

CI Accountancy Ltd

Budget Report

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Alistair Darling confirmed many of the expected tax changes in his Budget speech yesterday. We have included a summary of issues that will impact your personal and business cash flows. It should be stressed that this is a short summary of some of the more applicable changes; it does not set out to describe all of the proposed changes to tax law in the Budget 2008.

Other non-tax business matters flagged in the Chancellor's speech included an increase in the small firms loan guarantee scheme to £60m, the launch of a new £12.5m fund for female entrepreneurs, and a target for small and medium sized businesses to win up to 30% of public sector contracts in the next five years.

Pensioners will also be gratified to learn that the winter fuel allowance is to increase in 2008-09 to £250 for the over 60's, and to £400 for the over 80's. The Chancellor has also indicated that he will bring forward the increase in the first child, child benefit to £20 per week in April 2009.

Personal Tax Issues

Income Tax – personal allowances and tax rates

The changes to tax rates and allowances announced last year have been confirmed. A quick summary of the main changes are shown below:

Income Tax Allowances 2008-09

All income tax allowances will increase in line with inflation. The personal allowance will increase to £5,435. The age-related personal allowances will rise to £9,030 for people aged between 65 and 74 and to £9,180 for those aged 75 and over.

The married couple's allowance (for those aged less than 75 and born before 6th April 1935) is increased to £6,535. The equivalent allowance for those over 75 is increased to £6,625.

The income limit for age-related allowances will be increased to £21,800.

Blind person's allowance increased to £1,800.

Income Tax Rates

In 2008-09 the 10% starting rate is abolished. (But see comment below regarding savings income.)

The standard basic rate of income tax is reduced to 20% and will be applied to the first £36,000 of taxable income.

Income in excess of £36,000 will be taxed at the higher rate of 40%.

There is a new 10% starting rate for savings income only, with a limit of £2320. If your taxable non-savings income is above this limit the 10% savings rate will not be available.

There are no changes to the 10% dividend ordinary rate or the 32.5% dividend upper rate.

Dividends from non-resident companies

During the two years from 6 April 2008 most UK resident tax payers will become eligible to claim a non-payable tax credit in respect of dividends received from non-resident companies.



Capital Gains Tax – new regime confirmed from 6 April 2008

The hotly disputed changes to this tax are to be enacted as declared. From the 6 April 2008 the following provisions will apply:

1. All chargeable gains for individuals and partnerships will be taxed at 18%.
2. Indexation and taper relief no longer apply. Gains will be calculated as 18% of the difference between original cost, (or market value at 31 March 1982 if purchased before that date) and the net sales proceeds.
3. In certain circumstances sellers of qualifying businesses will only pay CGT at an effective rate of 10%, the so-called Entrepreneurs' Relief. This relief will be available to qualifying gains post 6 April 2008 up to a lifetime limit of £1m.

Stamp Duty bonus

Transfers of stocks and shares that were previously subject to a £5 stamp duty will now be exempt from the charge. This applies to transfers executed on or after 13 March 2008.

Armed Forces Council Tax Relief

From 1 April 2008 all payments under the Armed Forces Council Tax Relief will be tax free.

Tobacco products

Changes apply on and after 6pm, 12th March 2008.

Cigarettes – the price of a pack of 20 will increase by 11p

Cigars – the price of a pack of 5 will increase by 4p

Alcohol products

From midnight on Sunday the rate of duty will increase to 6% above the rate of inflation. This will effectively add:

- 4p to a pint of beer
- 3p to a litre of cider
- 14p to a bottle of wine
- 55p to a bottle of spirits

Fuel duty increase postponed

The 2p per litre increase in fuel duty had been delayed until October 2008.

Car Tax increases 2009

Next year will see the introduction of new VED bands that will further increase the incentive to drive cars with lower CO₂ emissions, and a disincentive to drive a gas guzzler! The vehicle excise duty for the most polluting cars, over 255g CO₂/km, will rise to £245.

