



Budget Newsletter 2008

In his first Budget speech the new chancellor Alistair Darling promised stability, fairness and opportunity. He said that he was "equipping Britain for times ahead" which in the light of economic difficulties in the rest of the world was probably intended to alleviate concerns about the future of our own economy. Growth forecasts have been reduced for 2008 and 2009 but with optimistic defiance, there is no change for 2010.

In reality, as David Cameron pointed out with great enthusiasm, Mr Darling actually had very little room to manoeuvre and anyone who was hoping for tax cuts or major new announcements was to be sadly disappointed. The only tax changes of great significance to many people had already been mentioned in the Pre-Budget Report but the final versions of the new Capital Gains tax rules have been confirmed, as we will explain in more detail.

We will all be paying for our plastic bags in the future and those who buy cars with low emission levels will benefit from further reductions in Vehicle Excise Duty.

The "gas guzzling" driver will be less happy as will drinkers and smokers, but a cheer will have gone up from charities who will still be able to benefit from reclaiming 22% tax on your Gift Aid donations.

For those awaiting details of the anti-avoidance legislation on income splitting, (whereby a person's income is effectively allocated to their spouse who pays a lower rate of tax) the good news is that there is to be further consultation and no legislation is expected just yet.

Despite a less than dazzling Budget speech, there will be issues of interest to most people, so please contact us for further information on the articles in this newsletter or any other taxation issues that concern you.



Residence In The UK

If you are claiming to be non-resident for UK tax purposes, for example because your employer has sent you abroad to work, you will need to keep a record of how many days you spend in the UK to make sure that you do not visit too long or too often and thereby lose your non-resident status. In the past you could leave out the days when you arrived in the UK and days when you departed as these were considered to be just travelling days.

From 6 April 2008 you will have to count any days when you were present in the UK at midnight. The exception to this will be people who are in transit between two other countries and are only here to change planes or even their mode of transport. Be aware though, that if you do anything other than pass through, such as attend a business meeting, you will not qualify for this exemption.

Non-Domiciles

The new rules for taxation of non-domiciled individuals will affect wealthy foreign (including Irish) individuals but they could be significant to some less well off people too.

If you are non-domiciled for UK Tax purposes you will almost certainly know about it so we have not included an explanation of the term here. Please contact us if you want to know more.

The suggestion was that non-domiciled people should now choose between being treated as if they were domiciled here and paying tax on all their income regardless of where they keep it, or paying an annual levy of £30,000. For the very wealthy the £30,000 levy may be worthwhile, but for the less well off individual it will be out of the question to elect for that treatment.

The new rules are as follows. The rules will take effect from 6 April 2008 and will not concern those whose unremitted income and gains are less than £2,000.

Those who continue to claim remittance basis (not paying tax on the foreign income and gains left overseas) will not be able to claim their UK personal tax allowances or their capital gains tax annual exemption. The choice to have the remittance basis applied to your foreign income and gains can be made on an annual basis so you can choose whether or not it will be beneficial in a particular year.



Non-Domiciles / Continued

The £30,000 annual charge will apply to those who choose to use the remittance basis and who have been UK resident for more than seven out of the last ten years. This is in addition to UK tax they may have to pay on foreign income and gains brought into the UK. The charge will only apply to adults, not to children under 18.

If the £30,000 is paid to the Revenue from an overseas bank account it will not in itself be treated as a remittance unless it is subsequently repaid to you.

There are further new rules on what is treated as a remittance so please contact us if you think you could be affected by the new Non-Domicile legislation.

