

tax review - **budget special**



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Budget Report

12 March 2008

This Report, which was written immediately after the Chancellor of the Exchequer delivered his Budget Speech, is intended to provide an overview of the announcements most likely to affect you or your business.

Throughout this guide we have included tips and ideas for effective tax and financial planning, but it is important to remember that this planning should be an ongoing, year-round process, not something that is left until the last minute.

We can help you to reassess your plans regularly, and adapt them as your personal and business circumstances change. With our help, you can plan for a rewarding and financially secure future.

How to make the most of our services

- Please read the Report as soon as possible.
- Use page 15 to compile your own summary of the key points arising from this Budget and any actions you wish to consider.
- Keep a copy of the 2008/09 tax calendar on page 16 handy. It details many of the key dates and deadlines for the coming year.
- Contact us as soon as possible to discuss any action you may be considering, and to review your longer term plans. We always welcome the opportunity to help.

Please note: *while most taxation changes take effect from the start of the financial year, or tax year, some may not take effect until 2009, or later. Where relevant, details of these changes have been included in this Report. Throughout the Report, 'HMRC' refers to HM Revenue & Customs.*

Darling emphasises environment **in maiden Budget**

Billed as a 'responsible' and 'green' Budget, the environment found its way to the top of the agenda in Chancellor Alistair Darling's debut Budget speech.

Darling used his first Budget statement to introduce a series of measures aimed at reducing the UK's carbon emissions, including a new zero rate of car tax to be levied in the first year for new, low polluting vehicles – a measure that was just part of a wider reform of vehicle excise duty.

Despite attempts to prove his 'green' credentials, the Chancellor declared that a 2p increase on fuel duty will be postponed from April to October this year to help the country through the current 'credit crunch'. The Chancellor told MPs that the credit crunch posed a 'major risk to the world's economy'. As a consequence, Darling has revised the economic growth predictions that were made in his Pre-Budget Report last October.

Growth forecasts have been cut for 2008 to 1.75%-2.25%, a substantial reduction on the original 2.5%-3%. Darling has also advised that public borrowing will increase to £43 billion next year, rather than fall to the £36 billion he had anticipated.

Darling's brief reign as Chancellor has already been dogged by controversy. He confirmed the much-criticised changes to capital gains tax and the taxation of non-domiciliaries. CBI Director-General Richard Lambert, said: 'The Government has much to do if it is to win back its enterprise credentials, but the measures announced today are a credible first step on the road.'

Budget Highlights

- Green light on non-doms
- Entrepreneurs' Relief confirmed
- Big increases in tax on alcohol
- Increase in fuel duty deferred
- Income shifting legislation delayed

Capital taxes

Capital gains tax (CGT)

The Chancellor confirmed the new standard rate of 18%, coupled with the withdrawal of indexation allowance and taper relief for individuals and trustees with effect from 6 April 2008. Other reliefs, such as those relating to principal private residences, losses brought forward, Enterprise Investment Scheme and Venture Capital Trusts, and business asset rollover relief, will continue to be available. Assets acquired before 31 March 1982 will be deemed to have had a cost equivalent to their market value at that date.

In certain circumstances the CGT base cost of an asset is tied to its value ascertained for inheritance tax (IHT) purposes. The IHT changes noted below will sometimes mean the value is not ascertained until the death of the spouse. Any intermediate capital gains computations will not have to be revised simply as a result of the value ascertained on the spouse's death giving rise to a difference.

The Annual Exempt Amount (AEA) will be increased for 2008/09 to £9,600 for individuals and £4,800 for some trustees.

CGT: Entrepreneurs' Relief

Following strong opposition from the business community to the proposed CGT changes, the Chancellor has introduced an Entrepreneurs' Relief which gives an effective 10% rate for the first £1million of lifetime capital gains on the disposal of trading businesses and on certain disposals of shares in trading companies. The relief actually works by reducing the gain by 4/9, leaving the residual 5/9 gain to be taxed at 18% ($5/9 \times 18\% = 10\%$). The effective rate will be reduced by the application of the AEA.

The £1million may be made up of any number of disposals after 5 April 2008 and, unlike the former retirement relief (on which the rules are based), there is no minimum age qualification. There is, however, a one year qualifying period and other conditions to be met. Trustees will also be able to claim, jointly with a 'qualifying beneficiary'.

Capital gains made by companies are dealt with separately under the corporation tax regime, and these arrangements have not changed.

Inheritance tax (IHT)

Threshold

As previously announced, the IHT standard threshold has been set at £312,000 for 2008/09. This defines the upper limit of what is commonly known as the IHT nil-rate band.

Transferrable nil-rate band

In the October Pre-Budget Report, the Chancellor announced a new concession for married couples and civil partners. With effect from second deaths on or after 9 October 2007 the unused percentage of the nil-rate band from the first death estate can be carried forward and added to the nil-rate band available to the second. The combined threshold for couples is therefore set at a maximum of £624,000 for 2008/09.

