

# the future

ACCOUNTING AND TAX UPDATES

March 2007

Budget edition

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# BUDGET SUMMARY 2007

## OVERVIEW

This may have been the Chancellor last budget but the biggest news headline was the significant income and corporation tax changes.

The main focus was on business with the headline cuts in the main corporation tax rate for medium and large companies to 28% from April 2008. Although this is offset by the change in the capital allowances system to a standard 20% plant & machinery allowance, phasing out of the industrial buildings allowance, but with an improved 10% long life asset rate. It was not good news for small limited companies with the increase in small companies corporation tax rate in stages to 22% (to parallel the existing basic income tax rate reducing the self-employed/incorporated differential), balanced by an increase in R&D allowance and the new £50,000 'investment allowance'. Overall, the package is revenue neutral.

The changes to income tax were significant as well, with the abolition of the 10% tax rate for non-savings income and a considerable increase of the starting level for the 40% tax rate. But that was capped by the dramatic announcement at the end of the speech, cutting the basic rate from 22% to 20% from 6<sup>th</sup> April 2008.

The elderly also receive a significant increase in the personal allowance for the 65+ from 2008. This will be paid for by the abolition of the 10% rate - raising £7bn - and the alignment of national insurance contributions (NICs) at the higher rate income tax threshold - implying that for middle/higher incomes there will be 11% NICs rather than 1% on a significant extra tranche on income, though this is to be phased in.

The green issue in the Budget was significantly the increases to vehicle excise duty at the top end and the prospect of lobbying Europe to cut the VAT rate on environmentally-friendly household purchases from 17.5% to the 5% lower rate.

The capital gains tax allowance rises to £9,200 as expected; the inheritance tax threshold increases more quickly, to £350,000 in 2010. Cash ISA amounts go up to £3,600 next year. However, child benefit and working tax credits are to be boosted.

The 'sin tax' increases were inflationary, with 11p on cigarettes, 7p on sparkling wine, 5p on wine, 1p on a pint of beer (and, this year, cider) but the usual freezing of duty on spirits. Duty on petrol and diesel is due to increase by 2p a litre, but not until October this year.

## SUMMARY

- Basic rate of income tax cut from 22% to 20% from 6<sup>th</sup> April 2008
- Removal of the 10% starting rate band of income tax on earned income and pensions from 6<sup>th</sup> April 2008
- Alignment of higher rate income tax threshold and National insurance upper earnings limit at £43,000 from 6<sup>th</sup> April 2009
- Small companies' (profits up to £300,000) corporation tax rate increased from 19% to 20% from 1<sup>st</sup> April 2007, 21% from 1<sup>st</sup> April 2008 and 22% from 1<sup>st</sup> April 2009
- Main rate of corporation tax (profits over £300,000) reduced from 30% to 28% from 1<sup>st</sup> April 2008
- Reduction in plant and machinery capital allowance from 25% to 20% per annum from 1<sup>st</sup> April 2008 and a proposed new annual investment allowance for the first £50,000 of expenditure on plant and machinery from 1<sup>st</sup> April 2008
- New legislation on Managed Service Companies (i.e. umbrella companies) to be effective from 6<sup>th</sup> April 2007 to impose PAYE and further on National insurance charges on individuals earnings
- Capital gains tax annual exemption to rise from £8,800 to £9,200
- Inheritance tax threshold increased to £300,000 increasing to £350,000 in 2010/11
- Pensioners tax free allowance increased to £7,280 for 2007/08 increasing to £9,770 in 2011/12 for under 75s, and £7,420 in 2007/08 to £10,000 in 2011/12 for over 75s
- Road tax high pollution vehicles increased to £300 and £400 from April 2007
- Beer duty up to 1p per pint, cider up 1p per litre, wine up to 5p a bottle, sparkling wine up 7p and spirits frozen
- Increase in duty of 11p for a packet of cigarettes, but Vat on nicotine replacement products cut from 17.5% to 5%

## Personal matters

### Personal taxation

The Chancellor announced increases in the basic and age related tax allowances from 6th April 2007, as follows:

