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Tax rates 2009/10

Clarity. Gain a precise view of the budget

Contents

These tables are a summary and do not cover all situations.

They are based on information in the Budget announcements on 22 April 2009. These may be subject to further amendment during the passage of the Finance Bill through Parliament.

Personal Tax

Income tax rates 2009/10 (2008/09)

Income Band (£)	Dividends (%)	Other Savings Income (%)
Up to 2,440 (2,320)	**10**	**10**
2,441 – 37,400 (2,321 – 34,800)	**10**	**20**
Over 37,400 (34,800)	**32.5**	**40**
Income Band (£)	**Other Income (%)**	**Cumulative Tax (£)**
Up to 37,400 (34,800)	**Basic rate: 20**	**7,480** (6,960)
Over 37,400 (34,800)	**Higher rate: 40**	

Broadly speaking, the income bands are used in the following order:

- Income other than dividends, other savings income and capital gains.
- Other savings income.
- Dividends.

For basic rate taxpayers the liability on UK dividend income is met by the tax credit attached to the dividend. For non-taxpayers, the tax credit is not refundable.

From 6 April 2008 the non-payable tax credit was extended to dividends from non-UK companies, provided the investor owns less than a 10% shareholding and the company is not an offshore fund. From 22 April 2009, for shareholders with holdings of 10% or more in a non-UK company, the tax credit will normally be available if the distributing company is resident in a territory with which the UK has a double taxation agreement with a non-discrimination article.

Dividend income of discretionary trusts and accumulation and maintenance trusts is taxed at 32.5% (2008/09 32.5%) (rather than the normal trust income tax rate of 40% (2008/09 40%)), subject to a ‘standard rate’ band which for 2009/10 is £1,000 (2008/09 £1,000).

Personal allowances

	2009/10 (£)	2008/09 (£)
Basic individual	6,475	6,035
Individual aged 65-74[a]	9,490	9,030
Individual aged 75 and over[a]	9,640	9,180
Married couple (born before 6 April 1935)[a,b,c]	N/A	6,535
Married couple (elder aged 75 and over)[a,b,c]	6,965	6,625

a. Reduced by £1 for each £2 of income (less deductions) which exceeds £22,900 (£21,800 for 2008/09). However, this reduction cannot take the allowance below that for an individual. The personal allowance is reduced first, then the married couple's allowance.

b. Restricted to relief at 10%.

c. The minimum age-related married couple's allowance is £2,670 (£2,540 for 2008/09).

Income tax reliefs and incentives

Annual limits	2009/10 (£)
Enterprise Investment Scheme (EIS) (maximum)[a]	500,000
Venture Capital Trust (VCT) (maximum)[b]	200,000
Individual Savings Account (ISA)	
– total investment (maximum)[c, d]	7,200
– stocks and shares ISA (maximum)[c, d]	7,200
– cash ISA (maximum)[c, d]	3,600

a. Income tax relief restricted to 20%. Capital gains tax deferral relief is also available.

b. Rate of income tax relief for investors in VCTs is 30%.

c. In each tax year, you can invest in one cash ISA, or one stocks and shares ISA, or one of each, subject to the overall maximum limits. Detailed conditions and additional restrictions may apply.

d. For individuals aged 50 and above the total ISA investment limit and cash ISA limit for 2009/10 will be increased on 6 October 2009 to £10,200 and £5,100 respectively.

Relief is available at the taxpayer's marginal rate of income tax for charitable donations via the Gift Aid and Payroll Giving schemes and for charitable gifts of quoted shares and securities and real property.

Pensions

	Earnings cap (£)	Annual allowance (£)	Lifetime allowance (£)
2006/07	108,600[a]	215,000	1,500,000
2007/08	112,800[a]	225,000	1,600,000
2008/09	117,600[a]	235,000	1,650,000
2009/10	123,600[a]	245,000	1,750,000
2010/11	–[b]	255,000	1,800,000

a. Notional earnings cap for the purpose of limiting contributions to, and benefits payable from, pre-6 April 2006 schemes that are subject to transitional rules.
b. Figure not yet available.

A completely new pensions tax regime took effect from 6 April 2006. The key points are as follows.