Residence and Domicile – all changes effective 6 April 2008

Residence tests – counting the days

With the exception of the transit exemption set out below, any day where the individual is present in the UK at midnight will be counted as a day of presence in the UK for residence test purposes.

If you are in transit between two places outside the UK, even if you are in the UK at midnight during the transit process, this will not count towards your days of presence in the UK. To claim this exemption you must not interrupt the transit process to say attend a business meeting.

Loss of personal allowances and reliefs

This provision will apply to UK residents who have unremitted foreign income and gains in excess of £2,000 a year, and who claim to use the remittance basis of taxation.

Taxpayers in this category will lose:

- The entitlement to certain personal allowances and reliefs,
- Access to the annual exempt amount for capital gains purposes.

Closing loopholes remittance basis

Legislation will be introduced to remove various loopholes and anomalies which allow remittance basis users to remit income and gains to the UK without paying tax on them. Some of these provisions will apply from 12 March 2008.

Annual charge £30,000

The annual charge will apply to individuals over the age of 18 years who are UK residents, and have been UK residents for more than seven out of the past ten years, who claim the remittance basis of taxation and who have unremitted foreign income and gains in excess of £2,000 a year.

The £30,000 is treated as a tax charge and therefore available for double tax relief.

If a taxpayer gives up the remittance basis, and pays UK tax on his worldwide earnings and gains, the annual charge will not apply.

Venture Capital Schemes

The limit on the amount an investor in a qualifying Enterprise Investment Scheme can claim income tax relief is to be increased from the existing £400,000 to £500,000 from 6 April 2008. (Subject to European Commission approval)

Additionally the activities of shipbuilding and coal and steel production will be excluded investments in the Enterprise Investment, Corporate Venturing and Venture Capital Trust schemes from the same date.

Enterprise Management Incentives

In respect of options granted after the 6 April 2008, the following changes will apply:

1. EMI's will be limited to qualifying companies with fewer than 250 employees.
2. Companies involved in shipbuilding and coal and steel production will no longer qualify.
3. The individual employee option limit will be increased from £100,000 to £120,000.

Business Tax Issues

Corporation Tax

The main rate of corporation tax will be 28% from 1 April 2009.

The small companies tax rate, for companies with taxable profits up to £300,00, will increase to 21% from 1 April 2008.

The Government are also legislating to simplify the Associated Companies rules. The changes will apply to directors or shareholders who are also members of separate business partnerships. If your company has associated connections within the definitions set out in tax law, this can severely restrict the amount of profit your company can earn at the smaller companies tax rate. The changes will apply from 1 April 2008.

Capital Allowances – changes from 1 April 2008 for companies and 6 April 2008 for other businesses.

Industrial and Agricultural Buildings allowances

Between the 1 April 2008 and 31 March 2011, for companies paying corporation tax, and 6 April 2008 and 5 April 2011, for businesses paying income tax, the present industrial and agricultural buildings writing down allowances are to be phased out, by reducing the allowance in steps of 25% each year.

New allowance for certain 'Integral features and thermal insulation' of a building

Expenditure on new or replacement:

- Electrical systems (including lighting systems);
- Cold water systems;
- Space or water heating systems, powered systems of ventilation, air cooling or air purification, and any floor or ceiling comprised in such systems;
- Lifts, escalators, and moving walkways;
- External solar shading; and
- Active facades.

All such expenditure will in future be treated separately for capital allowance purposes and will be available for an annual writing down allowance of 10% of the qualifying expenditure.

Plant and machinery

The annual writing down allowance is being reduced from 25% to 20%.

Natural Gas, Biogas and Hydrogen refueling equipment.

The 100% first-year allowance is being extended for an additional 5 years to 31 March 2013. Its scope is extended to include refuelling equipment for Biogas.

Cars with low CO2 emissions

The 100% first-year allowance for expenditure on cars with CO2 emissions not exceeding 120g/km is due to end on 31 March 2008. This allowance is to be extended for an additional five years until 31 March 2013.

