Tax information sheet - 2009/2010

This tax information sheet contains information that relates to the tax year running from April 2009 to March 2010, except where otherwise stated. Comparative figures for 2008/2009 are shown in *(italics)* In some cases information is given regarding earlier years because it is still possible to claim allowances, or make payments, in respect of those earlier years. In other cases information is given regarding earlier years because company accounting periods straddle different tax years, and a combination of rates is therefore used within a single company accounting period.

Contents

Income Tax

Rates of tax

Taxable income		Earned			Savings (excl Dividends)		Dividends	
£0 to £2,440	*(£2,320)*	Starting Rate	N/A	*(N/A)*	10%	*(10%)*	N/A	*(N/A)*
£0 to £37,400	*(£34,800)*	Basic Rate	20%	*(20%)*	20%	*(20%)*	10%	*(10%)*
Over £37,400	*(£34,800)*	Higher Rate	40%	*(40%)*	40%	*(40%)*	32.5%	*(32.5%)*

Note that there is no Starting Rate of 10% for earnings, pensions or property income. Also the 10% Starting Rate for Savings is not available if an individual's taxable non-savings income exceeds £2,440.

There is a strict order in which sources of income will be charged to Income Tax:

1. Non-savings income including earnings, pensions, taxable social security benefits, trading profits and property income
2. Savings income, including bank and building society interest
3. Dividends.

Allowances are set off in the same order. Dividends are therefore treated as the top slice of total income. They are paid net after deduction of 10% tax, and standard rate taxpayers will have no extra tax to pay. Higher rate taxpayers will have a further 22.5% tax to pay on dividends, but there is no recovery of the tax credit by non-taxpayers.

Emergency code:	647L *(603L)*

The Emergency Code represents a single person's allowance on a non-cumulative basis (Month 1), and is used by employers in the absence of any other code, until otherwise notified by HMRC.

Income Tax Allowances

Personal allowance (effective at all rates of income tax)		
General	£6,475	*(£6,035)*
Aged between 65 and 74 in tax year	£9,490	*(£9,030)*
Aged 75 and over in tax year	£9,640	*(£9,180)*
Blind Person's Allowance	£1,890	*(£1,800)*

Married couples/partners allowance (relief at only 10%)		
Either partner aged under 75 and born before 6 April 1935)	£0	*(£6,535)*
Either partner aged 75 or over in year of assessment	£6,965	*(£6,625)*
Minimum Allowance	£2,670	*(£2,540)*

Note: all Age Allowances are reduced by £1 for every £2 of income over £22,900 *(£21,800)*
(to a minimum equal to the personal allowance for those under 65)

Rent-a-room: tax free income (not available for rental of office space)	£4,250	*(£4,250)*
Golden handshake exemption	£30,000	*(£30,000)*

Charitable Giving

	Donor receives:	Charity receives from HMRC:
Cash under Gift Aid	20/80 higher rate relief	20/80 of cash donation
Payroll giving	100% income tax relief	10% of cash donation
Quoted securities/property	100% income tax relief exemption from CGT	Nil

Note that for three years only – 2008/09, 2009/10 and 2010/11 – a charity can claim back not just 20/80 of a donation but also the difference between 20/80 and 22/78 (fraction applying up to 5 April 2008).

Capital Gains Tax for individuals

Rates

Tax rate		18% *(18%)*
Annual exemption	Individual	£10,100 *(£9,600)*
	Settlement(s)	£5,050 *(£4,800)*

Entrepreneur's relief
The first £1,000,000 of lifetime gains from certain assets (mainly unincorporated trading businesses, personally owned assets used in the business and shares in trading limited companies where at least 5% is held) is taxed at a reduced rate of 10%.

Benefits in kind

In principle, benefits in kind are not only taxable at your marginal rate of tax, but are also subject to employer's NI (Class 1A). The extra tax payable by an individual on benefits in kind has to be found out of net salary (which has already been subject to both employer's and employee's NI, and tax). This means that there is no monetary gain from making such payments through the company. In certain instances, however, such as with medical insurance, it may be cheaper to make payment through the company simply because insurance companies sometimes offer better rates to companies than to individual

Use of company owned mobile phones: No taxable benefit arises from the provision by an employer of mobile phones, including line rental and private calls, as long as these are paid for directly by the employer. The contract with the service provider **must be in the name of the company**.