- The new regime applies to all individuals in respect of whom pension contributions are made, or benefits accrue, after 5 April 2006 and those who draw any pension benefits after that date.
- The normal minimum pension age is 50, rising to 55 from 6 April 2010.
- There is an annual cap (£245,000 for 2009/10) on contributions to registered pension schemes (or growth in value of defined benefit schemes). Where the cap is exceeded a tax charge of 40% is payable by the individual.
- There is an effective tax charge of up to 55% on the value of the pension funds used to provide benefits, when those benefits are taken, insofar as they exceed the individual's available lifetime allowance (£1.75 million for 2009/10) subject to transitional relief – see below.
- The maximum tax-free lump sum that may be drawn from pension funds will be 25% of the value of an individual's uncrystallised pension rights, subject to a cap of 25% of the lifetime allowance and transitional relief – see below.

- Transitional reliefs are available to protect pension rights built up before 6 April 2006 by registering and protecting those rights, including lump sum rights in excess of £375,000. The time limit for making these transitional relief claims has now passed. Certain pre-existing lump sum rights of more than 25% are automatically protected.
- The annual allowance and lifetime allowance will remain at £255,000 and £1.8 million respectively from 2010/2011 to 2015/16 inclusive.
- From 6 April 2011 tax relief on pension contributions will be restricted for those whose taxable income is £150,000 or more per year. Relief will be tapered away so that for those earning £180,000 and over it is worth 20%, the current basic rate of income tax. Legislation will be introduced effective from 22 April 2009 to prevent those potentially affected from forestalling this change by increasing their pension savings in excess of their normal regular pattern if total pension savings are over £20,000.

Making contributions to pensions is a long term investment decision and individuals should take advice on the suitability of making pension contributions in their particular circumstances.

Taxable car and fuel benefits

The taxable car benefit is calculated as a percentage of the car's list price based on carbon dioxide (CO_2) emissions as follows:

- Car emitting 121-134g/km of CO_2 – 15%.
- Car emitting 135g/km – 15%
- For each additional 5g/km – add 1%.
- Emissions figures should be rounded down to the nearest 5g/km
- Maximum benefit where CO_2 at least 235g/km – 35%.

In 2010/11 the lower threshold will be reduced by 5g/km to 130g/km. This means that cars with CO_2 emissions of between 121-134g/km will have a taxable benefit of 15%. The lower threshold will then be reduced by a further 5g/km in 2011/12.

A 3% supplement applies to most diesel cars, up to the maximum charge of 35% of list price. The diesel supplement is waived if the car achieves the Euro IV emissions standards and was registered before 1 January 2006.

Hybrid cars and those which can run on Liquid Petroleum Gas (LPG) attract discounts of 3% and 2% respectively. There is a 2% reduction for cars able to run on E85 fuel, a mixture of 85% bio-ethanol and 15% unleaded petrol. These reductions and the reduction for Euro IV cars will be abolished from 6 April 2011.

There is a 10% band for cars with CO_2 emissions of exactly 120g/km or lower. These cars are 'qualifying low emissions cars' or QUALECs. The diesel supplement applies to QUALECs, but no reduction which is available on other cars applies.

The price of the car is reduced by up to a maximum of £5,000 for capital contributions made by an employee. Employees' contributions for private use reduce the taxable benefit pound for pound.

The private use of vans attracts a scale charge of £3,000 pa, regardless of the age of the vehicle. In addition, if free or subsidised fuel is provided for private use in a company van, a taxable fuel benefit will arise (£500 for 2009/10).

Fuel benefit for cars is calculated by applying the relevant car CO_2 emissions percentage to a pre-set figure (£16,900 for 2009/10).

Approved mileage rates

Employers can make tax- and NI- free payments to employees using their own vehicle for business travel, as follows:

- cars and vans – 40p per mile for the first 10,000 miles and 25p per mile thereafter (for NIC the 40p rate applies to all miles);
- motor cycles – 24p per mile;
- bicycles – 20p per mile; and
- passengers – an optional 5p per mile for each passenger who is an employee travelling on business.

Capital gains tax (CGT)

A flat rate of capital gains tax of 18% applies to all disposals except for those that qualify for the entrepreneurs' relief (see below).

The annual exemptions apply for individuals and trusts. For 2009/10 they are £10,100 (2008/09 £9,600) and up to £5,050 (2008/09 £4,800) respectively. A chattels exemption applies for proceeds up to £6,000.