This new arrangement applies no matter how long ago the first death occurred. For example:

On the first death none of the original nil-rate band was used because the entire estate was left to a surviving spouse. Then if the nil-rate band when the surviving spouse dies is £350,000 that would be increased by 100% to £700,000.

If on the first death the chargeable estate was £107,500 when the nil-rate band was £215,000 (1997/98), then 50% of the original nil-rate band would be unused. If the nil-rate band when the surviving spouse dies is £350,000, then that would be increased by 50% to £525,000.

Interest in possession trusts

The Finance Act 2006 changed the inheritance tax rules for trusts where the beneficiary is entitled to income (interest in possession trusts). It included a transitional period from 22 March 2006 to 5 April 2008 to enable trustees to reorganise trusts set up on or before 21 March 2006 without being subject to the new rules.

Legislation will be introduced in Finance Bill 2008 to clarify the inheritance tax rules where interest in possession trusts in place on or before 21 March 2006 come to an end on or after 22 March 2006 and are replaced with new interest in possession trusts for the same beneficiary. This will

- frustrate a tax planning strategy that many were waiting to implement after 5 April 2008 whereby a life tenant would have been able to take the value of the trust assets out of their estate and into the 6% trust regime without a 20% entry charge.

- prevent a relief granted under the 2006 changes being wasted by the simple creation of a new interest for the same beneficiary.

In addition, the transitional period for life tenants to pass on their interest to someone else and retain the benefits of the old regime will be extended by six months to 5 October 2008.

Pension savings

The Finance Bill 2008 will include legislation to ensure that tax-relieved pension savings diverted into inheritance using scheme pensions and lifetime annuities are subject to unauthorised payment tax charges and, where appropriate, IHT. In addition, IHT protection to savings in overseas pension schemes will be restored.

Business tax and investment incentives

Corporation tax

Corporation tax rates and bands are as follows:

Financial year to	31 March 2009	31 March 2008
Taxable profits		
First £300,000	21%	20%
Next £1,200,000	29.75%	32.5%
Over £1,500,000	28%	30%

The small companies' rate of corporation tax will increase from 21% to 22% in 2009/10.

Capital allowances

The following changes will take effect from 1 April 2008 for companies, or from 6 April 2008 for businesses subject to income tax unless stated otherwise.

Plant and machinery allowances

The current system of first-year allowances for small and medium sized businesses will be abolished. In addition, the rate of writing down allowances (WDAs) for plant and machinery in the general pool, including qualifying expenditure in excess of the Annual Investment Allowance (see below), shall be reduced from 25% to 20% per annum.

Where expenditure is incurred on certain fittings integral to a building, this shall be recognised in a 'special rate pool', which will give a WDA of 10% per annum on a reducing balance basis. 'Integral Fittings' include (but are not limited to) electrical and lighting systems, cold water and drainage systems, and air conditioning and heating systems.

The 100% first-year allowance for expenditure on low emission cars has been extended to 31 March 2013, although the threshold has been reduced to cars with CO₂ emissions below 110g/km.

Annual Investment Allowance

An Annual Investment Allowance (AIA) is introduced for expenditure incurred by individuals carrying on a trade or business, partnerships and companies to replace the system of first-year allowances. The AIA is also available to individuals who acquire plant and machinery for use in their employment.

The AIA will give full relief for qualifying expenditure on plant and machinery up to a maximum of £50,000 in a twelve-month period. Where a period is more or less than 12 months, the level of allowance is proportionately increased or decreased. The AIA may be claimed against expenditure that would otherwise form part of the general pool or the special pool; however, it may not be claimed against expenditure on cars.

Where expenditure in a period exceeds the maximum £50,000, any excess expenditure shall be dealt with under the normal capital allowances regime.

Companies in a group are entitled to one £50,000 AIA per annum, to be shared between group members. Similarly, where "related" businesses are under common control, only one £50,000 AIA is available to the related businesses combined. Two businesses are considered "related" if they operate from the same premises, or if more than 50% of the turnover of each company is from similar business activities. Where a single AIA is split between two or more businesses, the AIA may be allocated in whatever manner the businesses see fit.

Environmentally beneficial plant and machinery

The existing 100% enhanced capital allowance (ECA) is retained where expenditure is incurred on 'Environmentally Beneficial' plant and machinery, and the range of technologies to which the relief applies is extended.

Where a company makes a tax loss as a result of claiming the ECA, the company may now claim for the attributable loss to be surrendered for a 19% payable tax credit, subject to an upper limit of the higher of £250,000, or the amount of PAYE and National Insurance paid in the period of surrender. Any tax credit may be clawed back if the qualifying plant is then sold in the following four years.