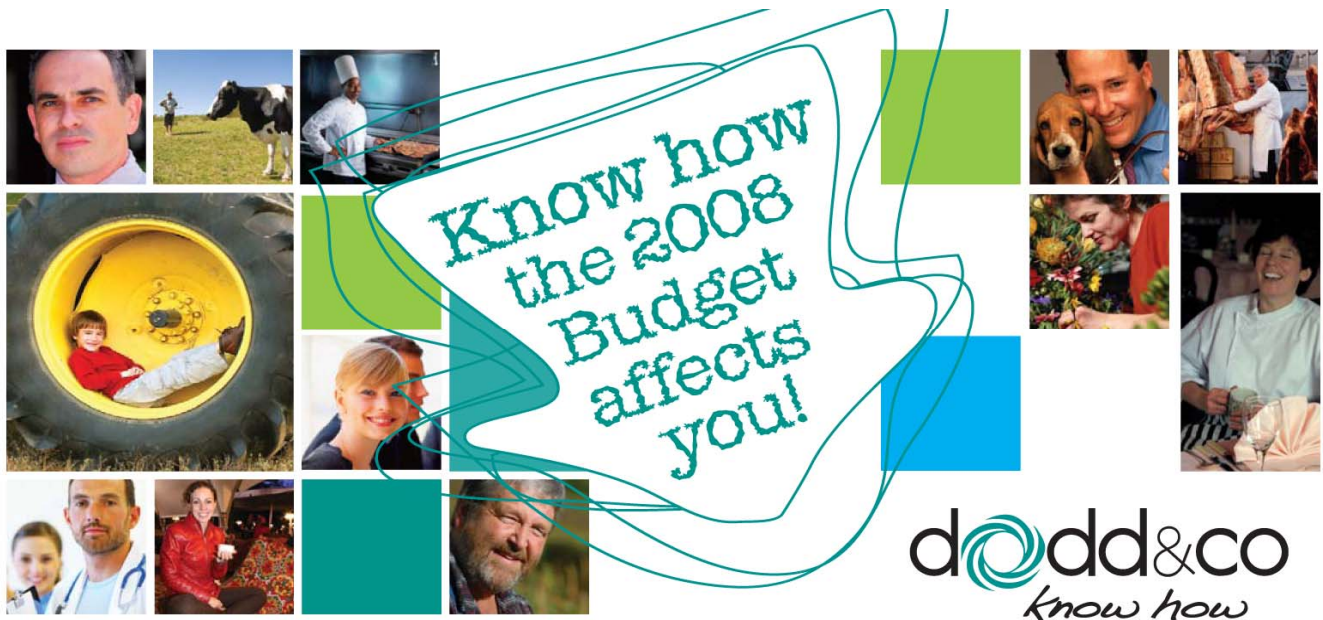
Venture Capital Schemes

The amount on which an investor can claim Enterprise Investment Scheme (EIS) tax relief in any one tax year is to be increased from £400,000 to £500,000.

This will be effective for qualifying shares issued on or after 6 April 2008.

Income tax relief is limited to the lower of 20% of the gross investment or the income tax liability for the tax year.

For example, an individual who invests £250,000 into an EIS could potentially obtain tax relief of £50,000, but if their tax liability is only £10,000, the relief is limited to £10,000.



The Government Is Being Charitable!

The reduction in the basic rate of income tax from 22% to 20% from 6 April 2008 may be good news for some people. However for charities receiving donations under Gift Aid, this would have meant a reduction in the amount of tax they could reclaim from 28p for every £1 donated down to 25p.

The Budget has introduced transitional measures so that the charity will continue to obtain the tax refund on the same basis as if the tax rate is 22%. This will apply for the tax years 2008/09 to 2010/11.

As far as the taxpayer is concerned, the donation will be made net of 20% income tax.

VAT

This year's Budget sees the usual increase in the registration limit for VAT to £67,000 (from £64,000 in 2007), together with an increase in the limit for de-registration to £65,000 (previously £62,000). Both are effective from 1 April 2008.