#### Income Tax Allowances table

Income tax allowances	2006-07 (£)	2007-08 (£)
Personal allowance (reduces taxable income)	£5,035.00	£5,225.00
Personal allowance for people aged 65-74 (1)	£7,280.00	£7,550.00
Personal allowance for people aged 75 and over (1)	£7,420.00	£7,690.00
Married couple's allowance (born before 6th April 1935 but aged under 75) (1) (2)	£6,065.00	£6,285.00
Married couple's allowance - aged 75 and over (1) (2)	£6,135.00	£6,365.00
Income limit for age-related allowances	£20,100.00	£20,900.00
Minimum amount of married couple's allowance	£2,350.00	£2,440.00
Blind person's allowance	£1,660.00	£1,730.00

(1) - These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic Personal allowance or minimum amount of Married Couple's allowance.

(2) - Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

#### Taxable Bands

Taxable Bands Allowances	2006-07 (£)	2007-08 (£)
Starting rate 10%	0 - 2,150	0 - 2,230
Basic rate 22%	2,151 - 33,300	2,231 - 34,600
Higher rate 40%	over 33,300	over 34,600

#### Important note:

From 6<sup>th</sup> April 2008 the basic rate will be cut from 22% to 20% and the starting rate band of 10% will be removed for earned income although not for savings income or capital gains.

## National insurance

The rates of most classes of contributions remain unchanged, although there were changes in the thresholds.

The lower earnings limit for primary Class 1 Contributions will rise from £84 to £87. The upper earnings limit will rise from £645 to £670.

The Class 2 flat rate national insurance rate rose from £2.10 to £2.20 per week for self employed individuals and the Class 3 voluntary rate rose from £7.55 to £7.80 per week.

All changes are effective from 6 April 2007.

<b>Class 1 - employed (not contracted out)</b>	<b>Employer</b>	<b>Employee</b>
Payable on weekly earnings of £100.01 - £670	12.80%	11%
Over £670	12.80%	1%
Men aged 65 and over, and women aged 60 and over	as above	Nil
<b>Class 2 - flat rate, self employed</b>		
	£2.20 per week	
Excepted if earnings less than	£4,635 per annum	
<b>Class 3 - voluntary</b>		
	£7.80 per week	
<b>Class 4 - self employed, on profits</b>		
£5,225 - £34,840		8%
Excess over £34,840		1%
(exempt if state retirement age is reached by 6 April 2007)		

## Capital gains tax and Inheritance tax

### Capital gains tax

Annual exempt amount	2006-07 (£)	2007-08 (£)
Individuals	8,800	9,200
Trusts generally	4,400	4,600

Rates of Tax	2006-07 (%)	2007-08 (%)
Individuals (taxed in line with interest)	10/20/40%	10/20/40%
Companies (corporation tax rates)	19/30%	20/30%
Trusts and personal representatives	40%	40%

N.B. Gains on the disposal of an individual's principle private residence is still exempt.

### Taper relief

Years of ownership	1	2	3	4	5	6	7	8	9	10
Business Asset (%) relief	50	75	75	75	75	75	75	75	75	75
Non-Business Asset (%) relief	0	0	5	10	15	20	25	30	35	40

## Inheritance tax

Rates	2006-07 (£)	2007-08 (£)
0%	Up to £285,000	Up to £300,000
40% (death rate)	Over £285,000	Over £300,000
20% (lifetime rate)	Over £285,000	Over £300,000

The threshold will be £312,000 for 2008/09, £325,000 for 2009/10 and £350,000 in 2010/11.

### Main Exemptions

	2006-07 (£)	2007-08 (£)
Gifts to UK domiciled spouse	Unlimited	Unlimited
Annual gifts	£3,000	£3,000
Small gifts to different individuals	£250	£250
Gifts on marriage - by parent	£5,000	£5,000
Gifts on marriage - by remote ancestor	£2,500	£2,500
Gifts on marriage - by other person	£1,000	£1,000

## Minimum wage

An employer must pay their workers a minimum amount as defined by law. This is called the National Minimum wage.