Industrial Buildings Allowances

As announced in Budget 2007, Industrial Buildings Allowances and Agricultural Buildings Allowances will be gradually withdrawn. For the year commencing 1 April 2008 for companies or 6 April 2008 for individuals, the amount of WDA available is reduced to 3%, with further reductions to 2% and 1% in the following two years, leading to a complete abolition from 1 April 2011. No balancing charges or allowances can crystallise on disposals made after 21 March 2007.

Proposed changes

It is proposed that from 1 April 2009 for companies, and from 6 April 2009 for businesses subject to income tax, WDAs for expenditure on cars shall be based on the level of CO₂ emissions. Cars with emissions between 110g/km and 160g/km shall attract 20% WDA and cars with emissions in excess of 160g/km attracting 10% WDA.

The present system of disallowance of a proportion of payments in respect of expensive leased cars is also to be reformed from the same date, with a disallowance of 15% of payments in respect of cars with emissions in excess of 160g/km.

Research and development (R&D) tax credits

The enhanced deduction available to small and medium enterprises (SMEs) in respect of qualifying R&D expenditure is to increase from 150% to 175%. For large companies the enhanced deduction is to increase from 125% to 130%. These changes will take effect from a date to be appointed once EC state aid approval has been received. As from the same date, the SME tax relief will no longer be available to those companies whose most recent accounts were not produced on a going concern basis. In addition, the SME relief is to be capped at €7.5 million per R&D project.

In certain circumstances, the relief available to small and medium sized entities (SMEs) can result in a payable tax credit.

The increases in the thresholds previously announced in the 2007 Budget for determining whether a company is an SME or Large have not yet been approved by the EC under the State Aid rules.

Associated companies

The tax bands are reduced where a company has one or more associated companies. As from 1 April 2008, a company will no longer be associated with companies controlled by the business partners of the person controlling that company. The exception to this is where at any time the shareholder or director of the company and the business partner have made arrangements to secure a tax advantage for the company.

Enterprise Investment Scheme (EIS)

From 6 April 2008, subject to EC state aid approval, the limit on which an investor can claim EIS income tax relief will be increased from £400,000 to £500,000.

Employment related securities (ERS)

Enterprise Management Incentives (EMIs)

EMIs are tax and NIC favoured share options that can be granted to employees of small higher risk trading companies to facilitate recruitment and retention of employees. They are available to independent companies whose gross assets do not exceed £30m and do not carry out certain excluded activities. Employees who exercise their options in qualifying circumstances do not suffer income tax unless the option price is less than market value of the shares at the date of grant.

The following changes apply:

- As from 6 April 2008 the maximum value of shares over which employees can be granted options (also taking into account Company share Option Plan options granted to them) has been increased from £100,000 to £120,000.
- For options granted after the date of Royal Assent to the Finance Bill, only companies with less than 250 full time employees will be able to use EMI options. In addition companies involved in shipbuilding, coal and steel production will no longer be able to use EMI options.

As a result of capital gain tax reforms EMI option holders who exercise their options and subsequently sell their shares after 5 April 2008 will be subject to capital gains at 18% on their capital gains without the benefit of taper relief.

Resident but not ordinarily resident employees

Employees who are resident but not ordinarily resident and who are awarded ERS (including shares) or options over ERS will be taxed on the same footing as employees who are resident and ordinarily resident. This applies to ERS acquired or options over ERS granted, on or after 6 April 2008. This will bring profits on the award of ERS, or on exercise of options over ERS, for such individuals in relation to duties of employment carried on within the UK, fully within the ERS rules. Profits from ERS relating to non-UK duties will be taxed to the extent they are remitted to the UK. Non-domiciled individuals who are taxed on the remittance basis will only be subject to tax on profits arising from ERS relating to overseas duties if the profits are remitted to the UK.

Anti-avoidance

A number of measures will be introduced to tackle anti-avoidance.

Restrictions on trade loss relief for individuals

With effect from 12 March 2008, the sideways relief for trading losses against income and capital gains is restricted where contrived arrangements have been put in place to generate losses for an individual. In addition, individuals who spend less than 10 hours per week on commercial activities of that trade will also have their loss relief restricted.

In situations where the trading loss arises as a result of tax avoidance arrangements made on or after 12 March 2008, no relief for the loss will be available. In situations where the individual does not satisfy the 10 hours per week commercial involvement in the trade, the annual limit for loss relief will be restricted to £25,000. This is similar to the restriction on loss relief for non active or limited partners in partnerships.

However, these restrictions will not apply to qualifying film expenditure or to losses of a Lloyd's underwriting business.

Controlled Foreign Companies (CFCs)

The CFC rules bring within the charge to UK Corporation Tax the profits of low taxed foreign companies that are controlled by UK persons in circumstances where the five exemptions provided for within the CFC rules do not apply.

With effect from 12 March 2008, Finance Bill 2008 provisions will be introduced to block a number of artificial avoidance schemes that rely on the use of a partnership or trust's to escape a CFC charge either by misusing one of the exemptions or by arranging for profits to be earned in a way intended to fall outside the scope of the CFC rules.

