
BUDGET

12 March 2008

This was Chancellor Alistair Darling's first budget. He described it as a budget for stability and opportunity.



KEY POINTS

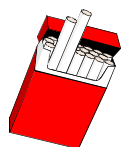
- ◆ **Cigarette and Alcohol duties up**
- ◆ **Major reform of Vehicle Excise Duties from 2009**
- ◆ **Changes to the taxation of Non-domiciles**
- ◆ **Capital Gains Tax reforms confirmed**
- ◆ **Corporation Tax main rate cut by 2%**

This booklet contains information announced by Mr Darling in his budget together with the associated press releases. It also includes details of the many tax changes announced by the Chancellor prior to budget day and incorporates some measures, which were announced in last year's budget. Some of the contents therein may change before the Finance Act 2008 becomes statute.

SUMMARY OF RATES AND ALLOWANCES

	<u>2008/09</u>	<u>2007/08</u>
Income Tax		
- Personal Allowance	£5,435	£5,225
- Lower Rate of Income Tax	abolished	10%
- Basic Rate of Income Tax	20%	22%
- Basic Rate Applies above	N/A	£2,230
- Higher Rate of Income Tax	40%	40%
- Higher Tax Rate Applies above	£36,000	£34,600
Capital Gains Tax (Individuals & trusts)		
- Rate of Tax	18%	10% to 40%
- Annual Exemption	£9,600	£9,200
Corporation Tax		
- Small Companies Rate	21%	20%
- Small Companies Profit Limit	300,000	300,000
- Full Rate	28%	30%
Inheritance Tax		
- Nil Rate Band	£312,000	£300,000
Value Added Tax		
- Registration Limit	£67,000	£64,000
Pensions		
- Pensions Scheme Earnings Cap	N/A	N/A
- Annual Contribution Allowance	£235,000	£225,000
- Lifetime Allowance	£1.65m	£1.6m

EXCISE DUTIES (including VAT effect)



Cigarettes	Increase 11p per packet of 20
Cigars	Increase 4p per packet of 5 small cigars
Tobacco (hand rolling)	Increase 11p per 25g pack
Tobacco (other)	Increase 6p per 25g pack



Beer	Increase 4p per pint
Cider	Increase 3p per litre



Spirits	Increase 55p per 70cl bottle
Wine	Increase 14p per 75cl bottle
Sparkling wine	Increase 18p per 75cl bottle



Petrol - Sulphur Free	Increase 2p per litre from 1.10.08
Diesel - Sulphur Free	Increase 2p per litre from 1.10.08
Petrol - Ultra Low Sulphur	Increase 2p per litre from 1.10.08
Diesel - Ultra Low Sulphur	Increase 2p per litre from 1.10.08

VEHICLE EXCISE DUTY (VED)

VED bands for cars registered from 1 March 2001

VED band	CO ₂ Emissions (g/km)	VED Rate		
		Petrol Car	Diesel Car	Alternative Fuel Cars
A	100 and below	£0	£0	£0
B	101 to 120	£35	£35	£15
C	121 to 150	£120	£120	£100
D	151 to 165	£145	£145	£125
E	166 to 185	£170	£170	£150
F	186 and above*	£210	£210	£195
G	226 and above**	£400	£400	£385

* Cars registered before 23 March 2006 ** Cars registered on or after 23 March 2006

VED band for cars registered before 1 March 2001

Engine size	VED Rate
1549cc and below	£120
Above 1549cc	£185

Changes to VED rates will take effect from 13 March 2008.

PERSONAL TAXATION

PERSONAL TAX ALLOWANCES

		<u>2008/09</u>	<u>Increase</u>	<u>2007/08</u>
		£	£	£
Personal Allowance	(aged 64 and under)	5,435	210	5,225
	(aged 65-74) *	9,030	1,480	7,550
	(aged 75 and over) *	9,180	1,490	7,690
Married Couples Allowance **	(aged 71-74)*	6,535	250	6,285
	(aged 75 and over)*	6,625	260	6,365
	Minimum amount	2,540	100	2,440
Blind Persons Allowance		1,800	70	1,730
Age Allowance Lower Income Limit		21,800	900	20,900

* Abatement of Relief for age allowance by £1 for every £2 over income limit.