There are also changes to the fuel scale charges for VAT periods beginning on or after 1 May 2008, with all rates increasing. However, in line with the government's "green targets" the CO₂ bands have been extended down to 120g/km (compared to 140g/km in previous years) and the upper limit is now only 235g/km (instead of 240g/km last year)

In January 2008, HMRC lost a case in the House of Lords regarding the introduction in May 1997 of the three year cap on claims for overpayments of VAT. The Budget now provides a short transitional period which runs until 31 March 2009, during which time any business which was registered for VAT between 1 April 1973 and 1 May 1997 can make a claim for overpaid VAT which accrued before the introduction of the three year cap. HMRC will also have new powers during this period to allow the raising of assessments where claims are made during this transitional period which are later found to have been incorrectly claimed by a business.

The Budget has also seen the increase to the limit below which errors discovered on previous VAT returns can be corrected on a later return. The new limit will be the greater of £10,000 or 1% of net VAT turnover (the figure in Box 6 on the VAT return), subject however, to an upper limit of £50,000. This limit will be effective for accounting periods beginning on or after 1 July 2008.

There will also be minor changes to simplify the option to tax land & buildings legislation and also to enable taxpayers to revoke an option after 20 years. The earliest date an option can be revoked is 1 August 2009, but the legislation will be effective from 1 June 2008. The changes are also aimed to improve the practical administration of the scheme.

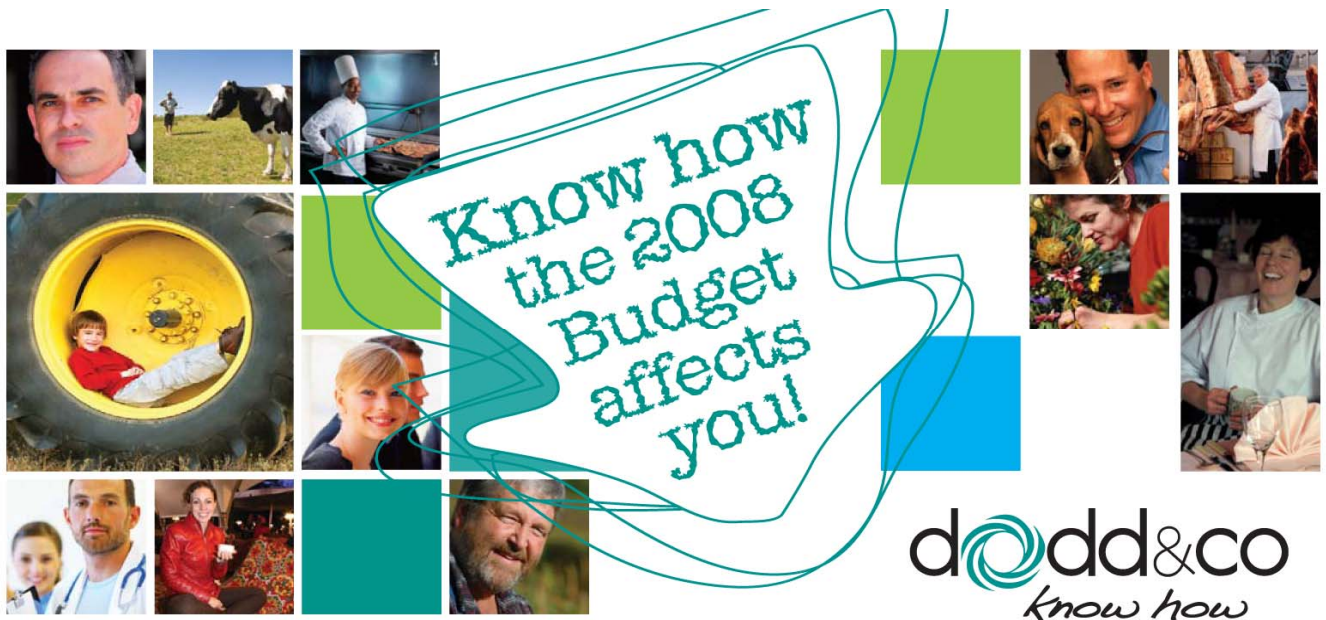


Stamp Duty

The government has been trying to reduce the administrative burden in all areas of tax and stamp duty is no exception. This year's Budget sees the removal of the requirement to present the transfer forms for stocks and shares, which are currently chargeable with the minimum stamp duty of £5. This means that those transfers where the consideration is £1,000 or less will now be treated as exempt and will no longer be required to be presented for stamping.

