

Newsletter of 12 April 2007

## 2007 Budget

Last month's budget was another complicated budget with many proposals not taking effect until next year or later. The headline seeking cut in income tax rates comes in from 6 April 2008 as does the abolition of the 10% tax rate. Set out below is a summary of the main proposals.

## Income Tax

There has been a lot of publicity about the announcement that the government propose to reduce the basic rate of income tax from 22% to 20%. This change is due to take effect **from 2008/09** and not from 6 April 2007.

### 2008/09

The proposal is to radically change the tax rates for 2008/09 onwards when the 10% starting rate will be abolished for earned and pensions income and the 22% basic rate of tax will be reduced to 20%. The higher rate of tax will continue at 40%.

The starting rate will continue to be available for savings and investment income and capital gains. There are no changes to the tax rates applicable to dividends.

### 2009/10

It was announced that the point at which people start paying the higher rate of tax will be increased significantly to £43,000 from 2009/10.

## Too good to be true?

There is, however, a significant sting in the tail for those with earned income. For 2007/08 there is no change in the rates of NI but there are significant proposed changes to the limits between which NI contributions are payable. For 2007/08 the lower and upper earnings limits (UEL) increase by inflation so that employees will pay 11% NI on earnings between £100 and £670 per week. Employees continue to pay contributions of 1% on earnings above the UEL. For 2008/09 the UEL will be increased by £75 per week above indexation.

The upper profits limit for Class 4 NI for the self-employed will also be increased in 2008/09 by £75 per week above indexation.

In 2009/10 UEL will be aligned with the point at which the higher rate of income tax becomes payable.

The government claims the increases in national insurance are aimed at simplifying the tax system but it comes at a cost to employees and the self-employed.

## Individual Savings Accounts (ISAs)

The government is now making the ISA permanent. A number of reforms will be introduced from 6 April 2008 to simplify the holding and operation of ISAs including:

- The mini/maxi distinction within ISAs will be removed. The government will continue to allow individuals to hold these components with either the same or different providers.
- The maximum amount which can be invested into a cash ISA will be increased to £3,600.
- The maximum amount which can be invested into a stocks and shares ISA will be £7,200, subject to an overall limit of £7,200 subscribed into both ISAs in a tax year.

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## **Foreign dividends**

From 6 April 2008 individuals in receipt of foreign dividends will be entitled to a non-repayable tax credit of one ninth of the distribution. The legislation will apply to individuals who own less than a 10% shareholding in the company and in total they receive less than £5,000 of dividends a year from non UK-resident companies. The effective rate of tax for individuals investing in foreign companies will be nil for basic rate taxpayers and 25% for higher rate tax payers.

## **Pensions term assurance**

Tax relief on pension contributions used to fund personal term life assurance policies is to be removed. The measure will not affect the relief available for contributions paid by employers..

## **Corporation Tax & Business Tax Changes**

**Tax rates.**The Chancellor has moved to discourage small businesses from incorporating for tax reasons by increasing the tax they will pay on profits up to £300,000, from 19% to 20% with effect from 1 April 2007. The small companies rate will further increase to 21% in 2008 and to 22% in 2009.

The tax incentive for small businesses to operate as a company will be further reduced by these changes and businesses should be wary of incorporating purely for tax reasons as the tax treatment of owners expenses e.g motoring and home office costs is different and may negate the benefit of lower headline tax rates.

In contrast the corporation tax rates for large companies, broadly those with profits of £1,500,000, are set to be cut from 30% to 28% from 1 April 2008.

## **Capital allowances**

The current 50% first year allowance for plant and machinery which can be claimed by small businesses, which was due to expire in April 2007, will be extended to April 2008. Capital allowances are to be significantly revised from 2008/09. The proposals are:

- Industrial Buildings Allowances (IBAs) and Agricultural Buildings Allowances (ABAs) will be phased out, with final withdrawal of both regimes by 2011
- most balancing allowances and balancing charges for IBAs and ABAs cease to apply for changes in ownership on or after 21 March 2007
- writing down allowances for plant and machinery will be cut from 25% to 20%
- writing down allowances for certain fixtures in a building will be cut from 25% to 10%
- writing down allowances for long life assets will be increased from 6% to 10%

In addition the following changes will be subject to consultation:

- a new investment allowance for the first £50,000 spent on plant and machinery
- where businesses have a loss after claiming 100% capital allowances on green technologies they will be able to reclaim a tax credit from HMRC.