** This allowance attracts relief at a rate of 10%.

INCOME TAX RATES

<u>Tax %</u>	<u>2008/09</u>	<u>Tax %</u>	<u>2007/08</u>
20	£0 - £36,000	10	£0 - £2,230
40	Over £36,000	22	£2,231 - £34,600
		40	Over £34,600

There will be a new 10% starting rate for savings income only, with a limit of £2,320. If an individual's taxable non-savings income is above this limit then the 10% savings rate will not be applicable.

There is no change to the taxation treatment of dividends.

LOSS RELIEF

If a sole trader makes a loss then this can be offset against other income. New rules are being introduced so that if a person works for less than 10 hours per week in a business then such sideways loss will be restricted.

NON DOMICILES

The government have confirmed their intention to introduce a tax charge for non UK domiciles.

Generally a UK resident has to pay UK income or capital gains tax on all income and gains on a worldwide basis. If an individual is non UK domicile then they only have to pay tax on non UK income or gains to the extent that the proceeds are remitted to the UK. This has made the UK attractive to many high worth individuals. From 6 April 2008 if an individual has been UK resident for more than 7 of the last 10 years then they will have to pay tax on their worldwide income unless they chose one of the following:

- a) they can declare that the non-remitted income is less than £2,000
- or
- b) they can pay an annual lump sum tax payment of £30,000.

The choice whether or not to pay tax on their worldwide income can be made each year.

An individual who chooses to pay the £30,000 also loses their entitlement to a UK personal allowance.

GH comment

There has been a mixed reaction to the proposal to change the basis of taxation for non UK domiciles.

Some commentators have said this new charge could drive successful businessmen offshore.

The main change to the previously announced draft legislation is that the £30,000 is now a tax not a charge which should make it eligible for double taxation relief if required.

CAR BENEFIT

There are no changes announced in the benefit structure for company cars.

Where a car is made available for an employee's private use, a taxable benefit arises.

Company car tax is calculated by applying a percentage to the list price of the car. The percentage is related to the CO₂ emissions of the car and ranges from 15 per cent to 35 per cent in 1 per cent increments. Most diesel cars attract a 3 per cent supplement on petrol percentages (also capped at 35 per cent). A new lower rate of 10 per cent for cars with CO₂ emissions of exactly 120 grams per kilometre or less (13 per cent for most diesels) will have effect on and after 6 April 2008.

The car benefit tables are set out at the back of this booklet.

CAR FUEL BENEFIT

If private fuel is provided, the benefit is calculated by multiplying £16,900 by the Relevant Scale Percentage as calculated for the car benefit above.

The fuel scale benefit does not apply if the employee makes good all the cost of fuel used for private use. Journeys between home and place of work are regarded as private motoring.

Discounts apply for cars using alternative fuels.

PRIVATE FUEL IN COMPANY CARS

If instead of having private fuel an employee with a company car pays for all petrol, an employer can reimburse as follows for business mileage.

	<u>Petrol</u> <u>per mile</u>	<u>Diesel</u> <u>per mile</u>
Under 1400 cc	11p	11p
1400 cc – 2000 cc	13p	11p
Over 2000 cc	19p	14p

AUTHORISED INLAND REVENUE MILEAGE RATES

These are the amount an employer can pay if an employee uses their own car for business.

Business Mileage

First 10,000 miles	40p per mile
Excess over 10,000 miles	25p per mile

Rates for other modes of transport are:

Motor Cycles	24p per mile
Bicycles	20p per mile

If employers pay higher rates the amount paid in excess of the statutory rates will be liable to tax and National Insurance.

OTHER BENEFITS/LIMITS

	<u>2008/09</u>	<u>2007/08</u>
	£	£
Vans used for private use	3,000	3,000
Fuel in vans for private use	500	500

For the purpose of the van benefit (but not for cars) commuting does not count as private use.

GH comment

Company cars and vans are always a key topic for employees, however sometimes the tax cost of providing the benefit cannot really be justified. You should always carry out a detailed analysis of all costs involved to ensure the correct decision has been made.

