

BUDGET REVIEW

News and Information from Montague Brown, Registered Auditors & Accountants | Spring 2007



Brown pledges to 'expand prosperity and fairness'

Delivering his eleventh – and what is widely expected to be his last – Budget speech to the House of Commons, Chancellor Gordon Brown pledged to 'expand prosperity and fairness' for Britain's families.

Celebrating what he described as the longest period of economic stability and sustained growth in the UK's history, the Chancellor forecast growth of 2.5% to 3% for 2008 and 2009, and asserted that his fiscal rules, including his Golden Rule on borrowing, had been met with a surplus of £11bn.

While much of the speech was devoted to education and the environment, the Chancellor found room for some significant announcements on tax, ending his speech with the surprise declaration that the basic rate of income tax will drop from 22% to 20% from April 2008.

The threshold for the top rate of income tax will also rise in 2009, from £38,000 to £43,000. However, these measures will be accompanied by a scrapping of the 10% starting rate and alignment of the upper earnings limit for NICs.

The Chancellor also made another, much-anticipated announcement on corporation tax, revealing that the headline rate of corporation tax will be reduced from 30% to 28% in April 2008. However, the rate for small companies will increase from 19% to 22% by 2009, in a series of stages, with the expressed aim of clamping down on individuals who artificially incorporate as small companies with the aim of avoiding tax.

Other measures effective from April 2008 include an increase in the tax-free cash ISA allowance from £3,000 to £3,600, and a rise in R&D tax credits. Vehicle Excise Duty on large 'gas guzzling' vehicles will almost double to £400 by April 2008, while drivers of the cleanest cars will see a corresponding cut in duty. A 2p per litre increase in fuel duty will take effect from October 2007.

An announcement which will be welcomed by those with second homes outside the UK was that, subject to conditions, ownership of the home through a company will not result in a UK income tax liability.

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Personal Allowances

The personal allowances for 2007/08 are £5,225 for those under 65 at 5 April 2008, £7,550 for those aged 65 to 74 and £7,690 for those aged 75 and over.

The married couple's allowance (MCA) is given to those couples in which at least one spouse or civil partner was born before 6 April 1935. This is worth £628.50 for 2007/08 where the elder partner is aged less than 75, and £636.50 where the elder partner is aged 75 or over.

The age-related element of allowances will be scaled back where income exceeds £20,900 (2006/07 £20,100). For MCA reduction this will be the husband's income for marriages before 5 December 2005. For marriages on or after that date or for civil partners, it is the income of the higher earner that is taken into account.

What they said

Budget 2007 – Reaction to the Chancellor's Speech

'This is a Budget to expand prosperity and fairness for Britain's families - and it is built on the foundation of the longest period of economic stability and sustained growth in our country's history' – [Chancellor Gordon Brown](#)

'You are the Chancellor who has taken one tax down but put 99 taxes up' – [David Cameron, Conservative Leader](#)

'The business sector as a whole will not be popping the champagne corks tonight' – [Richard Lambert, CBI](#)

Please contact us for further advice on how these changes affect you

Business Taxation

Capital allowances

The 50% rate of first-year allowances for capital expenditure by small businesses on plant and machinery will be extended for a further 12 months from 1 April 2007 for companies and from 6 April 2007 for businesses subject to income tax.

The following changes to the capital allowances regime are to be introduced from 2008/09:

- An annual investment allowance for the first £50,000 of expenditure on plant and machinery in the general pool will be introduced.
- The rate of writing-down allowances (WDAs) for plant and machinery in the general pool will be reduced to 20%.
- The rate of WDAs on long-life asset expenditure will increase from 6% to 10%.
- WDAs on industrial and agricultural buildings will be gradually phased out, with final withdrawal of both regimes by 2010/11.
- The rate of WDAs on certain fixtures integral to a building will be set at 10%.
- A payable tax credit for losses resulting from capital expenditure on certain designated 'green technologies' will be introduced.

For qualifying expenditure incurred on and after 11 April 2007, Business Premises Renovation Allowance (BPPRA) will provide 100% initial allowance for capital expenditure on the renovation or conversion of certain business properties.