Entrepreneurs' relief allows the first £1 million of gains arising on certain disposals in 2008/09 or later years to be charged to CGT at an effective rate of 10%.

The relief applies (subject to conditions) where:

- an individual makes a material disposal of business assets;
- there is a disposal of qualifying business assets held by certain qualifying trustees; or
- an associated disposal is made by an individual.

The £1 million limit is a lifetime limit affecting disposals from 6 April 2008.

Inheritance tax (IHT)

IHT is charged on the estate at death, on gifts within seven years of death and on chargeable lifetime transfers of value. For 2009/10 the first £325,000 (£312,000 for 2008/09) of cumulative chargeable transfers are exempt. Over this nil rate band the rate is 20% for lifetime transfers, 40% on death. A tapered inheritance tax rate applies to gifts made between three and seven years before death. When a surviving spouse or civil partner dies on or after 9 October 2007, relief is due on that death in respect of any unused proportion of the nil rate band of the spouse or civil partner who died first. This is in addition to any unused nil rate band of the survivor. Transfers between UK-domiciled spouses are exempt. When a transferor spouse is UK-domiciled and a transferee spouse is not, the spouse exemption is limited to £55,000.

Indirect taxes

Value Added Tax (VAT)

VAT registration is required where taxable supplies exceed £68,000 (previously £67,000) for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold is increased to £66,000 (previously £65,000).

Rates	(%)
Zero rate (newspapers, children's clothes etc)	0
Certain fuel and power; some energy saving materials; some residential property works etc	5
Standard rate[a]	15
VAT fraction for inclusive price[b]	3/23

a. Due to increase to 17.5 per cent on 1 January 2010.
b. Due to revert to 7/47 when the VAT rate reverts to 17.5% on 1 January 2010.

Insurance premium tax

The standard rate of insurance premium tax applicable to most general insurance is 5%. Life and other long-term insurance is exempt. A higher 17.5% rate applies to mechanical breakdown and travel insurance, and insurance sold with certain goods.

Stamp duty land tax (SDLT)

The rates below apply to acquisitions of chargeable interests in land including leases.

Relevant consideration (£) – residential	Rate (%)	Relevant consideration (£) – non-residential or mixed	Rate (%)
0 – 125,000[a]	0	0 – 150,000	0
125,001[a] – 250,000	1	150,001 – 250,000	1
250,001 – 500,000	3	250,001 – 500,000	3
Over 500,000	4	Over 500,000	4

a. From 3 September 2008 to 31 December 2009 this threshold is raised to £175,000 (unless it is for a lease for less than 21 Years).

In disadvantaged areas residential sales of land and buildings up to £150,000 are exempt.

From 1 October 2007 new zero-carbon homes (including flats) costing up to £500,000 benefit from an exemption from SDLT. This relief is time limited and will expire on 30 September 2012. Where the purchase price exceeds £500,000 the SDLT otherwise due is reduced by £15,000.

Stamp duty

Stamp duty applies to transfers of shares and securities at a rate of 0.5%. Payment of the appropriate amount of stamp duty generally cancels the parallel charge to stamp duty reserve tax. From 13 March 2008 there was an exemption from stamp duty for transfers that would have previously attracted stamp duty (fixed or ad valorem) of no more than £5.

National Insurance Contributions 2009/10

Class 1 (employees and employers)

Weekly earnings (£)	Employees	Employers
95.00 or less[a]	–	–
95.01 – 110.00[b]	0%	–
110.01 – 844.00[d]	11%	12.8%
Over 844.00[d]	£80.74 plus 1% on earnings over £844 pw	12.8%
Contracted out – salary related		
95.00 or less[a]	–	–
95.01 – 110.00[b]	0%	–
110.01 – 770.00[c,e]	9.4%	9.1%
770.01[c] – 844.00[d,f]	11%	12.8%
Over 844.00[d]	£70.18 plus 1% on earnings over £844 pw	£69.53 plus 12.8% on earnings over £844 pw
Contracted out – money purchase		
95.00 or less[a]	–	–
95.01 – 110.00[b]	0%	–
110.01 – 770.00[c,e]	9.4%	11.4%
770.01[c] – 844.00[d,f]	11%	12.8%
Over 844.00[d]	£70.18 plus 1% on earnings over £844 pw	£84.71 plus 12.8% on earnings over £844 pw

a. Monthly and annual lower earnings limits are £412 and £4,940 respectively.