BUSINESS TAXATION

CORPORATION TAX

Corporation Tax rates have been changed again this year. They are as follows:-

	From 01 April <u>2008</u>	From 01 April <u>2007</u>
Profits up to £300,000	21%	20%
£300,001-£1,500,000	29.75%	32.5%
Then £1,500,001 onwards	28%	30%

The above profit rate bands need to be divided by the number of associated companies for tax purposes.

The small companies' rate will increase to 22% from 1 April 2009 with the marginal rate increasing to 29.5%.

GH comment

We would highlight that substantial savings can still be made by incorporation and company structures give opportunities for tax planning.

CAPITAL ALLOWANCES ON PLANT AND MACHINERY

These have been reformed from 1 April 2008 for companies and for 6 April 2008 for unincorporated businesses.

A new annual investment allowance is being introduced which will give a 100% allowance on the first £50,000 spent on plant and machinery (but excluding motor cars) during a 12 month period.

The limit of £50,000 is adjusted pro rata for accounting periods that are either longer or shorter than 12 months.

If a company is part of a group the limit of £50,000 is shared between all companies within the group.

From April 2008 the rate of writing-down allowances in the general pool will be reduced from 25% to 20%. This includes expenditure above the £50,000 limit.

From April 2008 the rate of writing-down allowances on long-life assets will increase from 6% to 10%.

From April 2008 the rate of writing down allowances on integral fixtures will be reduced from 25% to 10%.

SMALL PLANT AND EQUIPMENT POOLS

For accounting periods commencing on or after 1 April 2008 where unrelieved expenditure in the mini pool is £1,000 or less new legislation is to be enacted allowing businesses to claim all of this as a writing down allowance in that year.

GH comment

For small businesses the new 100% AIA will be welcome, larger businesses are likely to be worse off as they see a reduction in writing down allowances.

Also individuals or companies buying commercial buildings will lose out because of the reduction in allowances for integral fixtures. Anybody who owns a commercial building (whenever bought) should ensure they have maximised their capital allowances claim.

INDUSTRIAL & AGRICULTURAL BUILDINGS ALLOWANCES

This is an allowance available for buildings used for manufacturing and for hotels. The rate of 4% applicable for 2007/08 is being reduced as follows:

2008/09	3%
2009/10	2%
2010/11	1%
2011/12 onwards	0%

LANDFILL TAX

The standard rate of landfill tax is to be increased from £24 to £32 per tonne. The £32 per tonne rate applies to any standard rated disposal of waste made or treated as made on or after 1 April 2008. This will be increased to £40 from 1 April 2009.

VENTURE CAPITAL SCHEMES

From 6 April 2008 and subject to European Commission approval, the amounts individuals can invest in any one year will be increased from £400,000 to £500,000.

The above includes Enterprise Investment Schemes (EIS), Corporate Venturing Schemes (CVS) and Venture Capital Trust Schemes (VCT). In addition the activities of shipbuilding and coal and steel production will be excluded from all three schemes.

ENTERPRISE MANAGEMENT INCENTIVES

Where companies want to incentivise their employees they can offer share options under EMI schemes.

Thus changes have been introduced limiting EMI's to companies with fewer than 250 employees and increasing the limit of the £100,000 grant limit to £120,000.

GH comment

Share schemes can be a tax efficient way of rewarding employees for their involvement in your business. Bespoke schemes can be set up to meet your individual requirements.

VALUE ADDED TAX

REGISTRATION

The annual registration limit is being increased by £3,000 to £67,000 with effect from 1 April 2008. A trader is required to register if

- a) Turnover of £67,000 is expected within the next thirty days.
- or b) The trader at the end of any month has exceeded turnover of £67,000 in the past twelve months.

If at the end of any month a persons taxable turnover in the past twelve months or less exceeds £67,000, but Customs are satisfied that it will not exceed £65,000 in the next twelve months, that person will not have to be registered.

For those considering cancellation of their registration the turnover limit within the last 12 months is also increased by £3,000 to £65,000.

CASH ACCOUNTING SCHEME

No changes were made to the Cash Accounting Scheme. The annual turnover limit which businesses can start to use the scheme remains at £1.35million. The limit above which businesses must leave the scheme remains at £1.6million.