There are three levels of minimum wage, and the rates from 1st October 2006 were:

- £5.35 per hour for workers aged 22 years and older
- A development rate of £4.45 per hour for
  - workers aged 18 - 21 years inclusive
  - workers aged 22 years and above, starting a new job with a new employer and doing accredited training\*
- 3.30 per hour which applies to all workers under the age of 18 who are no longer of compulsory school age\*\*.

\*Accredited training is a course approved by the UK Government to obtain a vocational qualification.

\*\*Compulsory School age

The national minimum wage is to rise by 17p - about 3% - from £5.35 to £5.52 an hour from October 2007.

The rate for workers aged 18-21 will rise by 15p to £4.60 an hour, while workers aged 16 and 17 will get a 10p rise to £3.40 an hour.

## Individual Savings Accounts (ISA's)

Tax-free savings limit for ISA contributions will be increased to £7,200 from next April, of which £3,600 can be held in cash.

	Up to 5th April 2008	On or after 5th April 2008
Maximum annual subscriptions		
Mini cash ISA	£3,000	£3,600
Stocks and shares mini ISA	£4,000	£7,200
Maximum overall limit	£7,000	£7,200

## Pensions

Pension tax relief could be claimed on term assurance policies, as long as the policy ended before the 75<sup>th</sup> birthday of the life assured. Tax relief will no longer be available on pension contributions that are used to pay premiums for personal term assurance policies. For contributions under occupational registered pension schemes this will have effect for all contributions after 1<sup>st</sup> August 2007 unless an application for the policy was received before 29<sup>th</sup> March 2007, and the policy was taken out as part of a pension scheme before 1 August 2007. For other registered schemes it will take effect for all contributions made after 6<sup>th</sup> April 2007 unless the application was made before 14<sup>th</sup> December 2006, and the policy was taken out as part of a pension scheme before 6<sup>th</sup> April 2007.

## Filing deadlines

The deadlines for filing tax returns will change for the 2007/08 tax year onwards as follows;

- Paper returns will need to be filed by 31<sup>st</sup> October (i.e. 31<sup>st</sup> October 2008 for 2007/08)
- Electronic filing (on-line) will remain 31<sup>st</sup> January
- Taxpayers whom require HM Revenue & Customs to calculate their tax will have until 31<sup>st</sup> October in which to file their return

Currently HM Revenue & Customs have from the first anniversary of the filing deadline to open an enquiry into a tax return, this will now be amended for 2007/08 when the enquiry window will be for twelve months from the date the return is filed.

## Business matters

### Corporation tax

#### Small companies

In an attempt to reduce the tax savings that can be achieved by sole traders or partnerships by incorporating as a limited company, the small companies (profits up to £300,000) corporation tax rate is to be increased from 19% to 22% over the next three years with an increase to 20% applying from 1<sup>st</sup> April 2007, 21% from 1<sup>st</sup> April 2008 and 22% from 1<sup>st</sup> April 2009.

Large companies (profits over to £300,000) will see a reduction in corporation tax from 30% to 28% from 2008/09.

To summarise:

Rate	Year ending 31 March 2007	Year ending 31 March 2008
Main rate	30%	30%
Marginal relief up to	£1,500,000	£1,500,000
Marginal rate	32.75%	32.50%
Small companies' rate	19%	20%
Charged up to	£300,000	£300,000

#### Capital allowances

To continue to encourage investment by small businesses, the rate of first-year capital (FYA) allowances for small businesses spending on most plant and machinery will be 50% to 2007/08. The increased allowance will apply to spending incurred on or after 1 April 2007 for businesses in the charge to corporation tax, and on or after 6 April 2007 for businesses in the charge to income tax. There will also be a change to a possible 100% allowance for the first £50,000 spent on capital expenditure from 2008/09.

Capital allowances allow the cost of capital assets to be written off against a business's taxable profits. They take the place of depreciation charged in accounts which is not tax allowable. The main rate of capital allowances for general spending on plant and machinery is 25% a year on the reducing balance basis; this will be reduced to 20% from 2008/09. Capital allowances on long life assets will be increased from 6% to 10% per annum from 2008/09.