The notification threshold for land transactions has also been increased and now HMRC need only be notified of the transaction where the chargeable consideration exceeds £40,000 (previously all transactions in excess of £1,000 had to be notified unless specifically exempt) This higher threshold also applies to leases in excess of seven years where the chargeable consideration (other than rent) is more than £40,000 or the annual rent is more than £1,000 per annum. The changes also remove the need to provide a stamp duty land tax (SDLT) return or certificate that no stamp duty land tax is due where the transaction is below this higher threshold.

In keeping with the government's "green targets," Alistair Darling announced that there will be an extension to the relief for new-zero carbon homes which will now also cover flats. This is a retrospective relief that is effective from 1 October 2007 and it will run until 30 September 2012. The relief will completely remove the charge to SDLT for all new zero-carbon flats with a purchase price of up to £500,000. For flats in excess of this amount, there will be a reduction in the SDLT liability of £15,000.



Capital Allowances Reform

The 2008 Budget continued the shake up of capital allowances that was initially announced in the 2007 Budget.

Capital allowances allow businesses to write off the costs of capital assets, such as plant and machinery, against their taxable income. The same rules apply to both companies and non-incorporated businesses.

The major effect of the reform package is to introduce a new annual investment allowance (AIA) for the first £50,000 of a business's expenditure on qualifying plant and machinery each year, upon which 100% tax relief will be available.

The following changes will take effect for expenditure incurred on or after 1 April 2008 for companies and 6 April 2008 for unincorporated businesses.

Where businesses spend more than £50,000 in any chargeable period, any tax relief on the additional expenditure will be calculated using the new capital allowances rates. The additional expenditure over the £50,000 will enter either a new special rate pool or the existing main general pool, where capital allowances will be due at the appropriate rate.

These two new capital allowances pools comprise the old general pool whereby annual writing down allowances (WDA) will be available at a 20% reducing balance rate. This pool will continue to apply for general plant and machinery but the rate has reduced from 25% to 20% per annum with effect from this April. However, there will also be a new "special rate" pool, which will result in a 10% WDA for certain plant and machinery on integral features of a building, and thermal insulation. Assets attracting the new 10% rate are as follows:

- 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
- Active facades
- Thermal insulation added to existing industrial buildings

The new 10% rate will apply to both initial and replacement expenditure on assets listed above.



