

The Highlights

In his first Budget, the Chancellor's favourite words appeared to be "resilience" and "stability". That is certainly something that both the economy and the tax system need. Mr Darling revised his growth forecast for the economy downwards from 3% last year to between 1.75% and 2.25%. While he acknowledged the turbulence in global financial markets and the threat this posed to the world economy, he said that he believed the UK was well prepared to deal with it. He added that there would be no return to the high inflation rates of the early 1990s and that the Bank of England would be asked to keep to a 2% inflation target.

Sounds familiar

Many of the announcements in the Budget – and many of the Budget Notices, which ran to 270 pages – simply confirmed announcements that had already been made.

From 1 April 2008, the main rate of corporation tax will fall from 30% to 28%. The rate for small companies will, however, continue to climb, being set at 21% from 1 April.

The Chancellor also confirmed the previously announced improvements in the allowances companies can claim for expenditure on research and development (R&D) and major changes to capital allowances from April 2008, including:

- Phasing out of industrial buildings allowances and agricultural buildings allowances over the next three years
- A £50,000 annual allowance for investment in plant and machinery allowable at 100%
- Reduction of writing down allowances from 25% per annum to 20% per annum (10% for certain equipment installed in buildings)
- A payable 19% tax credit for investment in certain "green technologies"

The capital allowances changes will impact upon manufacturing businesses, agriculture, any business investing significant amounts in equipment and the commercial property sector.

The 10% band for the first £2230 of earned income is being withdrawn from 6 April 2008, though strangely it will continue to be available for unearned income. Also from 6 April the basic rate of income tax will fall from 22% to 20%.

Pensioners will see their tax free allowances grow and for 2008/9 those between 65 and 74 will pay no tax if their income is less than £9,030 and those over 75 will pay no tax if their income is less than £9,180. The tax free winter heating allowance will increase to £250 for those over 60 and to £400 for those over 80.

The investment limits for Individual Savings Accounts (ISAs) will rise from £7,000 to £7,200 and there will be an increase in the permissible cash element from £3,000 to £3,600.

Individuals receiving dividends from foreign companies will, in most cases, benefit from a notional 10% tax credit from 6 April 2008.

The inheritance tax (IHT) allowance rises to £312,000 from 6 April.

Capital gains

The Chancellor confirmed that the new capital gains tax (CGT) regime announced in his October Pre Budget Report PBR will come into force on 6 April together with the new entrepreneurs' relief.

Individuals currently pay CGT at 10%, 20% or 40% and trusts and personal representatives at 40%. From 6 April there will be a single rate of 18%. Also currently, any indexation (or inflation) allowance accrued on assets acquired before 6 April 1998 is "frozen" and set against any gain on disposal. This "frozen" relief will be lost on disposals on or after 6 April 2008. Taper relief – which can give an effective tax rate as low as 10% on business assets held for more than two years – will be abolished from 6 April 2008.

The changes present major tax traps and planning opportunities and consideration should be given to crystallising taper relief (particularly business asset taper relief) and accrued indexation allowance on or before 5 April 2008. Trustees and personal representatives on the other hand may wish to defer gains until on or after 6 April 2008 to secure the 18% rate of CGT. Companies are not affected by the changes.

Entrepreneurs' relief will maintain the 10% rate for the first £1 million of gains on the disposal of the whole or part of a business, or assets of a business that has ceased. Currently, any shares in a trading company count but after 6 April only shares owned by directors, officers or employees owning at least 5% of the company will qualify.

A change of mind

The changes announced in the PBR affecting non domiciled individuals and the rules on tax residence have been confirmed, although with some welcome relaxations to the original proposals as a result of lobbying.

Again as a result of extensive lobbying, the new income shifting rules aimed at small (mainly family) partnerships and companies where one person is effectively able to shift income to another, thereby reducing their overall tax bill have been postponed for one year. This will allow a period of consultation which will hopefully enable the Government to bring forward revised proposals. As originally cast, the proposals would have been virtually unworkable.

New measures

Further changes were announced to the Enterprise Investment Scheme, Corporate Venturing Scheme and to Venture Capital trusts, adding shipbuilding and coal and steel production to the list of prohibited businesses. The amount that an individual can invest in an EIS company or VCT will, however, increase to £500,000 per annum (subject to EC approval).

The Enterprise Management Incentive (EMI) share scheme will be modified to increase the total value of share options a company can award to an individual from £100,000 to £120,000. As one of the main attractions of EMI was the way in which taper relief operated it will be interesting to see if the schemes remain popular under the new CGT regime.

Guilty Pleasures

Duty on beer was increased by 4 pence a pint, on cider by 3 pence a litre and on wines by 14 pence a bottle. The duty on spirits was increased by 55 pence a bottle. Alcohol duty will be increased by 2% above the rate of inflation for the next four years. The cost of a pack of twenty cigarettes also increased by 11 pence.

Motorists will pay an extra 2p a litre from October and there will be a major reform of vehicle excise duty designed to encourage the purchase of vehicles with low carbon dioxide emissions.

Other Measures

One unexpected announcement is that trading stock taken from a business other than in the course of the trade must now be accounted for at market value for tax purposes, even though the transaction may be accounted for at cost in the business accounts.

The VAT registration threshold will rise to £67,000 from 1st April and the deregistration limit to £65,000.

Charities had been concerned that the reduction in the basic rate of income tax from 22% to 20% would impact on the amount of tax they can reclaim from HMRC on donations. The Chancellor announced a transitional relief enabling charities to reclaim at 22% on donations made up to 6 April 2011.

Powers

HMRC is currently reviewing the powers it has to enforce the tax system. It is attempting to align powers so that they are consistent across all taxes. The Finance Bill will contain clauses allowing HMRC to inspect records, to require supplementary information and to obtain information from third parties. While there will be a new power to visit business premises the power currently available to VAT and PAYE inspectors to undertake inspections at private homes without consent will go.

Summary

Business needed a Budget with no unpleasant surprises. In that respect Mr Darling's speech was a relief. The fact that he drew back from introducing the new income shifting rules in order to consult further is also welcome. The unwelcome changes to business taxation (higher corporation tax rates for smaller businesses and the withdrawal of industrial buildings allowance, hotels allowance and agricultural buildings allowance) announced last year, however, will still come into force from April.

If you would like to receive a copy of our Budget tax rates card, our quarterly newsletter or would like to talk about some specific tax planning, please contact us: the details are given below.



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