the reduction applies only to standard-rated sales so not only does it exclude in particular most food and domestic fuel; the government have also increased duties to claw back the VAT reduction on petrol, tobacco and alcohol: and secondly that even for standard-rated items where the VAT reduction is passed on in full the reduction in retail price is just a shade over 2%. When the High Street is struggling to tempt reluctant customers with price reductions of 20%, 30%, 40% and more, is the prospect of saving an extra £5 on a £250 purchase really going to make much difference? Or is the VAT cut a waste of £13 billion public money? Some commentators have noted that retailers are unlikely to pass on the saving and that this may not be a bad thing: an extra 2% or so of margin to retailers could

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be vital. It could save large swathes of the High Street retailers who are large employers especially of lower-income families. So the VAT cut may perhaps make more sense looked on as a bail-out of retailers rather than a fiscal stimulus to consumers.

On the practicalities of the change (setting aside the need to change price labels...) there is no need to split the VAT return period into two parts: the rate of VAT on transactions in the return period spanning 1 December will normally be determined by the tax point calculated under the usual rules, though in some cases (particularly where supplies are mainly made to the public or other customers who cannot recover VAT) some more sophisticated planning could be in point.

Turning to the proposed 45% Income Tax rate, the first thing to note is that this isn't the only change for high earners. For a start, with the 0.5% across-the-board increase in NIC rate (Income Tax in all but name) the effective top rate won't be 45% but 46.5%. And, secondly, the rules will be changed from April 2010 to ensure that personal allowances are restricted for people with gross income in excess of £100,000 and removed altogether for people with gross income in excess of £140,000. We reckon that that leaves an effective marginal rate of tax bouncing around between 41.5% and 61.5% as incomes rise before finally settling down at 46.5%. Talking of NIC, note that the band of income on which NIC is paid is to increase again from April 2009. For low earners this won't matter: but we reckon that it's (yet again) "Middle England Man" (or woman) who will pay. The idea that the "Primary Threshold" (the point at which you start to pay NIC) would be aligned with the basic personal allowance seems to have been quietly dropped, dragging more people into the NIC net, but the biggest NIC effect seems to be on those with annual earnings of around £44,000 whose NIC will increase by around £33 a month from April. And this is without taking account of the all-round increase in rates from 2011.

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Good things for businesses? Well, the increase to 22% in the small companies' rate of Corporation Tax has been deferred for a year. Not much immediate benefit, of course, since the tax would in any event normally only be due at the end of 2010 by which time the Chancellor confidently expects the recession to be over and the economy strong enough to support deferred tax increases! More useful is the fact that the period for which trading losses (of up to £50,000) can be carried back to generate a repayment is to be extended from one year to three. Even then, however, the relief is very short-term: it applies to company accounting periods ending between now and November 2009 and for non-corporate accounting periods ending in the year to 5 April 2009. So individuals and partnerships with a 30 April or other early year-end are likely to miss out altogether: in the year to 30 April 2008 the recession probably hadn't started to bite and the year to 30 April 2009 is too late to benefit. And of course companies will need to get to the end of the accounting period, draw up accounts, file them and get them agreed before accessing repayments from losses. In some cases of course changing the accounting period may help: but immediate help it ain't.

Of more immediate help is the "Business Payment Support Service" under which HMRC will offer more flexible payment options to distressed traders. There is a dedicated helpline number 0845 302 1435 (at least it's not a premium rate number!) - a debt under £10,000 can usually be discussed there and then: for debts over £10,000 you'll get a call back from a local Collection Office. It appears that if you agree to pay the full amount within 28 days no further information will be required (though interest will be charged) but if you propose a longer time to pay you may have to give the recovery office details of your savings and other assets (for payment arrangements up to three months) and of your income, spending, savings and other assets (for payment arrangements longer than three months). The implied possibility of payment periods of longer than 3 months looks very promising.

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Buried in the detail is an acceptance by HMRC that they will not after all be bringing forward legislation to counter “income splitting” from April 2009: that is now to be deferred to April 2010. This deferral of what some have called “the tax on families” will be welcome.

Will it make a difference? We must all hope so. With a gamble of this size, the consequences of the Government having got their numbers wrong frankly don't bear thinking about. But despite the H M Bateman reaction to John Maples' observation that “recession must take its course” it's difficult to completely dispel the image of Mr Darling (and, to be fair, other Finance Ministers) as latter-day Cnuts trying manfully to hold back the inevitable. And the elephant in the room is the question how this is all going to be paid for even if everything goes according to Government's optimistic projections. The changes from 2011 to the taxation of high earners make practically no difference to the big picture and are largely a diversion. The NIC changes will contribute something. But the main message is that when the time comes, repaying the huge debts being taken on by Mr Darling will take more than removing a little cream from some fat cats. All us scraggy moggies are going to find our food bowls a little less full...

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Notes

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Fresh Start is an industry led initiative to encourage new entrants into farming as well as to help established farmers think about how they can develop their business or even plan their exit from the industry handing on to the next generation.

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