The new Construction Industry Scheme

After a delay of a year, the new Construction Industry Scheme (CIS) will be introduced on 6 April 2007. All the old cards and vouchers disappear, but monthly returns will be required and there will be considerably stricter compliance rules. The new scheme will have a standard deduction rate of 20%; however unregistered sub-contractors will be subject to the higher deduction rate of 30%.

Green Taxes

The Landlord's Energy Saving Allowance, previously available only to individuals, will also apply to corporate landlords who let residential properties and will be available up to 2015. Floor insulation will be added to the energy saving items which qualify for the allowance. The maximum deduction of £1,500 will be available per property, rather than per building.

The Finance Bill 2007 will include legislation exempting from income tax any sums received on or after 6 April 2007 by a householder from the sale of surplus micro-generated power, so long as that sale is not in the course of a trade.

Stamp Duty Land Tax: Relief for new zero carbon homes

The Chancellor announced a relief from Stamp Duty Land Tax (SDLT) for new zero carbon homes. The measure will have effect from 1 October 2007 and will be time limited for five years, expiring on 30 September 2012.

New homes which are certified carbon neutral will qualify, and there will be no SDLT liability for homes with a purchase price of up to £500,000. Where the purchase price exceeds £500,000 the SDLT liability will be reduced by £15,000.

Landfill tax

The standard rate of landfill tax will increase from £21 per tonne to £24 per tonne from 1 April 2007, then to £32 per tonne from 1 April 2008. The lower rate will increase from £2 per tonne to £2.50 per tonne with effect from 1 April 2008.

Personal Taxation

> Income tax rates

	2007/08	2006/07
Starting rate band to	£2,230	£2,150
Tax rate	10%	10%
Basic rate band – next	£32,370	£31,150
Non-savings rate	22%	22%
Savings rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate – income over	£34,600	£33,300
Tax rate excluding dividends	40%	40%
Dividend upper rate	32.5%	32.5%

Self assessment tax return filing dates

For 2007/08 tax returns and those for subsequent years, there will be two separate filing dates. For paper returns, there will be a new date of 31 October (for tax year 2007/08 that will be 31 October 2008). For returns filed online, the date will remain at 31 January (for tax year 2007/08 that will be 31 January 2009).

Consequential changes will also be made to revise the period during which a return can be amended.

The enquiry window will close one year after delivery of the return.

Individual Savings Accounts (ISAs)

The Chancellor has already announced that the tax advantages of ISAs are to become permanent, with a guaranteed overall annual investment limit of at least £7,000. With effect from 6 April 2008, there will be various reforms to the ISA regime, including removal of the Mini/Maxi distinction. After this date an individual will be able to subscribe to either a cash ISA, a stocks and shares ISA or both.

From 6 April 2008 the subscription limits to the ISA will be increased, which will mean that an individual can subscribe up to £3,600 per tax year to a cash ISA and up to £7,200 per tax year into a stocks and shares ISA subject to an overall limit of £7,200.

The regulations will allow transfers from cash subscribed in previous tax years into stocks and shares without affecting current year investment limits.

> Tax Tip

When you buy new equipment for your business, ask whether it is energy or water efficient. Check the list on www.eca.gov.uk to see if you could get a 100% deduction for the cost in the year of purchase.

> Corporation Tax Rates

Taxable profits	Financial year to 31 March 2008
First £300,000	20%
Next £1,200,000	32.5%
Over £1,500,000	30%
Small companies' – marginal relief fraction	
£300,000 – £1,500,000	1/40

Value Added Tax

Extension to the VAT Cash Accounting Scheme

VAT Cash Accounting Scheme (CAS) turnover limits change from 1 April 2007 (see table).

Under the scheme, eligible businesses can defer paying VAT until they have received payment from their customers, rather than accounting for and paying VAT when they issue and receive invoices. This is on the condition that users of the scheme can only recover VAT on purchases when they pay their suppliers.

Changes to the medical exemption

With effect from 1 May 2007, exemption from VAT will only apply to the provision of medical care by health professionals registered on a statutory professional register where the primary purpose of the service is the protection, maintenance or restoration of the health of the person concerned.