FUEL SCALE CHARGE

The VAT fuel scale charges apply where cars have private use and where input tax is claimed on fuel. The basis of calculating the charge is based on carbon dioxide emissions.

The car scale charge table is set out at the back of this booklet.

Rates for monthly returns or other non regular VAT periods are adjusted pro-rata.

CORRECTION OF ERRORS

If an error is made on a VAT return at present it can only be amended on the next return if it is less than £2,000. Above this figure a separate form is required. For periods commencing on or after 1 July 2008 this limit is being increased to the greater of £10,000 or 1% of turnover, subject to a maximum of £50,000.

CAPITAL GAINS TAX

ANNUAL EXEMPTION

The annual exemption for an individual will be increased by £400 to £9,600 (trusts £4,800) for the tax year 2008/09.

RATE FOR INDIVIDUAL & TRUSTEES

As previously announced from 6 April 2008 the rate of capital gains on disposals by individuals and trustees will be 18%.

The gain will be calculated as the selling price less the cost price (or its value at 31 March 1982 if held at that date). The adjustment for the movement in the retail price index between 1982 and 1998 has gone.

RATE FOR COMPANIES

There has been no change to CGT for Companies, the rate depends on the company's rate of Corporation Tax. The gain therefore will continue to be calculated as the selling price less the cost price (or 31 March 1982 value) with full adjustment for the change in the retail price index from acquisition (or 1982) to the date of sale.

TAPER RELIEF

This has been abolished from 6 April 2008.

ENTREPRENEUR RELIEF

To compensate for the withdrawal of business taper relief a new relief is being introduced for certain business disposals. This relief reduces the rate of tax by 4/9ths leaving an effective rate of 10%. It will apply to:

- (a) Shares in a qualifying limited company
- (b) Sale of an unincorporated business
- (c) Sale of assets at the same time as "a" or "b" or on retirement.

It only applies to the first £1million of gain.

It will not apply to:

- (i) Sale of individual assets without a disposal of the business
- (ii) The sale of a commercial property rented out to a third party
- (iii) The sale of any asset rented to your own company for a full market rent

To be a qualifying limited company, an individual must, at the time of sale, have held the shares for one year, been an officer or employee of the company, and owned at least 5% of the voting shares in issue.

If a business has actually ceased the conditions apply to one year from the date trading ceased, and the actual disposal must be within 3 years.

Where the legislation permits deferral of gains for example if they are rolled over into qualifying corporate bonds then providing the relief would have applied on the original disposal then it will also be available on the final disposal.

GH comment

The announcement in the pre-budget report last October that Capital Gains Tax was to be reformed came as a major surprise. The main losers of the new regime are shareholders in unquoted trading companies, investors in commercial property, sole traders and partners. Whilst the introduction of the entrepreneur relief helps some people the new relief does not mirror the definition of business assets for taper relief.

Companies holding assets are still able to only pay Capital Gains Tax on gains adjusted by the movement in the retail price index, whereas for individuals and trusts some of the gain being taxed only relates to inflation.

INHERITANCE TAX

RATES

<u>Tax Rate on Death</u>	<u>2008/09</u>	<u>2007/08</u>
Nil	£	£
40%	0 – 312,000	0 - 300,000
	over 312,000	over 300,000

Future nil rate bands are expected to be £325,000 for 2009/10 and £350,000 for 2010/11.

Potentially Exempt Transfers are still available for most lifetime transfers. Lifetime chargeable transfers above the nil rate band to most trusts are taxed at 20%.

Annual gifts of capital not exceeding £3,000 or small gifts of £250 per person remain exempt.

TRANSFERABLE ALLOWANCE

The Chancellor confirmed the announcement in the Pre-Budget Report on 9 October 2007 that if a person dies without using their nil rate band then the unused proportion of that band is transferred to the surviving spouse.

The rule is backdated so that even if the first spouse died before 9 October then the transfer is still available on the second death.

GH comment

Although the transfer of unused allowances is welcome and will help married couples, Inheritance Tax remains a concern for many people. It is still possible to fall into traps and miss planning opportunities. We would therefore still advise that a detailed Inheritance Tax calculation is carried out, linked with a review of your will.