Christmas parties: An annual Christmas party open to all staff, or an alternative function of a similar nature, is acceptable as a business expense, and will not be taxed on the employee as a benefit in kind, provided the cost is no more than £150 per head. The amount should be classified as 'staff welfare' and, as with all other business expenses, will be allowable as a deduction from the company's profits.

Incidental expenses while away from home: You may claim an amount not exceeding £5 (inc VAT) per night spent away from home in the UK, or £10 (inc VAT) per night spent outside the UK, to cover the cost of personal incidental expenses while away on business. VAT should not be claimed and these amounts should be charged to 'subsistence allowance'. This is intended to cover items of a personal nature such as newspapers, laundry and telephone calls home, and should not be claimed unless the expense is actually incurred.

HMRC tax free mileage allowances

The following rates may be paid tax and NI free to employees for journeys made in their own cars on business. Travel from home to a temporary place of work (ie for a contract not lasting or expected to last for more than 24 months) qualifies as business travel. Each kind of vehicle (i.e. car, motorcycle, pedal cycle) is dealt with separately, though different vehicles of the same kind are dealt with as though they were the same vehicle.

	Higher rate	Lower rate
All cars	40p	25p
Motorcycles	24p	24p
Bicycles	20p	20p
Business passengers	5p	5p

The higher rate is applicable for up to 10,000 business miles.

Pay As You Earn (PAYE)

Your company PAYE scheme is registered with HMRC for the locality in which your principal place of business (i.e. your home address) is situated. If employment through your own company is your only source of earned income, that tax office will be responsible for your tax affairs. However, if you also receive a pension, your local tax office would normally pass overall responsibility for your tax affairs to the tax office that is responsible for your pension scheme.

Use of BR and DO tax codes
These codes are used in all instances where an individual has more than one source of income (including pension income) and allowances are being given against that other income. The BR code is appropriate if total taxable income is unlikely to exceed £37,400 in the current tax year, but if total taxable income is expected to exceed £37,400, then the DO code should be used. It is the responsibility of the taxpayer to ensure that the right code is being used, and you should contact us if you think that the right code is not being used. All income subject to a BR code is taxed at 20%. All income subject to a DO code is taxed at 40%.

National Insurance

You must pay either Class 1 contributions as an employee if in employment, or Class 2 and Class 4 contributions if you are a sole trader. Alternatively, if you are not working, you may be credited with contributions by the Benefits Agency on a weekly basis. National insurance contributions are not payable on dividends.
If your earnings reach or exceed the *lower earnings limit* £4,940 *(£4,680)* but do not exceed the *earnings threshold* £5,715 *(£5,460),* you will be treated as having paid Class 1 contributions for benefit

purposes (including basic state pension). However, at this level, no national insurance contributions are actually payable and you would therefore be well advised to pay yourself a salary in excess of the *earnings threshold* £5,715 *(£5,460)* so that a permanent record of tax and national insurance is created.

After a period of unemployment and/or change of status, it is particularly important to obtain a state retirement pension forecast which will show whether or not you have been credited with sufficient contributions for each year to be treated as a qualifying year. If during the last six years you have gaps in your contribution record, you may rectify any deficiencies by paying Class 3 voluntary contributions.

National Insurance - Class 1 - Individuals in employment

The *lower earnings limit* is £4,940 per year (£412 per month)	*(£4,680 and £390)*
The *earnings threshold* is £5,715 per year (£476 per month)	*(£5,435 and £453)*
The *upper earnings limit* is £43,875 per year (£3,656 per month)	*(£40,040 and £3,337)*

Employee's contributions. Employees pay contributions at 11% in respect of all receipts of salary between the earnings threshold and the upper earnings limit. If salary is below the earnings threshold, no contributions are payable. For salary above the upper earnings limit, contributions are paid at 1% of gross salary.

Employer's contributions. Employers pay contributions for every employee in respect of salary paid above the earnings threshold, with no ceiling. If salary in the year is below the earnings threshold, no contributions are payable.

In the table that follows the first set of figures is based on annual salary which is appropriate for directors, and the second set is based on monthly salary which is appropriate for other employees. It is referred to as Table A and is used for all male employees aged 16 to 64 and female employees aged 16 to 59 who have not contracted out of the state second pension scheme (S2P).