Missing Trader Intra-Community Fraud

The Government announced steps to modernise the Joint & Several Liability measure introduced in 2003, to counter potential mutations. From 1 May 2007, the goods covered by Joint & Several Liability will be extended to include electronic goods and their related parts and accessories. The implementation of the reverse charge for mobile phones and computer chips will take effect from 1 June 2007.

> Value Added Tax rates and thresholds

From	1 April 2007	1 April 2006
Standard rate	17.5%	17.5%
VAT fraction	7/47	7/47
Registration – last 12 mths or coming 30 days over	£64,000	£61,000
Deregistration – coming year under	£62,000	£59,000
Annual Accounting Scheme	£1,350,000	£1,350,000
Cash Accounting Scheme	£1,350,000	£660,000
Optional flat-rate scheme – up to	£150,000	£150,000



Duties

Tobacco, alcohol and fuel duties

From 6pm on 21 March 2007, tobacco duty rates will rise in line with inflation. Duty on beer, still and sparkling wine, and cider will increase in line with inflation from 26 March 2007. Spirits duty is frozen. Main fuel duty rates will increase by 2p per litre from 1 October 2007.

Gaming duties

From 1 April 2007 the 2.5% starting rate of gaming duty is abolished, the 12.5% rate increases to 15%, and a new rate of 50% is introduced on gross yield from gaming in excess of £10 million per accounting period.

The Remote Gaming Duty will be set at 15% of gross profits from gaming (receipts minus winnings) in line with the rate of General Betting Duty. It will apply to anyone who provides remote gaming under licence from the Gambling Commission.

Vehicle Excise Duty

Vehicle Excise Duty for bands C to G increase from 22 March 2007, with the biggest rise for 'gas guzzlers' in band G – rising to £300 immediately and to £400 in 2008 for new cars registered from 23 March 2006.

> Tax Tip

If you file your VAT return online and opt to pay any VAT you owe by direct debit, you get up to 10 extra days to pay the VAT due. You can also be sure that your VAT return will not get lost in the post.

Capital Taxes

Capital gains tax (CGT)

The CGT annual exempt amount is increased in line with statutory indexation to £9,200 for the tax year 2007/08 for individuals, personal representatives of deceased persons and trustees of certain settlements for the disabled. The annual exempt amount for most other trustees is increased to £4,600. Every husband, wife, civil partner and child has his or her own £9,200 annual exempt amount.

The amount chargeable to CGT is added to the individual's income liable to income tax and treated as the top part of that total. For 2007/08, CGT up to the starting rate limit will be charged at 10%, between the starting rate and basic rate limits at 20%, and above the basic rate limit at 40%.

A targeted anti-avoidance rule (TAAR) will be introduced in Finance Bill 2007 to counter schemes to create and use artificial capital losses to avoid tax. The measure will ensure that allowable capital losses are restricted to those arising from genuine commercial transactions. The changes will take effect in relation to capital losses arising on disposals on or after 6 December 2006.

Inheritance tax (IHT)

As announced at Budgets 2005 and 2006, the IHT nil-rate band will increase to £300,000 in 2007/08, £312,000 in 2008/09 and £325,000 in 2009/10. It has now been announced that the IHT allowance will increase to £350,000 in 2010/11. The value of estates over and above the nil-rate band is taxed at 40%. The estimated number of taxpaying estates in 2007/08 will be about 35,000 – this is around 6 in 100 deaths.

Budget 2007 also introduces a change to the pre-owned assets rules to ensure that, in certain situations, people can elect back into the IHT regime after the normal self assessment deadline, rather than incurring the pre-owned assets charge.

Budget Round Up

Some of the other measures announced include:

National Minimum Wage to rise in October

The National Minimum Wage rates will increase in October 2007. The main rate for adult workers will rise from £5.35 an hour to £5.52 an hour. The development rate for 18-21 year olds will rise by 15p, from £4.45 to £4.60. The rate for 16-17 year olds will rise by 10p, from £3.30 to £3.40.

Life insurance policies and commission arrangements

Legislation will be introduced in Finance Bill 2007 to clarify that, where a policy or contract is held for less than a specified period, the amount of premium allowed in calculating gains on these large, short-term, policies and contracts is restricted to the true cost to the policyholder, taking into account the benefit to the policyholder of any commission rebate.