MISCELLANEOUS

INDIVIDUAL SAVINGS ACCOUNTS (ISA's)

The Government announced that the ISA limits of £7,200 maximum (£3,600 for cash) were confirmed as previously announced.

STAMP DUTY LAND TAX

No changes to the rates of stamp duty were announced which remain:

Rate

Zero	£0 - £125,000	Residential
	£0 - £150,000	Commercial & Residential in disadvantaged area
1%	£125,001- £250,000	Residential
	£150,001 - £250,000	Commercial & Residential in disadvantaged area
3%	£250,001 - £500,000	All property
4%	Over £500,000	All property

GIFT AID – TRANSITIONAL RELIEF

Gift Aid claims for donations will from April 2008 be processed as previously but using the new 20 per cent basic rate of income tax. In order to lessen the loss of income of charities the government will pay a transitional relief supplement of 2% made to qualifying donations made in the years 2008/09, 2009/10 and 2010/11.

GH comment

This is a welcome amendment for Charities and will mean their income does not fall immediately following the basic rate tax reduction.

NATIONAL INSURANCE

Rates and thresholds are set out below.

2008-09

2007-08

Class 1	Weekly £	Monthly £	Yearly £	Weekly £	Monthly £	Yearly £
Lower Earnings Limit	90	390	4,680	87	377	4,524
Earnings threshold	105	455	5,460	100	435	5,225
Upper Earnings Limit (UEL)	770	3,337	40,040	670	2,904	34,840
	Employees' contributions	Employers' contributions		Employees' contributions	Employers' contributions	
Not contracted out						
Earnings between Earnings threshold and Upper Earnings Limit	11%	12.8%		11%	12.8%	
Earnings above Upper Earnings Limit	1%	12.8%		1%	12.8%	
Contracted out						
Earnings between Earnings threshold and Upper Earnings Limit	9.4%	12.8%		9.4%	12.8%	
Earnings above Upper Earnings Limit	1%	12.8%		1%	12.8%	

Class 1A (Employers)		
On Benefits in Kind	12.8%	12.8%

Class 2 (Self-employed)		
Flat rate	£2.30 per week	£2.20 per week
Small earnings exception	£4,825 per year	£4,635 per year

Class 3 (Voluntary)	£8.10 per week	£7.80 per week
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Class 4 (Self-employed)		
Lower Annual Profits Limit	£5,435	£5,225
Upper Annual Profits Limit	£40,040	£34,840
Profits between lower and upper limit	8%	8%
Profits above upper limit	1%	1%

GH comment

National Insurance is a tax by another name and should be considered with all other tax planning.

From April 2009 the government will increase the UEL for National Insurance to fully align it with the higher rate threshold. These reforms will mean that there are only two main rates of income tax and that income tax and NIC's rates will apply to the same bands of income.

TABLES

CAPITAL GAINS TAX TAPER RELIEF

For disposals made prior to 6 April 2008

<u>Length of ownership</u> (see note)	Business Assets		Non-Business Assets	
	<u>Rate of Relief</u>	<u>Effective rate for higher rate taxpayer</u>	<u>Rate of Relief</u>	<u>Effective rate for higher rate taxpayer</u>
Under 1 year	Nil	40%	Nil	40%
1 year	50%	20%	Nil	40%
2 years	75%	10%	Nil	40%
3 years	75%	10%	5%	38%
4 years	75%	10%	10%	36%
5 years	75%	10%	15%	34%
6 years	75%	10%	20%	32%
7 years	75%	10%	25%	30%
8 years	75%	10%	30%	28%
9 years	75%	10%	35%	26%
10 years and over	75%	10%	40%	24%

Note:-

- for the purpose of taper relief, periods of ownership prior to 6 April 1998 are ignored
- non-business assets held on 16 March 1998 qualify for a bonus year for taper relief
- taper relief only applies to individuals and trusts, not companies
- for assets acquired before April 1998 indexation allowance still applies on the acquisition price or the March 1982 value until April 1998
- this table does not apply for any disposals after 5 April 2008 as taper relief is being abolished