b. A zero rate of NIC applies to earnings between the lower earnings limit of £95 pw and the earnings threshold of £110 pw to protect employees' contributory benefit entitlements. Monthly and annual thresholds are £476 and £5,715 respectively. A contracted out rebate is due at the relevant rate (not shown in table on these earnings).

c. Monthly and annual upper accrual points are £3,337 and £40,040 respectively.

d. Monthly and annual upper earnings limits are £3,656 and £43,875 respectively.

e. Contracted out rebates apply to the difference between the upper accrual point and the lower earnings limit (not the earnings threshold).

f. Contracted in rates apply between the upper accrual point and the upper earnings limit even if the individual has contracted out.

Employees' qualifying business travel and subsistence expenses are excluded from earnings for Class 1 NIC purposes. In determining the allowable cost of business travel by employees in their own cars employers should use the HM Revenue & Customs authorised mileage rate of 40p per mile.

For contracted out money purchase schemes, in addition to the flat-rate abatement shown above, HM Revenue & Customs pay an age-related rebate directly to the pension scheme.

From 6 April 2009 the upper earnings limit (UEL) is aligned with the higher rate tax threshold for income tax. At the same time, the upper accrual point (UAP), a new lower end point for earnings related state second pension (S2P) accruals, was introduced. Employers and employees who have contracted out of the S2P only receive contracted out rebates on earnings between the lower earnings limit (LEL) and UAP and pay NIC at the contracted in rates between the UAP and UEL. For 2009/10 the UAP is be £770 pw.

Class 1A (employers providing benefits-in-kind)

Employers are liable to Class 1A NIC at 12.8% on most benefits-in-kind subject to income tax. Benefits-in-kind covered by a dispensation or included in a PAYE Settlement Agreement (but see below) are not subject to Class 1A NIC. Certain other benefits are specifically exempt from both income tax and Class 1A NIC.

Class 1B (employers settling tax liabilities via PSAs)

Class 1B NIC is an employer-only charge, similar to Class 1A, payable by employers on the value of the tax and on certain benefits paid via PAYE Settlement Agreements (PSAs). The rate is tied to the Class 1 secondary rate (12.8%) and contributions are payable by 19 October following the end of the tax year, along with the tax under a PSA.

Class 2 (self-employed)	
Weekly rate	£2.40
Small earnings exception (annual)	£5,075

Class 3 (voluntary)	
Weekly rate	£12.05

Class 4 (self-employed)	
Lower limit of profit or gains	£5,715
Upper limit of profit or gains	£43,875
Rate on profits between lower and upper limits	8%
Rate on profits above £40,040	1%

From 6 April 2011 a 0.5% increase in employer, employee and self-employed rates of National Insurance Contributions (both main and additional rates) will be introduced. At the same time the point at which individuals start to pay National Insurance will be aligned with the personal allowance.

Business tax

Corporation tax rates

	Year ended 31 March	
	2010	2009
Normal main rate	28%	28%
Small companies' rate[a, b, c]	21%	21%
Fraction for 'lower' marginal relief	7/400	7/400

a. The upper threshold for the small companies' rate is £300,000. Marginal relief applies to profits between £300,000 and £1.5 million, with an effective marginal rate of 29.75%.
b. The limits are reduced pro rata for associated companies and for accounting periods of less than 12 months.
c. The planned increase to 22% will not come into effect until 1 April 2010.

Corporation tax payments

Large companies pay tax in instalments. Large companies are broadly those with taxable profits of at least £1.5 million (see note b above) and a corporation tax liability in excess of £10,000 for a 12-month accounting period. The £10,000 is reduced proportionately for shorter accounting periods.

In a 12-month accounting period, four instalments are payable as follows:

- 6 months and 13 days from the first day of the accounting period;
- 3 months after the first instalment;
- 3 months after the second instalment; and
- 3 months and 14 days from the last day of the accounting period.

Companies are not required to make instalment payments in the first year in which the £1.5 million threshold is reached unless their profits exceed £10 million.