Capital allowances	2006-07 (£)	2007-08 (£)
Plant and machinery		
- Writing down allowance	25%	25%
- First year allowance medium enterprises *	40%	40%
- First year allowance small enterprises *	50%	50%
- Long life assets	6%	6%
Motor cars		
- Writing down allowance**	25%	25%
- First year allowance ***	100%	100%

\* Certain assets excluded

\*\* Subject to £3,000 maximum per annum

\*\*\* For cars electronically propelled or registered after 16 April 2002 with CO2 emissions of 120g/km or below

## Benefits in Kind (Mobile Phones and Computers)

Currently, computers and mobile phones loaned to employees by their employer may be exempt from the tax charge on the benefit in kind tax charge arising.

The Government proposes to remove the exemption for computers made available to employees and their households for private use and limit the number of mobile phones that employers can loan to their employees for private use to one per employee.

## Private Use of Company Cars and Vans

When a car is made available for an employee's private use a taxable benefit will arise. The charge is based on the price of the car for tax purposes (normally the list price) and accessories multiplied by an appropriate percentage based on the level of CO2 emissions and the fuel the car uses. If no approved CO2 emissions apply a scale of charges applies depending on the date the car was registered.

This table is based on the lower thresholds of CO2 emissions and shows the appropriate percentages for a petrol-powered car. It does not apply to qualifying low emissions cars (QUALECs) for years from 2008/09 when the term is defined in the legislation.

CO2 emissions (g/km)	2003/04	2004/05	2005/06 to 2007/08	2008/09 onwards
135	15%	15%	15%	15%
140	15%	15%	15%	16%
145	15%	15%	16%	17%
150	15%	16%	17%	18%
155	15%	17%	18%	19%
160	16%	18%	19%	20%
165	17%	19%	20%	21%
170	18%	20%	21%	22%
175	19%	21%	22%	23%
180	20%	22%	23%	24%
185	21%	23%	24%	25%
190	22%	24%	25%	26%
195	23%	25%	26%	27%
200	24%	26%	27%	28%
205	25%	27%	28%	29%
210	26%	28%	29%	30%
215	27%	29%	30%	31%
220	28%	30%	31%	32%
225	29%	31%	32%	33%
230	30%	32%	33%	34%
235	31%	33%	34%	35%
240	32%	34%	35%	35%
245	33%	35%	35%	35%
250	34%	35%	35%	35%
255	35%	35%	35%	35%

From April 2003, the value of the fuel benefit i.e. the benefit to the individual of the company paying for it's private fuel as well as company fuel, is also calculated based on the CO2 emissions of the car. The benefit for 2003/04 onwards is £14,400 multiplied by the relevant percentage as shown above (plus diesel supplement where applicable).

## Company Vans

The rules on which the charge is based were changed from 2006/07. The charges are:

Type	years to 2006/07	years from 2007/08
van less than 4 years old at the end of the tax year	£500	£3,000
all other vans	£350	£3,000

## Mileage expenses

Employees (including directors) using their own vehicles for work is entitled to receive certain payments free of tax and NICs (the rules for each are related but not identical). If employees receive greater amounts than are allowed tax-free, they will pay tax on the excess. If they receive greater amounts than are allowed NICs-free, both employers and employees will be liable for Class 1 NICs on the excess. If employees receive less than the respective amounts above, no NICs will be payable and tax relief will be available. The current rates as follows;

Approved mileage rates		
From 2002/03	First 10,000 business miles in the tax year	Each business mile over 10,000 in the tax year
Cars and vans	40p	25p
Motor cycles	24p	24p
Bicycles	20p	20p

(It is important to remember that if the company wants to claim the Vat element back on the mileage the expense claim must be accompanied with valid petrol receipts).

## Company Cars - Advisory Fuel Rates for Company Cars from 1 February 2007

These rates apply to all journeys on or after 1<sup>st</sup> February 2007 until further notice for employees (including directors) claiming mileage:

Engine Size	Petrol	Diesel	LPG
1400cc or less	9p	9p	6p
1401cc to 2000cc	11p	9p	7p
Over 2000cc	16p	12p	10p

(It is important to remember that if the company wants to claim the Vat element back on the mileage the expense claim must be accompanied with valid petrol receipts).