Not contracted out rates

Earnings limits per year	Earnings limits per month	Employee's contribution	Employer's contribution
Up to £5,715 *(£5,435)*	Up to £476 *(£453)*	Nil *(Nil)*	Nil *(Nil)*
£5,715.01 to £43,875 *(To £40,040)*	£476.01 to £3,656 *(To £3,337)*	11% *(11%)*	12.8% *(12.8%)*
Over £43,875 *(£40,040)*	Over £3,656 *(£3,337)*	1% *(1%)*	12.8% *(12.8%)*

Maximum employee's contribution - £4,197.60 (£3,803.80) (or pro-rata for the number of weeks in the year as a director) plus 1% of gross salary above the upper earnings limit.

Contracting out
You may choose to contract out of S2P and in order to do so you should set up a suitable pension policy with advice from a pensions adviser. Depending on the type of policy, this may result in paying slightly reduced contributions.

S2P. The maximum contribution to S2P is achieved when salary reaches the *upper earnings limit*.

National Insurance - Class 1A - Paid by employers on benefits in kind

2009/2010 12.8% *(12.8%)*

Directors' National Insurance
For an employee who is not a director, NI contributions are payable each month as soon as salary exceeds 1/12th of the *earnings threshold*.
For a director, NI contributions are calculated cumulatively on an annual basis. If the director is appointed before the beginning of the tax year, no NI contributions are payable in the tax year until salary exceeds the *earnings threshold* - £5,715 *(£5,435).* If the director is appointed during the tax year, the *earnings threshold* is reduced, pro-rated according to the number of weeks remaining from the date of appointment to the end of the tax year, and NI contributions are payable when salary reaches this reduced level. After this point NI contributions are payable on the entire salary, subject to a

maximum employee's contribution of £4,197.60 *(£3,803.80)* (reduced pro-rata if the director is appointed during the tax year) plus 1% of gross salary above the *upper earnings limit*.

Deferment of employees NI contributions

If you are an employee and you pay Class 1 contributions with two or more separate employers during the year, your total contributions may exceed the prescribed annual maximum amount of NI contributions payable. In this case you should be able to apply for a deferment of contributions.
If you have more than one employment and expect your earnings in one or more of these employments to exceed the NI upper earnings limit in a full year, you may apply to defer payment of contributions in any other employments you have. If deferment is granted, you will be required to pay only 1% of gross salary in those other employments unless the total contributions you have paid at the end of the tax year are less than the annual maximum.

The form to apply for deferment can be downloaded from the internet on the following address:
www.hmrc.gov.uk/nic/forms.htm

If no individual employment exceeds the limit, or if you have not applied for deferment, and your contributions exceed the prescribed annual maximum, you will receive a refund of contributions after the end of the tax year.

Deferment may be applied if earnings in one or more employments exceed:

2009/10	***2008/09***
£43,875	*£40,040*

National Insurance - Class 3 - voluntary contributions

Class 3 contributions may be paid in order to protect basic state pension rights for the current year and the previous six years by those who are not liable in a particular year to pay Class 1 (employed earners - as above) or Class 2 (self employed earners) contributions, and who have not been credited with contributions by the Benefits Agency. Note, however, that contribution rates are increased to the same level as for the current year after the end of the second tax year following the one in which they were due.

The rates for Class 3 contributions are as follows:

	Per week	Per year
2009/10	£12.05	£626.60
2008/09	£8.10	£421.20
2007/08	£7.80	£405.60
2006/07	£7.55	£392.60
2005/06	£7.35	£382.20
2004/05	£7.15	£371.80
2003/04	£6.95	£361.40

Pension Contributions

There is no limit on the amount that may be contributed to a registered pension scheme. The maximum amount on which an individual can claim tax relief in any tax year is the greater of the individual's UK relevant earnings or £3,600.

If total pension input exceeds the annual allowance of £245,000 *(2008/09 £235,000)* there is a tax charge at 40% on the excess. This limit does not apply in the year that full benefits are taken.

Maximum age for tax relief		74
Minimum age for taking benefits		50
Lifetime allowance charge -	lump sum paid	55%
	monies retained	25%
On cumulative benefits exceeding		£1,750,000*
Maximum tax-free lump sum		25%*

*Subject to transitional protection for excess amount

Total pension input is the increase in value of the aggregate of all of the individual's pension savings. The pension input period is usually the year to the anniversary date which falls within the relevant tax year.