Capital expenditure

	First year/initial allowance/annual investment allowance	Writing-down allowance (WDA) per annum
Plant and machinery	40%[a]/100%[b]	20% reducing balance
Long-life assets[c] and Integral Features[d]	100%[b]	10% reducing balance
Cars	100%[e]	20% reducing balance[f]
Industrial/agricultural buildings, hotels	–	2% on cost[g]
Research and development (R&D)	100%	–

a. Expenditure over and above £50,000 per business or group of companies will attract a first year allowance of 40%. This is an allowance against total expenditure incurred in the period 1 April 2009 to 31 March 2010 on plant and machinery other than cars, long-life assets and integral features.
b. First £50,000 of expenditure per business or group of companies only. Allowance is against total expenditure on plant and machinery (other than cars), long-life assets and integral features. It is optional which class of asset allowance is allocated against.
c. Applies to businesses spending more than £100,000 pa on certain assets with a useful life of 25 years or more.
d. Applies to a prescribed list of assets covering: electrical systems; cold water systems; space or water heating systems, ventilation, air-cooling systems; lifts and escalators; and external solar shading.
e. 100% first-year allowance for cars with CO_2 emissions not exceeding 110g/km.
f. A rate of 20% applies to cars with CO_2 emissions between 111g/km and 160g/km. A rate of 10% applies where the CO_2 emissions exceed 160g/km.
g. These allowances are being phased out. The rate before April 2008 was 4%. The rate declines 1% per annum after then so that no relief is due after March 2011.

Under the enhanced capital allowances (ECA) scheme, a 100% first year allowance is available for expenditure on designated energy-saving or water conservation plant and machinery and for the purchase of 'green' vehicles or refuelling equipment. The ECA will be expanded in Summer 2009 to include some new technologies and remove other existing ones. From April 2008 payable ECAs allow loss-making companies to surrender the element of their losses attributable to their qualifying expenditure in return for a cash payment from Government. The rate of payable ECAs is 19%, but subject to a cap equal to the level of a company's PAYE and NI liabilities or £250,000, whichever is the greater.

Tax relief is available for the cost of intangible assets (including goodwill and intangible property). This will, in most cases, be the level of amortisation/impairment recognised in the accounts. A fixed rate of 4% pa may be applied on election.

Business expenditure on cars

In light of the changes to capital allowances on business cars from 1 April 2009, a 15% restriction will apply to lease rental payments with CO_2 emissions exceeding 160g/km. There will be no leasing restriction for leased cars with emissions of 160g/km or below. Under the old rules a restriction applied to all cars with a retail price over £12,000, by reference to cost of the car.

Research and development: revenue costs

From 1 August 2008 companies that meet the EU definition of an SME (see below) are entitled to an additional deduction of 75% of qualifying R&D expenditure, compared to the additional deduction of 50% previously available. Large companies (i.e. those that are not SMEs) can claim an additional 30% deduction on their qualifying R&D costs from 1 April 2008. Prior to this date they were entitled to an additional deduction of 25%.

For non tax paying SMEs a cash refund alternative of up to 24.5 pence for every pound of qualifying expenditure may be available.

For this purpose the latest SME definition (effective from 1 August 2008) requires a company, together with certain related companies, to have fewer than 500 employees and **either** turnover not exceeding €100m **or** total assets not exceeding €86m. The definition change effectively doubled the criteria from 250 employees, and **either** turnover not exceeding €50m **or** total assets not exceeding €43m.

The meaning of R&D for these purposes and for the Capital Research & Development Allowances is set out in the DTI guidelines issued on 5 March 2004.

In addition to the above, qualifying R&D expenditure in relation to specified vaccines and medicines will attract a further 40% (prior to 1 August 2008 50%) deduction from taxable profits for both SMEs and large companies (Vaccine Research Relief). Large companies are required to make a declaration concerning the incentive effect of the relief they are claiming under this relief.

A cap was introduced from 1 August 2008 limiting the total amount of SME R&D and Vaccine Research Relief aid a company can claim on each project to €7.5m.

Offices

Aberdeen	01224 625888
Belfast	028 9032 2861
Birmingham	0121 632 6000
Bristol	0117 921 1622
Cambridge	01223 460222
Cardiff	029 2048 1111
Edinburgh	0131 221 0002
Gatwick	01293 510112
Glasgow	0141 204 2800
Leeds	0113 243 9021
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Manchester	0161 832 3555
Newcastle	0191 261 4111
Nottingham	0115 950 0511
Reading	0118 950 8141
St Albans	01727 839000
Southampton	023 8033 4124

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000
Fax +44 (0) 20 7583 1198.

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