These rates are calculated from the fuel prices in the table below:

Fuel	Engine Size (cc)	Mean MPG	Applied MPG	Fuel price (per litre)	Fuel price (per gallon)	Pence per mile	AFR
Petrol	up to 1400	46.7	42	86.3	392.2	9.3	9
Petrol	1400 - 2000	38.5	34.7	86.3	392.2	11.3	11
Petrol	over 2000	27.9	25.1	86.3	392.2	15.6	16
Diesel	up to 2000	50.3	45.3	90.5	411.2	9.1	9
Diesel	Over 2000	37.5	33.7	90.5	411.2	12.2	12
LPG	up to 1400	37.4	33.6	45.5	206.9	6.2	6
LPG	1400 - 2000	30.8	27.7	45.5	206.9	7.5	
LPG	over 2000	22.3	20.1	45.5	206.9	10.3	10

**Notes:**

1. Mean mpg - miles per gallon - from manufacturer's information, weighted by annual sales to businesses (Society of Motor Manufacturers and Traders (SMMT), 2004). This data reflects increases in fuel economy since the original calculations were done in late 2001.
2. Applied mpg - adjusted downwards by 10% to take account of real driving conditions and lower fuel economy for older cars

**Value Added Tax**

From 1<sup>st</sup> April 2007, the annual turnover limit that determines the registration for Vat is increased to £64,000 (from £61,000). Further, if, at the end of any month, taxable turnover in the past 12 months or less exceeds £61, but Customs is satisfied that they will not exceed £59,000 in the next 12 months, registration is not necessary.

Turnover for deregistration is increased to £62,000 (from £59,000).

To assist more small traders with their cashflow, the threshold for the VAT Annual Accounting Scheme turnover is still £1,350,000.

Budget 2005 intimated that the VAT fuel scale charge would be reformed to follow a carbon emissions basis in line with company car tax and fuel benefit charges. After consultation, it has been decided that the new system will come into force on 1 May 2007.

**Child care vouchers**

The amounts employers can pay employees free of tax and national insurance for child care will be £55 per week, this remains unchanged from 2006/07.

**Changes to the Construction Industry Scheme (CIS)**

The delayed changes to the CIS are now due to come into force in April 2007.

Contractors will have to ensure that the correct employment status is applied to their workers. The main changes can be summarised as follows:

- there will be new rules about paying sub-contractors gross or under deduction. CIS cards, certificates and vouchers will no longer be required
- all new sub-contractors will have to register with HMRC. Contractors will be able to make payments to unregistered sub-contractors, but will have to apply a higher rate of deduction
- contractors will be required to make a monthly return to HMRC. These will have to show payments made to all sub-contractors, and a nil return will be required in months where no payments are made. The return will include a declaration that none of the sub-contractors is an employee. There will no longer be an annual return
- any sub-contractors paid under deduction will have to be provided with pay statements by the contractors.

(For further information on the new CIS scheme a separate newsletter is available)

### Other changes:

The Chancellor in his "Green budget" announced changes in how much car tax people would pay based on the cars CO2 emissions. Below is a summary of the new changes;

Band	CO2 emission figures (g/km)*	Diesel car 12 months rate £	Diesel car 6 months rate £
A	up to 100	£0	-
B	101-120	£35	-
C	121-150	£115	£63
D	151-165	£140	£77
E	166-185	£165	£91
F	Over 185	£205	£113

Cars registered on or after 23 March 2006

Band	CO2 emission figures (g/km)*	Diesel car 12 months rate £	Diesel car 6 months rate £
G	Over 225	£300	£165

Band	CO2 emission figures (g/km)*	Petrol car 12 months rate £	Petrol car 6 months rate £
A	up to 100	£0	-
B	101-120	£35	-
C	121-150	£115	£63
D	151-165	£140	£77
E	166-185	£165	£91
F	Over 185	£205	£113

Cars registered on or after 23 March 2006

Band	CO2 emission figures (g/km)*	Petrol car 12 months rate £	Petrol car 6 months rate £
G	Over 225	£300	£165

**If you would like any further information on the tax issues discussed above, please contact Heidi Pay on 01242 230043.**