

Hobsons : Newsletter March 2006

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Introduction

Although the content of the Chancellor's speech seemed fairly nondescript this year, as always the devil is in the detail!

We have summarised a number of the more topical taxation issues to be included in the Finance Bill 2006 and start with a quick rundown of the changes, or absence of changes, to the main taxes. All references are to the tax year 2006-2007 unless noted otherwise.

Budget Update 22 March 2006

Income Tax

The single personal allowance has increased £140 to £5035 - equivalent allowances for the elderly are:

Age 65 - 74 increase of £190 to £7280
Age 75 and over increase of £190 to £7420

Income tax rates are unchanged.

Income tax bands have increased marginally. You will now pay higher rate tax if your taxable income exceeds £33,300, previously £32,400.

Corporation Tax

The changes to the starting rate announced in the 2005 Pre-Budget Report have been confirmed. The 0% starting rate on the first £10,000 of profits is abolished. From the 1 April 2006 the small companies rate of 19% will apply to all profits up to £300,000.

The main rate of 30% is unchanged.

National Insurance

There are various small increases to the earnings limits below and above which national insurance is charged. No deductions will be made if your weekly wages are below £84, previously £82.

The class 1, 2 and 4 contribution rates are unchanged

Capital Gains Tax

The annual tax free exemption has been increased by £300 to £8,800.

Inheritance Tax

The inheritance tax threshold has been increased by £10,000, estates up to £285,000 are now exempt. This exemption will be increased annually until 2009-2010 when the exempt estate level will be £325,000.

VAT

Businesses must register for VAT if their annual taxable turnover exceeds £61,000, previously £60,000. Deregistration limit has been increased to £59,000, previously £58,000. Changes come into effect from 1 April 2006.

Working and Child Tax Credits

There are a number of increases to both the Working and Child Tax Credits. There are no major changes.

The basic element of the Working Tax Credit has increased by £45 to £1,665. There are similar increases in the other elements.

The childcare part of the Working Tax Credit remains at £175 a week for one child, £300 for two or more children. However 80% of relevant costs are now to be taken into account, last year was 70%.

Child Tax Credit, the child element has been increased by £75 to £1,765. Again there are similar increases in the other elements.

The major change is the increase in the income disregard which is now £25,000, previously £2,500.

Stamp Duty

Sales of residential property, outside development areas, are now exempt from stamp duty up to £125,000, previously £120,000. All other rates remain the same.

Tobacco Duty

9p increase on a packet of 20 cigarettes, 3p increase on a packet of 5 cigars, 8p increase on a 25g pack of hand rolling tobacco.

Alcohol Duty

1p increase on a pint of beer, 4p increase on a 75cl bottle of wine.

No increase on sparkling wines, cider and spirits!

Motorists - Changes in Vehicle Excise Duty

The Chancellor has further increased the incentives to drive CO2 friendly cars by penalising the owners of "gas-guzzlers".

Vehicle excise duty for private vehicles registered from 1 March 2001 is to be a graduated charge depending on the CO2 rating of the vehicle. The new rates are set out below. (Including the new rates for vehicles registered before March 2001)

Registered before March 2001.

1549cc and below new rate of £110
above 1549cc £175, an increase of £5

Registered after 1 March 2001.

CO2 Rating: Petrol Cars: Diesel Cars

100 and below: zero charge
101 to 120: £40: £50
121 to 150: £100: £110
151 to 165: £125: £135
166 to 185: £150: £160
186 to 225: £190: £195
226 and above: £210: £215

50% of vehicles should see their VED frozen or reduced.

Capital Allowances - Increases in first year allowances

For one year from the 1 April 2006 for companies subject to corporation tax, and from the 6 April 2006 for businesses paying income tax, it is confirmed that the first-year capital allowance is to be increased to 50% (previously 40%).

The change applies to small businesses only.

Changes to the Venture Capital Schemes

- From 6 April 2006 new rate of income tax relief is 30%
- Minimum period that investors need to hold their shares is increased from 3 to 5 years

Changes to Enterprise Investment Schemes:

- The annual investment limit is doubled from the 6 April 2006 to £400,000.
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New Rules for the taxation of Leased Plant and Equipment.

Current rules:

- Lessors of plant and machinery can claim capital allowances based on the cost of the assets leased, and are taxed on the total rentals received.
- Lessees are not entitled to capital allowances and can claim a deduction from their profits for rentals paid.

New rules (where lease contract is finalised on or after 1 April 2006).

- Lessors will no longer be able to claim capital allowances and will only pay tax on the financing charges included in the rentals.
- Lessees will be able to claim capital allowance, and will claim tax relief for the proportion of their lease rentals on which capital allowances are not available.

The enabling legislation is likely to be complex. Note the new rules **should not apply** to leases of less than 5 years, (or of between 5 and 7 years in certain circumstances).

Pension Allowances.

The new pension regulations apply from the 6 April 2006.

Just to refresh your memory, the lifetime allowance is to start at £1.5m, and the annual allowance will start at £215,000 rising to £255,000 by 2010.

The anti-avoidance rules published in December 2005 are also confirmed:

- self-directed schemes will obtain no tax advantage from investing in residential property, fine wine, classic cars, art and antiques,
 - individuals will be prevented from artificially boosting their funds by recycling tax-free lump sums.
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Benefit in Kind changes

From the 6 April 2006 the tax consequences of providing certain "perks" are changing!

Mobile Phones

At present there are no limits on the number of phones provided to an employee, including additional phones for his or her immediate family.

From the 6 April 2006 only one phone, per employee will be allowed tax free.

If vouchers are provided to fund the loan of a phone to an employee this will no longer cause a tax problem. Also if the employee agrees to a salary sacrifice to cover the cost of the phone, no tax charge will apply.

Computers

The present tax exemption for the loan of a computer to an employee will cease as from the 6 April 2006.

Eye Tests - VDU users

There will be no tax charge after the 6 April however the eye test is funded:

- if employee pays for the eye test personally and is reimbursed
- if employer pays directly, or
- if employer provides vouchers to cover the cost.

In the past paying by means of vouchers has created tax problems for the employee.

Landlords - claim for draught proofing and insulating hot water systems

The Landlord's Energy Saving Allowance will be extended to include the above. The annual allowance is a deduction from rents up to a maximum £1,500 per building for landlords who pay income tax.

Expenditure includes:

- loft insulation
- cavity wall insulation
- solid wall insulation, and now
- draught proofing, and insulation of hot water systems.

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