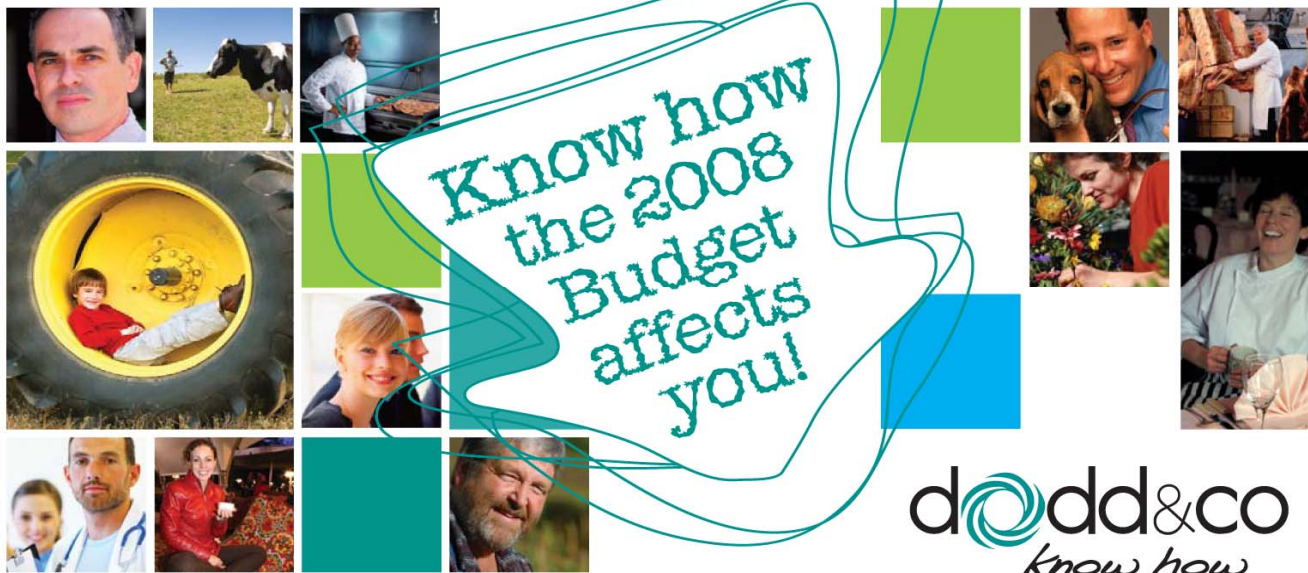
Capital Allowances Reform / Continued

As a result of these changes, there will be a hybrid rate for businesses whose accounting period spans 1 April for corporation tax or 6 April for income tax. The capital allowances rates will be time apportioned for the period falling before the change date and the period falling after the change date. Consider a limited company with an accounting year-end of 31 December 2008. The calculation of the hybrid rate on the general pool for WDAs would be:

91 days/366 days x 25% =	6.22%
275 days/366 days x 20% =	<u>15.03%</u>
Hybrid rate for year ended 31 December 2008 =	21.25%

Further changes announced are as follows:

- Businesses can claim a WDA of up to £1,000 where the unrelieved expenditure on the main pool or the new special pool is £1,000 or less. This will remove a significant administrative burden for small businesses where they may have a small pool value on assets bought in the past. It is not compulsory to claim the full £1,000 and businesses can claim less than the whole residue if they prefer.
- Industrial Buildings Allowances (IBAs) and Agricultural Buildings Allowances (ABAs) will continue to be phased out until April 2011 when they will be withdrawn altogether. Allowances will be due at a rate of 3% for 2008/09, with a 1% reduction taking place each year until they are completely withdrawn.
- The 100% first year allowance for expenditure on cars with CO₂ emissions not exceeding 120g/km was due to expire on 31 March 2008 but this has been extended for an additional five years until 31 March 2013.



Inheritance Tax

The inheritance tax threshold will be £312,000 from 6 April 2008 and will be £350,000 from 6 April 2009. The value of estates above this nil rate band will be taxed at 40%.

Where someone dies after 8 October 2008 and their spouse or civil partner died before them, then the unused proportion of the nil rate band of the first spouse to die can be used by the estate of the second spouse.

For example, if someone died in 2005 and left all of their estate to their spouse, and so did not use any of their nil rate band, then when the second spouse dies they will have the benefit of 2 times the amount of the nil rate band at the time of their death.

If someone died in 2004/05 and left £100,000 to their children, which would be chargeable, and the balance to their spouse, then they would have used 100/263 of the nil rate band. If the second spouse died in 2009/10 when the nil rate band is £325,000, then they will have available that proportion, that is £201,425, in addition to their own nil rate band, a total of £526,425.

If the £100,000 given to the children was not cash, but an asset such as land, the value of £100,000 would not be agreed with HMRC until the death of the second spouse. If at that time HMRC determined that the land was really worth £110,000, then only that fraction would be available on the second death.

If the children had sold the land after receiving it but before the second spouse died, the children would have had a capital gains tax liability and it would initially have been based on a base cost of £100,000. That £100,000 should be revised to the new agreed figure once the IHT value is determined. However, in this 2008 budget HMRC are to introduce legislation that will leave the original figure to stand as the CGT base cost.