CO₂ EMISSIONS TABLE

CO ₂ emissions in grams per kilometre	CAR BENEFIT SCALE		FUEL BENEFIT SCALE			
	Percentage of car's price taxed		Percentage applied to £16,900	Fuel Benefit £	Percentage applied to £14,400	Fuel Benefit £
	2008/09	2007/08	2008/09		2007/08	
120	10%	15%	10%	1,690	15%	2,160
135	15%	15%	15%	2,535	15%	2,160
140	16%	15%	16%	2,704	15%	2,160
145	17%	16%	17%	2,873	16%	2,304
150	18%	17%	18%	3,042	17%	2,448
155	19%	18%	19%	3,211	18%	2,592
160	20%	19%	20%	3,380	19%	2,736
165	21%	20%	21%	3,549	20%	2,880
170	22%	21%	22%	3,718	21%	3,024
175	23%	22%	23%	3,887	22%	3,168
180	24%	23%	24%	4,056	23%	3,312
185	25%	24%	25%	4,225	24%	3,456
190	26%	25%	26%	4,394	25%	3,600
195	27%	26%	27%	4,563	26%	3,744
200	28%	27%	28%	4,732	27%	3,888
205	29%	28%	29%	4,901	28%	4,032
210	30%	29%	30%	5,070	29%	4,176
215	31%	30%	31%	5,239	30%	4,320
220	32%	31%	32%	5,408	31%	4,464
225	33%	32%	33%	5,577	32%	4,608
230	34%	33%	34%	5,746	33%	4,752
235	35%	34%	35%	5,915	34%	4,896
240 or above	35%	35%	35%	5,915	35%	5,040

- Diesels attract a surcharge of 3% subject to a maximum of 35%. For Vehicles registered prior to 1 January 2006 which meet the Euro IV emissions standard no surcharge is applied.
- CO₂ emissions are rounded down to the nearest 5 grams, except between 121-134 in which case they are rounded up to 135g
- For cars which are too old to have CO₂ emissions figures, HMRC have prescribed a level of emissions by reference to the vehicle's engine capacity (c.c.)
- No change to the car benefit scale is proposed for 2008/09
- From 2010-11 the lower threshold will reduce by 5g/km to 130g/km

VAT FUEL SCALE CHARGES

CO ₂ emissions in grams per kilometre	VAT FUEL SCALE CHARGES			VAT FUEL SCALE CHARGES		
	For 3 month periods Return periods commencing on or after 1 May 2008			For 3 month periods Return periods commencing on or after 1 May 2007		
	VAT fuel scale charge £	VAT £	VAT exclusive £	VAT fuel scale charge £	VAT £	VAT exclusive £
120 or less	138.00	20.55	117.45	182.00	27.11	154.89
125	207.00	30.83	176.17	182.00	27.11	154.89
130	207.00	30.83	176.17	182.00	27.11	154.89
135	207.00	30.83	176.17	182.00	27.11	154.89
140	221.00	32.91	188.09	182.00	27.11	154.89
145	234.00	34.85	199.15	195.00	29.04	165.96
150	248.00	36.94	211.06	207.00	30.83	176.17
155	262.00	39.02	222.98	219.00	32.62	186.38
160	276.00	41.11	234.89	231.00	34.40	196.60
165	290.00	43.19	246.81	243.00	36.19	206.81
170	303.00	45.13	257.87	256.00	38.13	217.87
175	317.00	47.21	269.79	268.00	39.91	228.09
180	331.00	49.30	281.70	280.00	41.70	238.30
185	345.00	51.38	293.62	292.00	43.49	248.51
190	359.00	53.47	305.53	304.00	45.28	258.72
195	373.00	55.55	317.45	317.00	47.21	269.79
200	386.00	57.49	328.51	329.00	49.00	280.00
205	400.00	59.57	340.43	341.00	50.79	290.21
210	414.00	61.66	352.34	353.00	52.57	300.43
215	428.00	63.74	364.26	365.00	54.36	310.64
220	442.00	65.83	376.17	378.00	56.30	321.70
225	455.00	67.77	387.23	390.00	58.09	331.91
230	469.00	69.85	399.15	402.00	59.87	342.13
235	483.00	71.94	411.06	414.00	61.66	352.34
240 or above	483.00	71.94	411.06	426.00	63.45	362.55

- For Bi-fuel vehicles, which have two CO₂ emissions figures, the lower of the two figures is used for VAT purposes

NOTES