The Government intends to restrict tax relief to the basic rate from 6 April 2011 for individuals with taxable income of £150,000 or more. Forestalling rules were introduced from 22 April 2009 to prevent individuals making annual contributions in excess of £20,000 from benefitting from artificially increasing their annual pension savings before April 2011. Higher rate relief will be given on the higher of their "normal pattern of contributions" or £20,000.

Corporation Tax

Your corporation tax scheme is registered with HMRC for the locality in which your registered office address is situated, namely HMRC at the South London Business Centre in Croydon.

Corporation tax rates

For the year ending:	**31/3/10**	**31/3/09**
Small Companies Rate £0 to £300,000	21%	21%
Marginal Rate £300,001 to £1,500,000	29.75%	29.75%
Main Rate over £1,500,000	28%	28%

Capital allowances

For the purposes of computing corporation tax, capital allowances must be substituted for the depreciation figure used in the company accounts. Capital allowances are available for capital expenditure incurred on the provision of furniture, fittings and equipment. In principle, new expenditure is added to, and sales proceeds are subtracted from, the asset 'pool'. Writing down allowances (WDA) on a reducing balance basis are given on the residue of expenditure in the pool.

Energy saving and environmentally beneficial equipment: first year allowance	100%
Annual Investment Allowance (AIA) – on first £50,000 of investment (excludes cars and expenditure already qualifying for 100% first year allowance)	100%
First year allowance for expenditure in excess of £50,000 (excludes cars)	40%
WDA on expenditure not qualifying for AIA: long-life assets, integral features of buildings	10%
Other plant and machinery	20%

Trading losses

Companies may carry back trading losses for relief against earlier profits. The carry back period is one year, except as follows:

Current losses can be carried back against profits of the previous three years (subject to a maximum £50,000 notwithstanding the standard carry back relief) with consequent tax repayments resulting. This is effective from 22 April 2009 for company accounting periods ending in the period 24 November 2008 to 23 November 2010.

Value Added Tax

The standard rate of VAT is 17.5 % (15% from 1 December 2008 to 31 December 2009) and this applies to all supplies which are not zero-rated, charged at the reduced rate or exempt. A reduced rate of 5% for domestic fuel and power applies from 1 September 1997 (previously 8%), but this is not reclaimable.

From 1 April 2009, registration is obligatory when annual taxable turnover reaches £68,000 *(£67,000 from 1 April 2008).*

You are obliged to de-register if the company stops making taxable supplies. When de-registering, you do not have to account for VAT on assets if the total VAT that would have been due on the assets is £1,000 or less.

Inheritance Tax

The rates of inheritance tax for deaths occurring after 5 April 2009 are as follows:

Up to £325,000	*(£312,000)*	Nil
Over £325,000	*(£312,000)*	40%

The following threshold has also been set: 2010/11 £350,000.

Rates on chargeable lifetime transfers, for example to trusts established after 22 March 2006, are 50% of those on death. Potentially exempt transfers within seven years before death are taxed at death rate with tapering relief as follows:-

Years between gift and death	Percentage of death rate
Up to 3	100%
3 - 4	80%
4 - 5	60%
5 - 6	40%
6 - 7	20%
Over 7	NIL

Trusts established after 22 March 2006, some accumulation and maintenance trusts from 6 April 2008, and all discretionary trusts are subject to a 10 year charge of 6% on assets in excess of the Nil rate band and pro rata on exit. Certain trusts established on death are not liable to these charges.

Main exemptions

1. Most transfers between spouses/civil partners (both UK domiciled)
2. First £3,000 of lifetime transfers in any tax year plus any unused from the previous year
3. Gifts up to £250 pa to any number of persons
4. Gifts made out of income that form part of normal expenditure and do not reduce the standard of living
5. Gifts in consideration of marriage/civil partnership up to £5,000 by a parent, £2,500 by grandparents, or £1,000 by any other
6. Gifts to charities, whether made during lifetime or on death.

Dividends

These notes are included for the benefit of those clients who are permitted to and who choose to pay dividends. If the whole of your income is governed by IR35, you are unlikely to have sufficient funds to pay dividends.

A dividend is not an expense of the company for corporation tax purposes but rather a distribution of profit after deduction of corporation tax.