Other

Other anti-avoidance measures will tackle:

- Plant or machinery lease schemes
- 'Disguised interest' schemes
- The transfer of intangible assets between related parties where one party is subject to insolvency proceedings
- Capital allowance buying and acceleration
- Deductible amounts in calculating profits on employment related securities

Income tax and personal savings

Income tax rates

	2008/09	2007/08
Starting rate band	* see below	£2,230
Tax rate	10%	10%
Basic rate band	£36,000	£32,370
Basic rate	20%	22%
Savings rate	* see below	20%
Dividend ordinary rate	10%	10%
Higher rate – income over	£36,000	£34,600
Tax rate excluding dividends	40%	40%
Dividend upper rate	32.5%	32.5%

* 10% starting rate for savings income up to £2,320. Not applicable if taxable non-savings income exceeds £2,320.

Personal allowances

(ages are as at the end of the tax year)

		2008/09	2007/08
Allowances that reduce taxable income		£	£
Personal allowance	under 65	5,435	5,225
	65 to 74*	9,030	7,550
	75 and over*	9,180	7,690
	minimum	5,435	5,225
Allowances that reduce tax			
Married couple's allowance (MCA)			
Age of elder partner	74*	653.50	628.50
	75 and over*	662.50	636.50
	minimum	254.00	244.00

*Higher allowances for those aged 65 or more are scaled back when income exceeds £21,800 (2007/08 £20,900). MCA is only available where at least one partner was born before 6 April 1935.

Individual Savings Accounts (ISAs)

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.

Retrospective legislation will allow investors who withdrew cash from their Northern Rock ISAs between 13 and 19 September 2007 inclusive to reinvest in a new ISA between 18 October 2007 and 5 April 2008 without breaching their annual investment limits.

Gift aid transitional relief

Because the basic rate of tax is being reduced from 22% to 20%, the amount of tax reclaimable by UK charities, and community amateur sports clubs, under gift aid will be reduced. In order to compensate for this a transitional relief supplement of 2% will be applied to qualifying donations in the years 2008/09, 2009/10 and 2010/11.

Child Trust Fund (CTF): voucher requirement

For applications from 6 April 2009, regulations will be amended so that the parent will no longer have to hand over the voucher when opening a CTF account. Instead, CTF providers and distributors will be able to open accounts using essential information from the CTF voucher provided by the customer, such as the unique reference number, the child's date of birth and the voucher expiry date. This change will allow, for example, telephone and internet applications for CTF accounts to be made in a single paperless transaction without the need for the customer to post the voucher separately.

Saving Gateway

The Saving Gateway is a cash savings account for those on lower incomes. It provides a financial incentive to save, by the Government making a contribution for each pound that an individual saves under the scheme. The Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010.

Income shifting

Following the protracted case of husband-and-wife business Arctic Systems, which finally ended in defeat for HMRC last year, the Government has proposed legislation intended to reverse the tax advantage gained by income shifting arrangements. The Government has considered the responses received to the recent consultation and believes that a further period of consultation will ensure that legislation in this area provides clarity and certainty for businesses and their advisers. The Government now intends to introduce legislation in the Finance Bill 2009 and will not enact legislation effective from 6 April 2008.

Taxation of personal dividends

When dividends from UK resident companies are charged to tax, shareholders are entitled to a non-payable tax credit of one ninth of the distribution. Because tax is charged on the gross dividend received, including the tax credit, this lowers the effective rates of tax on these dividends at the personal level to 0% (basic rate taxpayers) and 25% (higher rate taxpayers).

The legislation in Finance Bill 2008 will extend the non-payable tax credit of one ninth of the distribution to UK resident individuals and UK and other EEA nationals in receipt of dividends from non-UK resident companies, if they own less than a 10% shareholding in the distributing non-UK resident company. This change will have effect from 6 April 2008. The previously announced proposal, that, in total, the individual must receive less than £5,000 of dividends a year from non-UK resident companies, has been withdrawn.

Tax payment and repayment

A package of measures will be introduced, with effect from Royal Assent, to make it easier for taxpayers to pay what they owe on time and effectively tackle those who seek to avoid their obligations by paying late. The measures involve accepting payment by credit card, setting off repayments of one tax against the debts in another, and aligning and modernising HMRC's civil debt enforcement powers.

Tax and travel

Car and fuel benefits

The taxable petrol and diesel car benefit is based on the car's CO₂ emissions. It is calculated using the car's UK list price and applying the 'appropriate percentage' as shown in the table below. The first line of figures in the table relate to the new category of qualifying low emissions cars (QUALECs).

The car fuel benefit is calculated by applying the same percentages to the fuel multiplier, which for 2008/9 is increased from £14,400 to £16,900.

