



Hobsons : Budget Update March 2007

Tax News

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Mr Brown left his most "impressive" tax cut until the end of his Budget speech - cutting the basic rate of income tax by 2p, from 22p to 20p in the £ from April 2008. As you will see from our more detailed commentary below the 2p cut is not the complete story!

Most of the changes in allowances and tax rates for 2007-2008 are already published. However there are a number of interesting changes to report for 2008-2009.

Please be aware that this report has been produced from the Budget Notes released after Mr Brown's speech today. We will have to await the publication of the Finance Bill 2007 to examine the fine print!

Personal Tax Issues

Income Tax

From 6 April 2008 the basic rate will be reduced to 20% (previously 22%).

The starting rate of 10% will be removed for earned income and pensions, but will continue to be available for savings income and capital gains. For tax payers whose income is primarily earned or from pensions this further change will reduce some of the benefit received when the basic rate drops in April 2008.

Personal Allowances for the over 65s will be increased by £1,180 over indexation in 2008-2009.

Pre-Owned Assets Charge

An income tax charge was introduced from the 6 April 2005 on the benefit derived from the free or low-cost enjoyment of assets previously owned by an individual, or that they provided the funds to purchase.

From the 21 March 2007 an election can be made to include the asset as part of a person's estate for inheritance tax purposes - thus avoiding the pre-owned assets charge.

The legislation will also apply to elections that are made after the relevant appeal deadline.

ISAs

From the 6 April 2008 the annual subscription limits are being increased.

- Cash ISAs £3,600 per tax year.
- Stocks and shares ISAs £7,200 per tax year.

This is subject to an overall limit of £7,200 on both ISAs

Armed Forces Operational Allowance.

Legislation in the Finance Bill 2007 will exempt this allowance from a charge to tax. The effective date is the 1 April 2006.

Homes abroad owned through a company

Legislation is to be introduced in the Finance Bill 2008 that will remove any benefit in kind tax charge if you have purchased a property abroad, through a company, and have an element of personal use of the property.

Without this legislation owners who direct and control the company may get caught by the living accommodation benefit charge.

Certain conditions will need to be met to secure the exemption.

Change to filing date self assessment returns

For the year 2007-2008 and subsequent years the filing deadlines are revised.

Paper Returns must be filed by 31 October. The 2007-08 returns must be filed by 31 October 2008. (The present deadline for paper returns is 31 January following the end of the tax year).

Online Returns continue to be due by 31 January following the end of the relevant tax year. So for 2007-08 returns must be filed by 31 January 2009.

Business Tax Issues

Corporation Tax

The current main corporation rate of 30% will remain unchanged until 1 April 2008 when it will be reduced to 28%.

The small companies rate will increase as follows:

- In 2007-2008 - increase from 19% to 20%
- In 2008-2009 - increase from 20% to 21%
- In 2009-2010 - increase from 21% to 22%

Research & Development tax relief

Support for SME companies with fewer than 500 employees will be introduced in the Finance Bill 2007 - the operative date is yet to be announced.

From 2008-2009, and subject to State Aid approval, the enhanced deduction available to SMEs in respect of qualifying expenditure will rise from 150% to 175%.

Increased rate of Capital Allowances for small businesses.

The temporary 50% first-year capital allowance will be extended for a further year. For the self-employed until 5 April 2008, for companies paying corporation tax until 31 March 2008.

The rate of first year allowance for medium sized businesses remains unchanged at 40%.

Reform of Capital Allowance system proposed for 2008-2009

From April 2008 it is proposed to abandon the present system of FYAs (first year allowances) in favour of an Annual Investment Allowance. The scope of the allowance is subject to consultation but will be applied to the first £50,000 of expenditure on plant and machinery.

Changes in writing down allowance

From April 2008 the annual writing down allowance on "pooled" plant and machinery will be reduced from 25% to 20%.

From the same date the 6% rate of writing down allowance on long-life assets will be increased to 10%.

Industrial Building Allowance(IBAs)/Agricultural Buildings Allowance(ABAs)

As part of a major reform of business tax it is proposed to phase out both IBAs and ABAs over the next 4 years.

To prepare the way balancing adjustments and recalculation of writing down allowances will be withdrawn for all transactions on or after 21 March 2007.

Business Premises Renovation Allowance

The long awaited commencement date for this tax allowance has now been published - it will be applied to qualifying expenditure incurred on or after the 11 April 2007.

The allowance will provide a 100% write off for capital expenditure on the renovation or conversion of business property in disadvantaged areas. The allowance will only be given if the building has been vacant for at least one year.

Employee Benefit Trusts

Measures are to be introduced that will limit the amount an employer can deduct for tax purposes to the amount that is actually paid or transferred to the employee within 9 months of the end of the relevant accounting period. The payment must be made in a form that gives rise to an income tax and National Insurance contribution charge.

Green Issues

Stamp Duty Land Tax(SDLT) - New zero carbon homes

Buyers of new zero carbon homes on or after the 1 October 2007 will be exempt from SDLT if the following provisions apply:

- The building passes the certification process to qualify as a zero carbon dwelling. Note that qualifying homes cannot be connected to the gas main!
- There will be no SDLT to pay on homes up to a purchase price of £500,000. Where the purchase price exceeds this amount the total SDLT liability will be reduced by £15,000.

- The relief will be available for 5 years and will therefore finish on the 30 September 2012.
- The relief is only available on the first sale of a new home - sales of existing homes, or the second or subsequent sales of new homes will not qualify.

Landfill Tax

Landfill Tax is to be increased:

- From 1 April 2007 - the standard rate will increase from £21 to £24 per tonne.
- From 1 April 2008 - the standard rate will increase from £24 to £32 per tonne.
- There will also be an increase in the lower rate from £2 to £2.50 per tonne.

Landlords energy saving allowance.

From the 6 April 2007 floor insulation will be included in this allowance together with loft insulation, cavity and solid wall insulation, hot water system insulation and draught proofing.

A deduction will be allowed of up to £1,500 per property rather than for each building. The allowance will continue until 2015.

Microgeneration

If a householder installs microgeneration equipment at home with the primary intention of providing electricity for their own use, then any financial reward received for the sale of any surplus power generated is to be exempt from income or capital gains tax.

VAT and Other Duty

VAT Issues

The registration and deregistration limits have been increased, effective date 1 April 2007. The new amounts are:

Registration limit £64,000

Deregistration limit £62,000

The general principles to be applied remain unchanged.

Fuel Scale Charges

VAT fuel scale charges will be based on CO2 emissions for accounting periods beginning on or after 1 May 2007.

Reduced VAT for supply of smoking cessation products.

Nicotine patches and similar smoking cessation products will be subject to a reduced rate of 5% VAT. The effective date is expected to be 1 July 2007.

Alcohol duty rates

Increases from 21 March 2007 are:

Beer - 1p per pint
Wine - 5p per 75cl bottle
Still Cider - 1p per litre
Sparkling Cider - 5p per 75cl bottle
Spirits - No increase
Sparkling Wine - 7p per 75cl bottle

Tobacco products duty

New rates of duty from 21 March 2007 are:

Cigarettes - an amount equal to 22% of the retail price plus £108.65 per thousand cigarettes. Typically an increase of 11p on a packet of 20.

Cigars - £158.24 per kilogram. Increase of 4p on a packet of 5.

Hand rolling tobacco - £113.74 per kilogram. Increase of 11p per 25g pack.

Other smoking tobacco and chewing tobacco - £69.57 per kilogram. Increase of 7p per 25g of pipe tobacco.

DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email 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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