Trusts

The 2006 Finance Act introduced comprehensive changes to the taxation of trusts. There was a 2 year period to 5 April 2008 to enable trustees to make changes to existing trusts and these changes had to be carried out before 6 April 2008 to have effect. The professional bodies have expressed uncertainty at a particular change, and the problems were only appreciated at the turn of this year. HMRC have now clarified the tax treatment and extended the period of transition to 5 October 2008.

It is now clear that if a trust with an interest in possession was in existence at 22 March 2006, and the life interest is terminated and a new life interest is granted to the same beneficiary, then this will be treated as a transitional serial interest and the new tax rules will not apply to this new interest. Once this TSI comes to an end then the new rules will apply.



Overseas Dividends Received By UK Residents (Overseas Dividends)

It will be possible for a UK resident shareholder of an overseas company, who receives foreign dividends in the UK, to be treated as though he has a notional UK 10% tax credit, just as with a UK dividend. This will only apply where the shareholding is less than 10%.

Many UK individuals now have overseas shareholdings, as UK companies are taken over. Shareholdings in Banco Santander (who took over Abbey National) are very common. This will ease administration and maintain fairness, when the amounts are small.

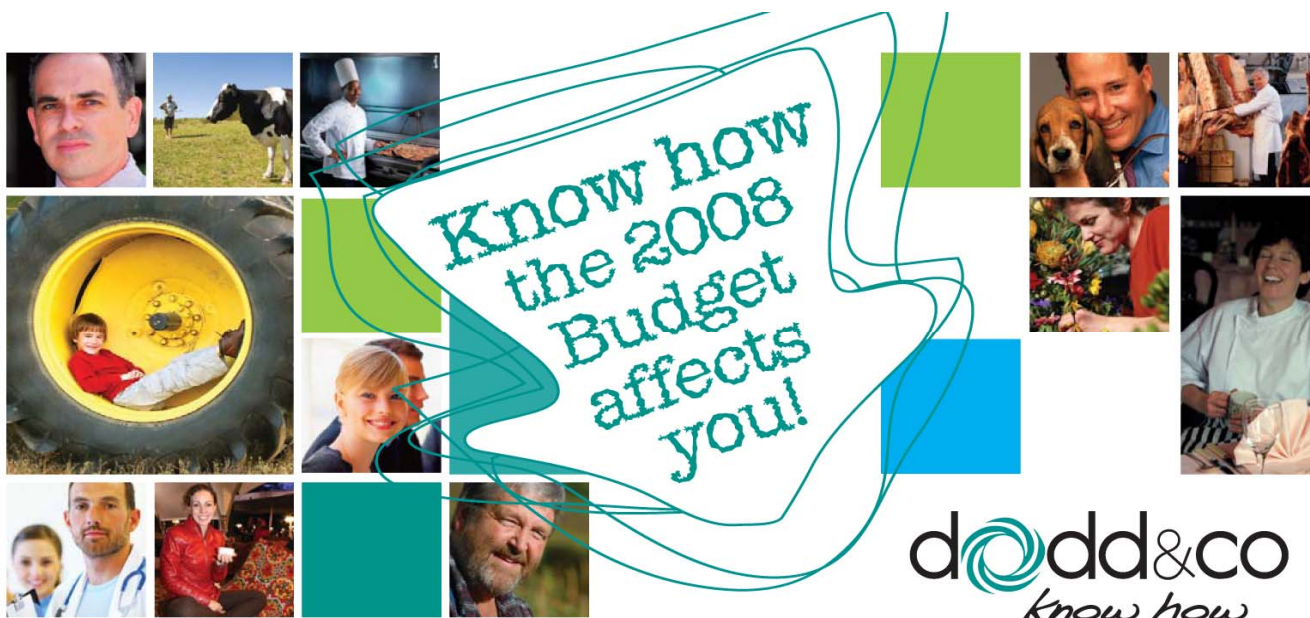
Capital Gains Tax - Basic Changes (CGT)

