# Pre-Budget Report November 2008: Personal Tax Highlights

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**CATEGORY:**
ARTICLE

While a number of the announcements made in today's Pre-Budget Report were, unsurprisingly, primarily fiscal stimulus measures, a number of further themes stand out, notably scrutiny of offshore financial centres and a further attack on UK trusts.

## Offshore centres

In particular, it was announced that the Government will shortly commission an independent review of British offshore financial centres. The review is to focus on the role of the financial centres in the global economy and their long-term business strategies. The review arises in the context of 'severe financial turbulence' and it is fair to anticipate that it will focus at least in part on tax practices in the offshore centres it covers. It will not consider changes to the UK's constitutional relationships, although the Dependant Territories in question may take a different view, depending on what is proposed.

This appears to be part of a continuum of the Treasury Select Committee's enquiry into offshore financial centres which was announced in April 2008 and which focussed on areas including financial stability. While further clarity on the precise purpose of the review will no doubt emerge, the wealth management industry should devote some considerable effort to ensuring the right and fair case is put for offshore financial centres. In particular, it is imperative to ensure that unhelpful scapegoating is avoided and to this end we anticipate that professional bodies such as STEP will actively participate in the review so that a balanced approach is taken to any measures formulated pursuant to it.

## Trusts

Moving onshore, buried in the detail is a significant sting in the tail for trusts, with the announcement that the dividend trust rate is to increase to 37.5 per cent from 32.5 per cent, and the trust tax rate is to increase to 45 per cent from 40 per cent, effective from 6 April 2011. This treats nearly all trusts as though they were the highest rate taxpayers, notwithstanding the actual amount of trust income or dividends received. This again is a continuation of the highly worrying trend of attacks on the tax treatment of trusts, which started in 2006 with the extension of the 20 per cent inheritance tax charge to nearly all lifetime gifts into trusts, and which reduces further their attractiveness for those wishing to provide in a responsible, safe and efficient manner for future generations.

## Changes to personal tax rates

While the Government seems to have kept within the letter of its manifesto commitment not to raise the top rate of income tax during the course of this Parliament (until after the next General Election), today's announcement foreshadows changes to be enacted for the 2010/11 tax year.

## The tax changes

**VAT**

There will be a temporary reduction in the standard rate of VAT from 17.5 per cent to 15 per cent from 1 December 2008 until 1 January 2010.

**Income tax**

From 2009/10:

- Increases in personal allowances.

From 2010/11:

- A progressive reduction in the basic personal allowance to one half for those earning between £100,000 and £140,000 and to zero for those earning over £140,000, reducing by £1 for every £2 of income above these thresholds.

From 2011/12:

- A new 45 per cent income tax rate on income (other than dividends) over £150,000.

- A new 37.5 per cent rate of tax will be introduced on dividends that would otherwise be taxable at the new 45 per cent rate.

**Trusts**

As noted above, from 2011/12 trusts (other than interest in possession trusts, and certain vulnerable beneficiary trusts which are not taxed at the rate applicable to trusts) will be subject to a tax rate of 45 per cent on general income and 37.5 per cent on dividends, in line with the rates for individuals with income over £150,000, but applying at any level of income.

**Trading losses**

For one year only, current year trading losses from businesses (which can currently only be carried back against profits of the preceding year) will be able to be carried back for two further years subject to a maximum of £50,000.

**National Insurance Contributions**

From 2009/10:

- The Upper Earnings Limit for primary Class 1 NICs will be aligned with the level at which individuals start to pay higher rate income tax.

From 2011/12:

- The NICs primary threshold will be broadly aligned with the income tax basic personal allowance.
- The main rate of Class 1 and Class 4 NICs will be increased by 0.5 per cent to 11.5 per cent and 8.5 per cent respectively.
- The Class 1 employer rate of NICs will be increased by 0.5 per cent to 13.3 per cent. The increased rate will also apply to Class 1A and Class 1B contributions.
- The additional rate of Class 1 and 4 NICs will be increased by 0.5 per cent to 1.5 per cent.

## Other points to note

**Offshore disclosure facility**

There will be a further opportunity in 2009 for holders of offshore accounts on which UK tax is due but has not been paid, to disclose details to HMRC, presumably with a reduced penalty regime, but further details will be announced next year.

**Offshore centres**

As noted above, further consultation on the status of the UK's offshore financial centres (principally Bermuda, Guernsey, Jersey and the Isle of Man) has been announced.

## Detailed tax measures

- **Stock lending** – relief from capital gains tax, stamp duty and SDRT where the borrower becomes insolvent and is unable to return the borrowed stock will apply from 24 November 2008, providing any collateral is used to buy replacement securities of the same kind.
- **Property Alternative Investment Funds (AIFs)** – amendments to the rules relating to Property AIFs to exempt feeder funds from SDRT, simplify distributions and clarify the tax treatment of certain distributions.

## Anti-avoidance changes

- **Qualified Investor Schemes** – the 10 per cent individual ownership test to be replaced by 'a genuine diversity of ownership rule'.
- **Film partnerships** – further measures to be introduced to counter tax avoidance using film partnerships.
- **Plant and machinery leasing** – measures to be introduced to counter avoidance planning which exploits loopholes in the current rules relating to capital allowances where plant and machinery is sold and leased back.
- **REITs** – an anti-avoidance rule to prevent the reorganisation of groups with the aim of ensuring that one part qualifies for REIT status when all parts of the group remain in the same economic ownership.
- **Disclosure of tax avoidance schemes** – the current rules will be amended to simplify and improve the reporting of schemes and change the reporting date to the tax year of implementation in all cases.
- **Employee tax** – certain rules relating to the taxation of employment related share awards are to be simplified.
- **Principle based anti-avoidance rules** – the Finance Bill 2009 will contain anti-avoidance rules to tackle disguised interest and the transfer of income streams between taxpayers.

## Pensions

The Annual Allowance (the amount an individual taxpayer can contribute to a UK registered pension with tax relief) and the Lifetime Allowance (the amount up to which taxpayers can take benefits from their pension funds without incurring a tax charge) will be frozen from 6 April 2011 at £255,000 and £1.8m respectively until 5 April 2016.

## Reporting Funds

Although eagerly expected by business, the detailed rules relating to ‘Reporting Fund status’, which is due to replace ‘Distributor Fund status’ for offshore funds with effect from 6 April 2009, were notable by their absence from the announcements made today and are still awaited.

## Further information

For further information in relation to anything covered by this Stop Press, please speak to your primary contact at Withers, or to one of our contacts on the right.

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