It is not clear yet how the new investment allowance will work, however the proposed changes to the treatment of fixtures potentially may adversely effect businesses with substantial expenditure on premises e.g. offices, pubs and restaurants.

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## **Tax relief for business cars**

Following consultation, revised proposals have been issued as follows:

- 100% first year allowances for cars with CO2 emissions up to 120g/km are retained.
- the general plant and machinery capital allowances pool will be used for cars with CO2 emissions between 121 and 165g/km.
- a new car pool would be introduced with a lower writing down allowance than the general plant and machinery pool for other cars.

There will no longer be a specific distinction between cars costing more or less than £12,000.

## **Capital gains tax**

The annual exemption for 2007/08 is £9,200. For most trusts the exempt limit is increased to £4,600. For individuals capital gains continue to be treated as the top slice of income. For 2007/08 rates continue to be aligned with those applying to savings income. Tapered gains are charged at 10% where gains plus taxable income do not exceed £2,230; 20% between £2,231 and £34,600; and 40% on any balance.

## **Inheritance tax**

Apart from the usual inflationary increase to the IHT threshold there has been little change to the IHT rules. The main exemptions continue to be available as follows:

- annual exemption – up to £3000 in any tax year can be given away;
- small gifts up to £250 per individual recipient;
- gifts in consideration of marriage;
- gifts to charities;
- regular gifts out of income may also be exempt subject to conditions.

Investments in unquoted shares in trading companies and interests in a business still qualify for business property relief and can be exempt. Typically individuals may invest in a portfolio of shares quoted on the Alternative Investment Market and Enterprise Investment Scheme (EIS) shares.

It is still possible to make potentially exempt transfers. Most lifetime gifts except those to trusts are PETs. No IHT is payable currently on PETs providing you survive seven years after making a gift. If you die within 7 years, the tax liability is reduced the longer you survive over three years.

## **Administration**

### **Online filing update**

Legislation will be introduced in 2007 to implement the changes which will start in 2008. The key proposals are to:

- require businesses to file their PAYE in-year forms, VAT returns and company tax returns online in phases from April 2009
- introduce new filing deadlines for income tax self assessment returns of 31 October for paper forms from 2008 but retain 31 January for online returns.

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- relate the time limit for HMRC to commence enquiries into an income tax self assessment return to the actual filing date of the return and not the statutory filing date.

The changes for the timelimits for enquiries, provide for the first time an incentive for tax payers to file early rather than wait until close to the filing deadline and are to be welcomed.

### **Company filing dates**

Following consultation by HMRC and Companies House, it is intended to provide a single online filing facility by 2010. From 2008 the period during which an enquiry can be opened into a corporation tax return will, for most companies, be tied to the actual date HMRC receives the return rather than a fixed filing date. The aim of this is to encourage earlier filing and give businesses certainty sooner.

### **Impending deadlines**

**6 April 2007** – start of new tax year and time to start gathering information required to prepare the 2006/07 tax return

**19 April 2007** - PAYE tax and Class 1 NICs for 2006/07 not paid by today will attract an automatic charge to interest. This includes tax and NICs due under the IR35 rules.

### **30 April 2007**

Private companies with 30 June 2006 year-ends should file their accounts at Companies House.

Corporate tax returns for periods ended 30 April 2006 should be filed by concession no penalty is charged if the return is submitted by 7 May 2007.

**19 May 2007** – file 2006/07 end of year PAYE and CIS forms to avoid penalties which are automatic from 26 May. Note: For small employers, there is a tax free incentive of £150 if the employers annual returns P35 and P14 are successfully filed online this year by 19 May.

**31 May 2007** – last day to give employees form P60 for 2006/07.

**6 July 2007** Last day to file 2006/07 forms P11D / P9D and issue to employees.

For more information or to discuss how the ideas can be applied to your particular situation please contact Simon Bell by phone on 01376 571358 or email [simon.bell@sjbtax.co.uk](mailto:simon.bell@sjbtax.co.uk) . For copies of previous newsletters or details of our services please visit our website [www.sjbtax.co.uk](http://www.sjbtax.co.uk)

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