In the Pre Budget Report in October 2007, major changes to CGT were proposed, and roundly criticised. There have been adjustments to those proposals and an "entrepreneur's relief" has also been added in, to soften some of the effect. From 6 April 2008 capital gains tax will now work as follows:-

- There will no longer be any indexation allowance. This was an allowance for inflation from March 1982 to April 1998. This was worth 104.7% of the March 1982 value where an asset had been held throughout that time. This effectively doubled the base cost in any CGT calculation and it will now be gone.
- There will be no taper relief. Taper relief was introduced in March 1998 and there were 2 rates. If the asset being disposed of was a business asset, then the maximum rate was 75%, reducing the gain to a ¼ of what it would have been. For a 40% taxpayer this effectively reduced the tax rate from 40% to 10%. For non-business assets, the maximum relief was at 40%, reducing the rate of tax for a 40% taxpayer down to 24%.
- All gains will simply be taxed by deducting cost from sale proceeds and taxing the gain at 18%. This is a lower rate than was paid on non-business assets but higher than on business assets, for higher rate taxpayers. Basic rate taxpayers are effectively worse off.
- There is still an annual allowance so that any gains within the annual allowance will not suffer any tax. The annual allowance for 2008/09 will be £9,600.

"Entrepreneur's relief" will give relief in limited cases. For gains during an individual's lifetime up to £1m on business assets, the tax rate will be reduced to 10%, putting us back to where we were with Business Asset Taper. But the conditions are stricter.

The relief will apply to disposals of an interest in a business (sole trader or partnership) or shares in a personal trading company.



Capital Gains Tax - Basic Changes (CGT) / Continued

A personal trading company is where the individual owns 5% or more of the shares and is an officer or employee of the company. Shareholdings within family companies should be reviewed and individuals made employees or directors if appropriate.

There is a one year qualifying period. Sales of an asset used in a business do not qualify unless it is sold within 3 years of the disposal of the business or shares. This will be a problem for any business selling land or buildings no longer needed, but continuing in business. Rollover relief will become more useful once again, if the sale proceeds are reinvested in another business asset.

Corporation Tax

The previously announced changes to the rates of corporation are to be introduced from 1 April 2008.

Hence, the main rate of corporation tax is to be reduced from 30% to 28%, whilst the small companies rate is to be increased from 20% to 21% (and will increase further to 22% from 1 April 2009).

These changes will disappoint the business community. Earlier this month, the CBI produced a detailed review of the UK corporation tax system and concluded that the UK has now fallen behind most of its main competitor countries. The CBI is calling for the UK rate of corporation tax to be reduced to 18% for all companies, with this applying to small companies within 3 years and for large companies within 8 years. It will be interesting to see whether the government has something more attractive to offer to businesses in the run up to the next general election, particularly with the Conservatives announcing that they will reduce the main rate of corporation tax to 25% if they are elected.

On a more positive note, there was very good news for family businesses as the Chancellor has decided to delay the introduction of the proposed new "income shifting" rules until 6 April 2009 (see the separate section on our website for more details). This will mean that income can continue to be withdrawn from companies in a tax efficient manner for at least another year, providing of course that the shareholding is structured correctly from a tax planning perspective.

There was also a welcome change announced in relation to the "associated company" rules. In general terms, partners in a partnership will no longer be penalised if individual partners control companies that are totally independent of one another. The companies will now be eligible for the full £300,000 small companies rate tax band.

There was the usual amount of anti-avoidance legislation to counter aggressive tax planning arrangements, such as offshore companies and leasing transactions.



Employee Share Schemes

There were no major changes to the various HMRC tax approved share schemes.

There was a welcome change to the popular EMI (Enterprise Management Incentives) scheme as the individual employee limit on grants of options has been increased from £100,000 to £120,000.

One disappointment is that the new general capital gains tax rules will now prevent employees who have shareholdings of less than 5% from qualifying for the new 10% tax rate (via entrepreneur's relief). However, many employee share scheme members will be able to ensure that their capital gains fall within their annual exemptions (and therefore not pay any tax), so this downside is likely to be quite limited in practice.

