

21/04/2008

Dear Client,

2008 Budget – a brief overview

I am sending this letter to a select number of my clients with some thoughts on the recent Budget and how the changes proposed may affect my clients.

As is usual there was been a lot of media attention paid to the headline issues proposed by Alistair Darling so I will not go into details of tax rates etc but rather provide you with some information on the considerable volume of other changes as they may affect your personal and business tax situation. My apologies if some of the content of this letter is not relevant for your particular circumstances.

The 2008 Budget contained few significant surprises. Most of the main measures were already announced either in the 2007 Budget or as part of the October 2007 Pre-Budget Report process but quite a lot of the details have changed.

INCOME TAX

Most of the rate and allowance changes originally announced in 2007 are confirmed and you will probably be aware of the following:

- Ø The basic rate will be reduced to 20% and the usual higher rates will continue to apply.
- Ø The 10% starting rate band for non-savings income has been withdrawn.
- Ø The 10% band is retained only for savings income. Dividend income within the basic rate band will still attract the 10% rate. This means that the 10% rate will only be available for the first £2,320 of non-dividend income where the only income is non-dividend income. If you have (say) £1,500 of taxable pension income and £3,000 of taxable interest – the £1,500 will first be applied to the £2,320 band (and will be taxed at 20%) leaving £820 of that band available for interest to be taxed at 10% and the remaining interest will be charged at 20%. So the use of the 10% band will be limited.
- Ø Personal allowances for individuals aged 65 are increased.
- Ø The limit for ISA investments will change - up to £3,600 pa can be invested in a cash ISA, up to £7,200 pa can be invested in an ISA that is based on shares and no more than £7,200 pa can be invested overall.
- Ø Some administrative measures will be introduced to make it easier to open a Child Trust Fund.
- Ø The Enterprise Investment Scheme investor limit for individual relief will be increased (subject to State Aid approval) to £500,000 p.a. but more trades will be added to the 'excluded' activities list.

- Ø The 'holiday home' abroad owned by a company exemption will be introduced with retrospective effect.
- Ø Individuals who carry on a trade but who spend less than 10 hours per week on commercial activities of the trade will be able to claim 'sideways' loss relief against losses only up to maximum of £25,000 per year. From 12 March 2008 where such an arrangement involves tax avoidance no losses will be available for set off – this will mirror the partnership loss relief restrictions introduced last year.
- Ø The 'Income Shifting' rules (whereby directors or partners 'shift' their income – salary drawings or dividends – to another partner whose tax rate is lower) will *not* be introduced this year. Further consultation will be undertaken with the aim of bringing new anti-avoidance rules into force from 6 April 2009.

The reduction in basic rate tax will have an effect on any pension payment that you make net of basic rate tax. That is because the pension provider will add 25% to your contribution instead of 28.2%. You should therefore consider whether to increase your payment now in order not to suffer a reduction of over 3% in your pension fund.

The effect on Gift Aid (where payments are also made net of basic rate tax) will not come into effect until 2011 following representations to the Treasury by charities that requested time to prepare for the reduced income that they will receive due to the change in basic rate tax.

Higher rate tax payers will benefit marginally as pension contributions and Gift Aid payments are allowed against the higher rate tax which is taken into account when I calculate the tax payable.

Inheritance Tax

All of the changes announced at the Pre-Budget Report are to be enacted and in particular the rules covering the ability to transfer the unused proportion of a pre-decedent spouse's Nil Rate Band to the survivor will be implemented.

National Insurance contributions

The Upper earnings Limit was increased on 6th April from £670 to £770 per week and this will be further increased next year. You may therefore consider whether it is practical to pay advanced salary or dividends immediately and have the payment treated as income in 2007/8 tax year. This can reduce your overall NI contributions but will also affect your cash flow!

CHANGES IN BUSINESS TAX

Capital Allowances

The changes to Capital Allowances announced in the last Budget are confirmed and a number of detailed changes are also to be implemented.

Annual Investment Allowance.

A new Annual Investment Allowance (AIA) for the first £50,000 of expenditure on plant and machinery in the general pool will be introduced from April 2008. This will replace First Year Allowances for the smaller business.

The allowance will be available to all businesses and there will be no provision to carry forward unused AIA to later years. Groups of companies (i.e. 51% groups) will have to share a single AIA of £50,000. The allowance will also be phased in and the full £50,000 will be reduced proportionately based on the financial year end. The £50,000 eligible for AIA will include long life assets and integral fixtures (but not non-low emission cars), so these can be included in the £50,000 limit, and get 100% AIA relief.

Plant and Machinery: Generally

. From 1 April 2008 for corporation tax, and 6 April 2008 for income tax, the rate of writing down allowances for plant and machinery in the general pool will be reduced from 25% to 20% but Small Pools that stand at less than £1,000 can be 'written off' in one year from April 2008.

Cars.

There is further encouragement for the use of low emission cars in the form of changes to the capital allowance to be introduced from April 2009. The new rate will be 20% but for cars with Co2 emissions over 160 g/km it will be 10% and for cars with very low emissions (under 110 g/km) it will continue to attract 100% allowance in the first year until March 2013.

Capital Gains Tax

The major changes for individuals, trustees and personal representatives; from 6 April 2008 are confirmed:

- Ø Taper relief for business and non-business assets will be abolished entirely and all accumulated relief will be lost.
- Ø Indexation Allowance, applied to acquisition and enhancement costs, up until 5 April 1998 will be withdrawn entirely and any accumulated relief will be lost.
- Ø The introduction of a single 'flat rate' for CGT of 18%. Note that the annual threshold (for 2008/9 this is £9200) remains in place
- Ø The introduction of Entrepreneurs' Relief for gains of up to £1million (per person per lifetime) on the disposal of assets (including shares) that are used in a personally run trade (including partnerships) on the disposal/cessation of the business. The qualifying conditions must be met for 1 year prior to the disposal.

Corporation Tax

The main measures are all in line with pre-announced changes:

- Small Companies Rate increased to 21% from 1 April 2008 and the marginal relief fraction amended to 7/400th.
- Main rate reduced to 28% from 1 April 2008.

- R&D Tax Credit rates to be increased to 175% (from 150%) for small and medium companies and to 130% from 125% for large companies- from a date to be advised in the light of State Aid approval from the EC.

Administration etc.

There are a number of changes proposed for the manner in which HMRC deal with the administration of our tax affairs including the way in which it deals with disputes, time limits, investigations and, believe it or not, the waiving of interest and surcharges for those affected by natural disasters. I will of course be advising you how these changes will impact you as and when it may affect you.

I hope that you will have found this letter informative and of course I will be very happy to discuss any aspects that you feel may be relevant to your situation and to advise you on the most effective manner in which to arrange your affairs to reduce the impact of the budget in your particular circumstances.

Yours sincerely,



Andrew Doherty