Income tax on dividends

The amount distributed as dividend is deemed to be a net dividend after deduction of 10% *(2008/09 10%)* income tax, however this is only a notional tax credit in that it cannot be reclaimed by a non-taxpayer. If a taxpayer's total taxable earned income is below the basic rate threshold of £37,400 *(2008/09 £34,800),* any dividend receipts in addition to earned income and up to the basic rate threshold will pay income tax at 10%, and any dividend receipts that produce a total taxable income in excess of the basic rate threshold will pay income tax at 32.5%. The 10% tax credit will be set off against the tax due on the dividend receipts.

Stamp Duty Land Tax

Rates of Stamp duty land tax on the transfer of residential land and buildings:

Up to £175,000*	Nil
£175,001* to £250,000	1%
£250,001 to £500,000	3%
Over £500,000	4%

Thresholds:

*Residential property	from 3/9/08 to 31/12/09	£175,000
	from 1/1/10	£125,000
Residential property in disadvantaged areas from 1/1/10		£150,000

Stamp duty is payable at a rate of 0.5% on transfers of shares and securities of £1,000 and over.

From 1 October 2007 to 30 September 2012 there will be no charge on new Zero-Carbon Emission homes costing below £500,000. Above £500,000 the charge will be reduced by £15,000 and the balance of the Stamp duty liability will be due in the normal way. The relief only applies to the first sale of a new home – it will not apply to existing homes even when they are converted to meet zero-carbon criteria.

Individual Savings Accounts

For individuals aged 18 or over Individual Savings Accounts (ISAs) are available:
Either: one Maxi ISA – maximum investment £7,200 with up to £3,600 in cash and the balance in stocks and shares;
Or: Mini ISAs – overall maximum investment £7,200, cash maximum £3,600, stocks and shares maximum £4,000 (one of each).

The limit will be raised to £10,200, up to £5,100 of which can be saved in cash. The new limits will apply to people aged 50 or over from 6 October 2009, and for all ISA investors from 6 April 2010.

Due dates for tax payments

		2009/10	**2008/09**
Income tax and Class 4 NIC			
1st payment on account	31 January	2010	2009
2nd payment on account	31 July	2010	2009
Balancing payment	31 January	2011	2010
Capital Gains Tax	31 January	2011	2010

Inheritance Tax – normally six months after the end of the month in which death occurs.

Corporation Tax (small & medium companies) –
Payment due nine months and one day after the end of the accounting period.

Companies House filing deadlines

You are obliged to file the company's accounts within 9 months (10 months for periods starting before 6 April 2008) of its year-end at Companies House. There is a sliding scale of penalties for late delivery of accounts.

Not more than 1 month late	£150
Between 1 and 3 months late	£375
Between 3 and 6 months late	£750
More than 6 months late	£1,500

HMRC filing deadlines

A company must file its corporation tax return, accounts and supporting computations within twelve months of the end of each accounting period.

2008/09 Returns filing and issuing deadlines

P14, P35, P38 and P38A	19 May 2009
Issue P60s to employees	31 May 2009
P9D, P11D and P11D(b)	6 July 2009

2008/09 Class 1A NICs on relevant benefits
Payment due 19 July 2009

Self assessment tax return	paper	31 October 2009
	online	31 January 2010

For taxpayers who want HMRC to calculate their tax liability for them, the cut off date is 30 September.

If you do complete a paper Tax Return, make sure that it is received by HMRC by 31 October, otherwise there will be an automatic fine of £100 and HMRC will not guarantee to tell you what to pay by 31 January. Interest will be charged on any tax not paid at that date. A surcharge will be made of 5% of any tax not paid by 28 February (eleven months after the end of the tax year). There is a further automatic fine of £100 if your tax return is not received by 31 July (sixteen months after the end of the tax year), together with a further surcharge of 5% of any tax still not paid by this date.

HMRC powers and penalties

From 1 April 2009 HMRC penalties are based on taxpayer behaviour and HMRC will consider whether reasonable care has been taken. The implications of not taking 'reasonable care' are shown below:

Reason for penalty	Penalty	Possible minimum reduced penalty for unprompted disclosure	Possible minimum reduced penalty for prompted disclosure
Careless action	30%	0%	15%
Deliberate but not concealed	70%	20%	35%
Deliberate and concealed	100%	30%	50%
Error in HMRC assessment	30%	0%	15%

Notes to table:
the careless action penalty is subject to suspension for a maximum of 2 years where HMRC think that compliance with a condition of suspension would help the taxpayer avoid further penalties for careless inaccuracy
there can be a special reduction of any of the above penalties where HMRC considers there are special circumstances, not linked to ability to pay