The allowance will only be available for vehicles whose CO2 emissions do not exceed 110g/km.

The Chancellor has also disclosed changes to be made to the capital allowance treatment of cars from April 2009. Cars with CO2 emissions above 160g/km will qualify for a 10% writing down allowance, cars with emissions below 160g/km will be able to claim a 20% writing down allowance.

Plant and machinery – Annual Investment Allowance

Most businesses will be able to claim this new allowance. It allows the first £50,000 of qualifying expenditure to be completely written off in the year of purchase. The allowance is proportionately reduced if your first affected accounting year ends between April 2008 and March 2009.

Expenditure in excess of £50,000 is added to your general tax pool and will qualify for the appropriate writing down allowance. For 2008-2009 this will be 20% of the excess over £50,000.

There are a number of provisions to stop certain related businesses each claiming the £50,000 allowance.

Introduction of first year tax credits

For companies only. If a company makes a loss in a year in which they make an investment in certain energy saving or environmentally beneficial plant and machinery, they can surrender the part of the loss attributable to the 100% enhanced capital allowances, for a cash payment.

The payable tax credit will be 19% of the surrendered loss. The tax credit claimed cannot be greater than:

- The total of the companies PAYE/NIC liabilities for the same period, or
- £250,000

Small Plant and Machinery Pools

If your business has a balance of £1,000 or less in a general pool of assets, from April 2008 you can write off the balance completely for tax purposes. This will save you having to claim increasingly smaller writing down allowances in future years.

Gift Aid – transitional relief for charities

With the reduction in the standard rate of income tax from 22% to 20% on the 6 April 2008, charities were facing a reduction in their income. Refunds of tax would have been proportionately reduced. To maintain cash flow charities would have needed to approach their donors for more funding.

To counter this, the Revenue are introducing a 2% supplement. The extra tax concession will apply for the tax years 2008-09, 2009-10 and 2010-11.

Income shifting

In the Pre Budget report last year the Government announced their intention to legislate to counter the "shifting" of income from one connected person to another, usually husband and wife, in order to gain a tax advantage. For example a business partnership between husband and wife could direct that half the profits were allocated to the husband when his wife did 90% of the work. This sort of arrangement would possibly save the wife from paying higher rate tax on the income shifted to her husband.

You will be glad to know that the Revenue have bowed to pressure from interested parties and have deferred implementation until April 2009, pending further consultation.

Single use carrier bags

The Government has announced its intent to legislate if retailers do not take positive action in the next year to encourage a shift away from single use carrier bags. If there is insufficient progress a levy will be charged. Any funds raised will be directed to environmental charities. The Government has confirmed that any donations made by retailers to charities will attract tax relief in the normal way.

VAT – New registration limits

The following changes apply from 1 April 2008:

Compulsory registration applies if taxable turnover exceeds £67,000. (Previously £64,000)

Applications for deregistration can apply if taxable turnover is below £65,000. (Previously £62,000)

VAT – Returns correction of errors

At present you can only correct errors on past returns, by adjusting a current return, if the error is less than £2,000. Errors in excess of this amount have to be separately notified to HM Revenue & Customs.

This limit is to be increased for all accounting periods commencing on or after 1 July 2008 to the greater of:

- £10,000, or
- 1% of turnover subject to an upper limit of £50,000

VAT – Transitional period for claims

Businesses registered for VAT between 1 April 1973 and 1 May 1997 who either declared more output VAT than they were liable for, or claimed less input VAT than entitled to; can now make a claim to have repayments made for this period up to 31 March 2009.

This relief re-establishes rights that were incorrectly taken away when the present 3 year rule was introduced in 1996/1997.

VAT – Option to tax Land & Buildings

Legislation will be introduced to simplify the option tax to tax land and buildings. In particular there will be new rules to allow the option to be revoked after 20 years. The changes are effective from 1 June 2008. The earliest date that an option to tax can be revoked is the 1 August 2009.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this newsletter are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

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