The percentages are reduced for cars (except QUALECs) that can be driven on alternative fuels by:

- 2% for cars manufactured to be capable of being run on E85 fuel
- 2% for bi-fuel cars or those which run on LPG only

- 3% for hybrid electric and petrol cars
- 6% for electric only cars (in practice the taxable benefit will be 9% of the price).

VAT on fuel for private use in cars

Where businesses wish to reclaim the input VAT on fuel which has some degree of private use, they must account for output VAT on a scale charge. The table below shows the VAT chargeable for quarters commencing on or after 1 May 2008

CO2 emissions g/km	Appropriate percentage		Quarterly VAT	
	Petrol %	Diesel %	Fuel scale charge £	VAT on charge £
120 and below	10	13	138	20.55
121 - 139	15	18	207	30.83
140 - 144	16	19	221	32.91
145 - 149	17	20	234	34.85
150 - 154	18	21	248	36.94
155 - 159	19	22	262	39.02
160 - 164	20	23	276	41.11
165 - 169	21	24	290	43.19
170 - 174	22	25	303	45.13
175 - 179	23	26	317	47.21
180 - 184	24	27	331	49.30
185 - 189	25	28	345	51.38
190 - 194	26	29	359	53.47
195 - 199	27	30	373	55.55
200 - 204	28	31	386	57.49
205 - 209	29	32	400	59.57
210 - 214	30	33	414	61.66
215 - 219	31	34	428	63.74
220 - 224	32	35	442	65.83
225 - 229	33	35	455	67.77
230 - 234	34	35	469	69.85
235 and above	35	35	483	71.94

Mileage rates

Changes to the HMRC business mileage rates are announced from time to time. The current rates are as follows:

Vehicle	First 10,000 miles	Thereafter	Car – fuel only advisory rates		
			Engine capacity	Petrol	Diesel LPG
Car/van	40p	25p	up to 1400cc	11p	11p 7p
Motorcycle	24p	24p	1401 - 2000cc	13p	11p 8p
Bicycle	20p	20p	Over 2000cc	19p	14p 11p

The fuel only advisory rates can be applied as a tax-free maximum rate for employees claiming for petrol used on business journeys and for employees reimbursing their employers with the cost of petrol used for private journeys.

HMRC will consider claims for a higher maximum rate, if it can be demonstrated that it is necessary for an employee to use a car with higher than average fuel costs.

Car costs – VED rates

Vehicle Excise Duty ('Car Tax') rates also reflect emissions, with lower scale rates for cars using alternative fuels:

Band	CO2 emissions g/km	Petrol & Diesel	Alternative fuel cars	Band	CO2 emissions g/km	Petrol & Diesel	Alternative fuel cars
A	100 and below	£0	£0	E	166 - 185	£170	£150
B	101 - 120	£35	£15	F*	186 and above	£210	£195
C	121 - 150	£120	£100	G**	226 and above	£400	£385
D	151 - 165	£145	£125				

*Cars registered before 23 March 2006
**Cars registered from 23 March 2006

Company vans

The taxable benefit for the unrestricted private use of vans is £3,000. There is a further £500 taxable benefit if the employer provides fuel for private travel.

Van and fuel charge	Van	Fuel	Total
Tax (20% taxpayer)	£600	£100	£700
Tax (40% taxpayer)	£1,200	£200	£1,400
Employer's Class 1A NICs	£384	£64	£448

Value Added Tax

From		1 April 2008	1 April 2007
Standard rate		17.5%	17.5%
VAT fraction		$\frac{7}{47}$	$\frac{7}{47}$
		Turnover	Turnover
Registration	last 12 months or next 30 days over	£67,000	£64,000
Deregistration	next 12 months under	£65,000	£62,000
Cash Accounting Scheme	up to	£1,350,000	£1,350,000
Annual accounting scheme	up to	£1,350,000	£1,350,000
Optional flat-rate scheme	up to	£150,000	£150,000

Option to tax land and buildings

Legislation will be introduced for simplification of the option to tax land and/or buildings. It will also introduce minor changes to enable taxpayers to revoke an option to tax after 20 years and make a number of associated changes to improve practical administration of the option to tax.

The rewritten legislation will have effect on and after 1 June 2008. The earliest date an option to tax will be revocable will be 1 August 2009.

Indirect tax returns: correction of errors

Businesses registered for VAT, insurance premium tax (IPT), air passenger duty (APD), landfill tax (LFT), climate change levy (CCL) and aggregates levy (AGL) will have increases to the limit below which errors on previous returns may be corrected on the return for the period in which the errors are discovered. This measure will have effect for accounting periods commencing on or after 1 July 2008.

This measure increases the de minimis £2,000 limit to the greater of £10,000 or 1% of turnover, subject to an upper limit of £50,000 for VAT, IPT, LFT, CCL and AGL. For VAT, LFT, CCL and AGL errors above £10,000, the limit for correcting errors on the next return will be calculated by reference to net VAT turnover (Box 6 on VAT return) for the return period.