Income Shifting (The proposed new tax on husband and wife businesses)

Last year the government announced that they would introduce new rules on 6 April 2008 that would effectively overturn the House of Lords decision in the "Arctic Systems" case.

These new "income shifting" rules are to prevent the relatively common tax planning arrangement of non-working spouses receiving dividends from their spouse's company, so as to minimise the payment of higher rate tax. Such arrangements can typically save a couple up to £9,000 per annum in tax.

The Chancellor did not mention these new rules in his speech, but buried in the small print of the press releases is an announcement that he has decided to delay the introduction of the new rules until 6 April 2009.

Naturally this is good news for the large number of husband and wife businesses that are likely to fall within the proposed new rules. The press release infers that the government will consult further with the business and professional sectors to ensure that the new rules will be carefully drafted to ensure that they provide certainty and clarity for taxpayers. This is a sensible move as almost everyone agrees that the draft rules in their present form are almost unworkable and would have presented a large administrative burden on small businesses.

With a general election looming in the next year or two, it will be interesting to see whether the government will ultimately go-ahead with these new rules next year, given that the rules will be very unpopular with a large number of small businesses (whose owners are also voters!).



Rates And Allowances For 2008/09

The tax free personal allowance for 2008/09 has been increased by £210 to £5,435. The allowance for those aged between 65 and 74 has increased to £9,030 (up by £1,480) and for those aged over 75 it has increased to £9,180 (up by £1,490).

The first £36,000 over these amounts will be taxed at 20% with income above this level being taxed at 40%. Please see our tax tables for further details.

Company Car – Go Green

Benefit in Kind

The Revenue has continued with their approach to tax company cars based on the vehicles CO₂ emissions and the vehicle's list price.

A new special 10% rate will be applied on vehicles with CO₂ emissions of 120 g/km or less from April 2008. This will increase to 13% for most diesels.

The historical benefit in kind percentages, which range from 15% to 35% (with a 3% supplement for most diesel cars – capped at 35%), will increase by 1% due to the government reducing the starting CO₂ rate for the 15% band to 135 g/km. A decrease of 5 g/km.

The government have confirmed that this base rate will apply through to April 2010, when the base rate will decrease again by 5 g/km to 130 g/km.

For a list of vehicles with CO₂ emissions of less than 120 g/km, click the link below.

<http://www.vcacarfueldata.org.uk/information/how-to-use-the-data-tables.asp> - petrol



Capital Allowances

From April 2009 capital allowances available on cars will be reformed and follow suit with the CO₂ emissions concept that the Chancellor has adopted on other taxes.

Vehicles with CO₂ emissions greater than 160 g/km will qualify for a 10% writing down allowance and a 20% writing down allowance available for those with CO₂ emissions equal to or less than 160 g/km.

Businesses will receive more tax relief on leased cars if they have CO₂ emissions of equal to or less than 160 g/km. This appears to be the removal of the restriction based on the vehicles list price. Vehicles with CO₂ emissions of greater than 160 g/km will have a fixed percentage disallowance of 15%.

100% First Year Allowances have been extended for clean cars to 31 March 2013, however the threshold has been reduced to 110 g/km.

Vehicle Excise Duty (VED)

The VED structure will be reformed from April 2009, such that individuals will be rewarded for purchasing "greener" cars. In addition, from April 2010 there will be the introduction of new special rates of VED for cars in their first year.

The key points are:

- From April 2009, cars with CO₂ emissions of less than 150 g/km will pay less VED than they do now, with cars above this level paying more, and the most polluting cars (CO₂ of 255 g/km) will pay VED of £425;
- From April 2010, special rates of VED will apply for new cars in their first year. Cars with CO₂ of 130 g/km or less will be exempt from VED, with cars above this level paying an enhanced VED charge. The most polluting cars (CO₂ emissions greater than 255 g/km) will have a first year VED charge of £950 (which is very high when compared to the current maximum rate of £400).

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