The treatment will confirm that:

- for policies and contracts made on or after 21 March 2007 (and some existing policies and contracts)
- where the premiums paid exceed £100,000 in any given tax year
- and the policy or contract is surrendered, matures or is assigned for money or money's worth before the end of the third tax year after that in which the premium threshold is crossed

the amount of premium to be taken into account is reduced by the amount of any commission passed on to the policyholder or a connected person, or by waived commission which is reinvested.

Alternative finance arrangements

Legislation will be introduced in Finance Bill 2007 to provide new rules on the taxation of certain types of investment bonds, which satisfy the Shari'a law prohibition on paying or receiving interest. They will ensure that such bonds are taxed on a par with equivalent conventional securities. A small change to previous legislation on alternative finance will put the tax treatment of profit share agency arrangements beyond doubt.

The changes will apply to arrangements entered into on or after 6 April 2007 for income tax purposes and 1 April 2007 for corporation tax purposes. For companies, they will also apply to profits or losses arising on or after 1 April 2007 from existing investment bonds within the statutory definition. For income tax payers, they will apply to amounts received or paid on or after 6 April 2007 in relation to arrangements entered into before that date.

Economic Overview

Chancellor Gordon Brown provided an upbeat account of the UK economy, reporting rising employment and investment, continuing low inflation, and low interest and mortgage rates.

Announcing that the British economy is growing faster than all of the other G7 economies, the Chancellor predicted continued growth into the 59th quarter and beyond.

The Chancellor's inflation forecasts were also positive. In spite of recent reports showing that inflation is currently above target at 2.8%, the Chancellor highlighted the fact that inflation has never exceeded 3%, and forecast that it will reach the 2% target later this year, and will stay on target in 2008 and 2009.

Tax and Travel

Company cars

The threshold for the CO₂ emissions based tax charge on company cars remains at 140g/km. For most cars the taxable benefit is between 15% and 35% of the list price. Where the employer provides fuel for private use, the same percentage is applied to the standard fuel multiplier of £14,400. Typical tax liabilities for someone driving a £20,000 car in 2007/08 are:

Emissions	Fuel	Taxable %	Car Benefit	Fuel Benefit	Tax @ 22%	Tax @ 40%
158	Petrol	18	3,600	2,592	1,362	2,477
188	Petrol	24	4,800	3,456	1,816	3,302
188	Diesel	27	5,400	3,888	2,043	3,715
238	Petrol	34	6,800	4,896	2,573	4,678

Class 1A national insurance contributions will be charged on the employer at 12.8% of the appropriate benefit figure.

Mileage claims

A statutory system of tax and national insurance free rates applies for business journeys in employees' own vehicles. For cars and vans the first 10,000 miles are allowed at 40p per mile, with the remainder at 25p per mile. The motorcycle rate is 24p per mile, with bicycles at 20p per mile. There are also advisory rates which can be applied as a tax-free maximum for employees claiming for petrol use on business journeys and for employees reimbursing their employers with the cost of petrol used for private journeys.

VAT on fuel for private use in cars

Where businesses buy fuel which has some degree of private use, they must account for output VAT on a scale charge. This is based on the CO₂ emissions (rounded down to the next multiple of 5). The VAT chargeable for quarters commencing on or after 1 May 2007 is as follows:

CO ₂ in g/km	VAT on charge	CO ₂ in g/km	VAT on charge	CO ₂ in g/km	VAT on charge
Up to 140	£27.11	175	£39.91	210	£52.57
145	£29.04	180	£41.70	215	£54.36
150	£30.83	185	£43.49	220	£56.30
155	£32.62	190	£45.28	225	£58.09
160	£34.40	195	£47.21	230	£59.87
165	£36.19	200	£49.00	235	£61.66
170	£38.13	205	£50.79	240 or over	£63.45

Company vans

With effect from 6 April 2007, the taxable benefit for the unrestricted private use of vans will be £3,000. There is a further £500 taxable benefit if the employer provides fuel for private travel. Van drivers can avoid a benefit charge if they agree not to use the van for personal journeys. Driving to and from work is acceptable so long as there is a reasonable amount of business use.