For IPT, this limit will be calculated by reference to the net IPT turnover (Box 10 on IPT return). APD procedures will be amended to increase the de minimis limit to the greater of £10,000 or 1% of duty due, before adjustments for errors from previous periods, subject to an upper limit of £50,000. For LFT, CCL and AGL taxpayers who are not required to be registered for VAT a single limit of £10,000 will have effect.

Insurance Premium Tax (IPT)

Overseas insurers will no longer be required to appoint a fiscal representative with joint and several liability. However, overseas insurers will still have a responsibility to account for IPT, either by registering themselves or through an agent, otherwise the insured will be liable for the IPT due.

Duties

Stamp duty and stamp duty land tax (SDLT)

Rates

There are no changes to the rates of stamp duty and stamp duty land tax apart from those noted below.

Rate thresholds for Leasehold properties

SDLT of 1% applies to leases where the premium exceeds £125,000 for residential properties or £150,000 for residential properties in disadvantaged areas and non-residential properties. A separate lease duty applies to lease rentals where the net present value of rent exceeds those thresholds. Where a payment is made of both premium and rent a special rule applies so that if the annual rent is more than £600, the normal threshold does not apply and SDLT is charged on the full amount of the premium at 1%. For transactions on or after 12 March 2008 the £600 threshold for this rule to apply is increased to £1,000 for non-residential properties. For residential properties, including those in disadvantaged areas, the previous rule will no longer apply and normal thresholds will apply in respect of premiums paid irrespective of whether rental is paid.

Administration

As from 13 March 2008 instruments transferring stocks and shares that were previously chargeable to £5 stamp duty will in future be exempt and will not have to be presented to HM Revenue and Customs for stamping. This will affect instruments subject to ad valorem stamp duty of 0.5% of the consideration given for shares of £1,000 or less and will also apply to the £5 fixed stamp duty charge for instruments transferring shares otherwise than on sale.

Notification threshold for stamp duty land tax

The threshold for notification of land transactions to HM Revenue and Customs will be raised to £40,000 from £1,000 in respect of non-leasehold transactions. Transactions involving leases for a term of seven years or more will only be notifiable where chargeable consideration other than rent is more than £40,000 or annual rent is more than £1,000.

Later in 2008, changes will be made to SDLT forms to allow agents to sign the declaration in the certificate that no SDLT is payable. In addition future changes will mean that it will not be necessary to complete a SDLT return or certificate that no SDLT is due where the transaction is below the notifiable threshold.

Anti- avoidance

Anti avoidance measures are introduced in relation to claims for SDLT group relief and alternative finance structures for transactions whose effective date is on or after 12 March 2008.

In addition further amendments are being made to legislation introduced in the Finance Act 2007 to tackle avoidance in relation to transfers of interests in property within property investment partnerships where there is no charge to SDLT.

Alcohol and tobacco products duty

Legislation will be introduced in Finance Bill 2008 to provide for the annual setting of duty rates for alcohol. Duty rates will increase by 6% in real terms for all alcoholic drinks. The impact of the changes on retail prices for typical alcoholic drinks and tobacco products is equivalent to:

- 55 pence on a 70cl bottle of spirits @ 37.5% abv
- 4 pence on a pint of beer
- 3 pence on a litre of still cider
- 14 pence on a 75cl bottle of sparkling cider
- 14 pence on a 75cl bottle of wine or made-wine
- 18 pence on a 75cl bottle of sparkling wine
- cigarettes: 11p on a packet of 20
- cigars: 4p on a packet of 5
- hand-rolling tobacco: 11p on 25g
- other smoking tobacco and chewing tobacco: 6p on 25g of pipe tobacco.

HMRC review of penalties for incorrect returns and failure to notify a taxable activity

For return periods ending on or after 1 April 2009, where the filing date is after 1 April 2010, the new penalty regime for incorrect returns introduced in 2007 for income tax, CGT, VAT, PAYE and NICs will be extended across all other taxes and duties. From 1 April 2009, the penalty regime for failure to notify HMRC of a new charge will be aligned across all taxes and duties.

The new provisions for incorrect returns will provide for penalties based on the amount of tax understated, the nature of the behaviour and the extent of disclosure by the taxpayer. There will be no penalty where a taxpayer makes a mistake but there will be a penalty of up to:

- 30% for failure to take reasonable care
- 70% for a deliberate understatement
- 100% for a deliberate understatement with concealment.

Each penalty will be substantially reduced where the taxpayer makes a disclosure (takes active steps to put right the problem), more so if this is unprompted.

National Insurance Contributions (NICs)

2008/09		Employer	Employee
Class 1 – not contracted out			
Lower earnings limit			£90
Weekly earnings bands			
Up to £105		Nil	Nil
£105.01 – £770		12.8%	11%
Over £770		12.8%	1%
Over state retirement age		12.8%	Nil
Class 1A	On relevant benefits	12.8%	Nil
Class 2	Self employed	£2.30 per week	
	Limit of net earnings for exception	£4,825 per annum	
Class 3	Voluntary	£8.10 per week	
Class 4*	Self employed on profits		
	£5,435 - £40,040		8%
	Excess over £40,040		1%

* Exemption applies if state retirement age was reached by 6 April 2008

Other measures announced

Dormant accounts - reporting and tax liability

Rule changes will mean that banks and building societies will only have to account for the 20% 'tax at source' and report the interest to HMRC when the customer reclaims their dormant account balance. Similarly, the customer will only be liable for any further tax due on the interest on such accounts when they reclaim their balance.

National disaster

In the event that taxpayers are adversely affected by events designated as national disasters, HMRC will waive interest and surcharges on tax paid late.

Tribunal reform

HMRC inherited two systems of tribunals when the former Inland Revenue and HM Customs & Excise merged. These are to be simplified under powers to be introduced in the 2008 Finance Act.

Funds of Alternative Investment Funds (FAIFs)

Taxation on certain offshore income gains of FAIFs can, under proposed new rules, be shifted from the fund to the investors. Authorised investment funds will be able to elect for a new tax treatment, making it exempt from tax on offshore income gains, which will in turn be taxable on the investor on the disposal of units in the fund.

Non-domiciliaries and the remittance basis

As announced last year, new rules for longer-term resident individuals who are not domiciled in the UK (non-doms) will come into force with effect from 6 April 2008.

Key to the new rules is a choice for non-dom adults with overseas income and gains of £2,000 or more in a tax year. Essentially, they can opt to have income and gains of the year taxed on the remittance basis (ie taxed in the UK only as and when they are remitted) and pay £30,000 or they can be taxed for the year on their worldwide income and gains (plus any income or gains from a 'remittance basis' year remitted in the year). The £30,000 will be a

payment in respect of tax on unremitted gains or income, allocated by the taxpayer, and available for credit when said gains or income is remitted (and should also be treated as such for relief under double taxation treaties with other taxing regimes).

Opting for the remittance basis will also mean that entitlement to the year's UK personal allowances and the CGT annual exemption is lost.

Also featuring are new definitions of remittances, catching money or gifts made outside the UK and brought in by a relative and also the import of assets bought outside the UK with untaxed income or gains. There are some exclusions, covering for example personal effects and assets brought temporarily to the UK, but perhaps most importantly the rules will not apply to assets bought out of untaxed foreign income and owned at 11 March 2008. These exclusions are in addition to the exclusion for works of art brought to the UK for public display, already announced. Foreign income and gains used to fund interest on offshore mortgages used to purchase UK houses will be taxed as a remittance but existing mortgages will be protected.

These changes will also apply to anyone who has been able to opt for the remittance basis because, though UK resident, they are not ordinarily resident.

New rules will apply from 6 April 2008 to give non-doms, including those opting to be taxed on the remittance basis, access to relief for capital losses when they are liable for tax on capital gains on the arising basis.

It is no longer possible to close a source and remit the income in the following tax year (closed source rule).

The rate on income tax chargeable on foreign dividend income remitted by individuals claiming the remittance basis will be corrected to 40% from 6 April 2008.

Employees who are resident but not ordinarily resident in the UK and receive shares or options as part of their remuneration will be liable for UK income tax on such employment-related securities (ERS). ERS gains derived from non-UK employment duties will be subject to income tax on the remittance basis. This will also apply to non-doms where the ERS income relates to a foreign employment, the duties of which are performed wholly outside the UK.

The Government's original proposals in relation to capital gains in offshore trusts and their underlying companies have been completely revised. Provisions that tax the settlor on trust gains will not apply to non-doms. Beneficiaries will be taxed on trust gains that can be attributed to capital distributions or benefits they receive. Remittance basis will be available to non-domiciled beneficiaries in relation to both UK and foreign assets, if claimed. There are provisions to exempt gains made before 5 April 2008 and trustees will be able to elect to rebase the CGT base cost of all assets to the 6 April 2008 value, where the gain is attributed to a non-domiciled beneficiary.

More detailed commentary will be available on the CLB LittleJohn Frazer website shortly.

Day counting

It had been announced that in counting the number of days present in the UK for the residence tests it would be necessary from 6 April 2008 to include the days of arrival and departure. The Chancellor announced that the rule will be to count midnights spent in the UK as a day of presence in the UK, except where the midnight falls at a time when one is present in the UK in transit between two places outside the UK – 'days' spent in transit will not be counted unless the individual engages in activities that are to a substantial effect unrelated to their passage (for example, attending a business meeting).

National Minimum Wage to rise in October

The National Minimum Wage rates will increase in October 2008. The main rate for adult workers will rise from £5.52 an hour to £5.73 an hour. The development rate for 18-21 year olds will rise by 17p, from £4.60 to £4.77. The rate for 16-17 year olds will rise by 13p, from £3.40 to £3.53.

2008/09 Tax Calendar

APRIL 2008

M	T	W	T	F	S	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

- 5 Last day of 2007/08 tax year.
Deadline for 2007/08 ISAs.
Last day to make disposals using the 2007/08 CGT exemption and the 'old' CGT rules.
Last date for contracting back into the State Second Pension for 2007/08.
- 14 Due date for income tax for the CT61 period to 31 March 2008.
- 19/22 Quarter 4 2007/08 PAYE remittance due.
- 20 Interest will begin to accrue on unpaid PAYE/NI for 2007/08.
- 30 Normal annual adjustment for VAT partial exemption calculations (monthly returns).

MAY 2008

M	T	W	T	F	S	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	30	31		

- 3 Last day for notifying car changes in quarter to 5 April – P46 (Car).
- 19 Last day for filing forms P14, P35, P38, and P38A – 2007/08 PAYE returns, without incurring penalties.
- 31 Last day to issue 2007/08 P60s to employees.

JUNE 2008

M	T	W	T	F	S	S
30						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

- 30 End of CT61 quarterly period.
Last day for UK businesses to reclaim EC VAT chargeable in 2007.
Annual adjustment for VAT partial exemption calculations (March VAT year end).

JULY 2008

M	T	W	T	F	S	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

- 6 Deadline for submission of Form 42 (transactions in shares and securities).
Deadline for submission of EMI40 (EMI Annual Return).
File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds. Issue copies of P11Ds or P9Ds to employees.
- 14 Due date for income tax for the CT61 period to 30 June 2008.
- 19/22 Quarter 1 2008/09 PAYE remittance due.
Final date for payment of 2007/08 Class 1A NICs.
- 31 Second self assessment payment on account for 2007/08.
Annual adjustment for VAT partial exemption calculations (April VAT year end).
Liability to 2nd £100 penalty arises for 2007 Tax Return still not filed.
5% surcharge on any tax unpaid for 2006/07.

AUGUST 2008

M	T	W	T	F	S	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

- 2 Last day for notifying car changes in quarter to 5 July – P46 (Car).
- 31 Annual adjustment for VAT partial exemption calculations (May VAT year end).
Deadline for tax credit Annual Declaration (if estimated, final figures required by 31 January 2009).

SEPTEMBER 2008

M	T	W	T	F	S	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

- 30 End of CT61 quarterly period.

OCTOBER 2008

M	T	W	T	F	S	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

- 1 Due date for payment of Corporation Tax for period ended 31 December 2007.
- 5 Individuals/trustees must notify HMRC of new sources of income/chargeability in 2007/08 if a Tax Return has not been received.
- 14 Due date for income tax for the CT61 quarter to 30 September 2008.
- 19/22 Quarter 2 2008/09 PAYE remittance due.
- 31 Last day to file 2008 paper Tax Return.

NOVEMBER 2008

M	T	W	T	F	S	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

- 1 Please ensure you are retaining your documents for the 2009 Tax Return.
- 2 Last day for notifying car changes in quarter to 5 October – P46 (Car).

DECEMBER 2008

M	T	W	T	F	S	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

- 30 Last day to file your 2008 Tax Return electronically if you wish to have a 2007/08 balancing payment of less than £2,000 collected through your 2009/10 PAYE code.
- 31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2008.
End of relevant year for taxable distance supplies to UK for VAT registration purposes.
End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.
End of CT61 quarterly period.
Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2007.

JANUARY 2009

M	T	W	T	F	S	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

- 1 Due date for payment of Corporation Tax for period ended 31 March 2008.
- 14 Due date for income tax for the CT61 quarter to 31 December 2008.
- 19/22 Quarter 3 2008/09 PAYE remittance due.
- 31 First self assessment payment on account for 2008/09.
Capital gains tax payment for 2007/08.
Balancing payment – 2007/08 income tax/class 4 NICs.
Last day to renew 2008/09 tax credits.
Deadline for amending 2006/07 Tax Return.
Last day to file the 2008 Tax Return online.

FEBRUARY 2009

M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	

- 1 £100 penalty if 2008 Tax Return not yet filed. Additional penalties may apply for further delay. Interest starts to accrue on 2007/08 tax not yet paid.
- 2 Last day for notifying car changes in quarter to 5 January – P46 (Car).
- 14 Last date (for practical purposes) to request NIC deferment for 2008/09.
- 28 Last day to pay any balance of 2007/08 tax and Class 4 NIC to avoid an automatic 5% surcharge.
- 26

MARCH 2009

M	T	W	T	F	S	S
30	31					1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29

- 31 End of corporation tax financial year.
End of CT61 quarterly period.
Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2008.

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