

2007

# Pre Budget Report

On 9th October 2007 Alistair Darling presented his first major statement as Chancellor when he delivered the Pre Budget Report. He took the opportunity to announce some major changes in legislation.

## **CAPITAL GAINS TAX REFORM FOR INDIVIDUALS & TRUSTS**

The Chancellor announced that legislation will be included in his next budget to change and simplify the Capital Gains Tax regime.

The changes will include:

- The withdrawal of Taper Relief
- The withdrawal of indexation allowance
- The use of March 1982 values is now mandatory.
- Simplification of the share identification rules on disposals

Any gain will then be taxed after the Annual Exempt Amount at a flat rate of 18%.

This replaces the rules in relation to Taper Relief and Business Assets and Non-Business Assets introduced by Gordon Brown.

Certain reliefs such as Principal Private Residence Relief, Roll over Relief, Enterprises Investments Scheme and Venture Capital Trusts will all still be available.

***UHY George Hay Comment*** – *This is a major shake up of the Capital Gains Tax legislation and as the rules concerning disposals do not come into effect until after 5th April 2008 it gives a large window of opportunity for some tax planning. Currently Business Asset Taper Relief can be used to reduce gains so that an effective rate of tax of just 10% can be achieved on some disposals.*

*There are a number of ways which this 10% charge can be triggered and advice should be sought at your earliest convenience from your UHY George Hay adviser.*

*This new single rate will also mean that some non-business disposals should be deferred until after next April to take advantage of a potentially lower rate of tax, in some cases the reduction will be from 40% to 18%.*

**Key losers:**

- *Shareholders in trading companies, selling after 5 April 2008*
- *Partners retiring after 5 April 2008 where there are payments of goodwill*
- *Partners & Sole traders selling their business after 5th April 2008*

**Key winners:**

*Investors in property who will now only have to pay tax at a rate of 18%, previously the best rate was 24% after holding the asset for 10 years.*

### **INHERITANCE TAX (IHT)**

The Chancellor announced that legislation will be introduced in the Finance Bill 2008 which will allow a claim to be made to transfer any unused IHT nil rate band on a persons death to the estate of their surviving spouse or civil partner who dies on or after 9th October 2007. This will apply where the IHT nil rate band of the first deceased spouse or civil partner was not fully used in calculating the IHT liability of their estate.

For example: If on the first death the chargeable estate is £150,000 and the nil rate band is £300,000 (rate currently in force for 2007/08), 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.

The claim for the unused nil rate band will be made by the personal representative of the estate of the surviving spouse or civil partner to die when they make an IHT return. It is therefore important that information is retained relating to the first death so that the claim can be made.

***UHY George Hay Comment** – Where clients have already drafted effective wills using nil rate band trusts, these new proposals make no difference at all.*

*Probably the most important part of the announcement was that it does not matter when the first person died. Therefore widows or widowers whose late spouse carried out no IHT planning now could find themselves with two nil rate bands.*

### **INCOME SHIFTING – ARTIC SYSTEMS**

In a press release the government confirmed again that they would continue to attack small businesses where income is 'shifted' to a second person to obtain a tax advantage. The legislation will come into effect from 2008/09 but any firm proposals have still to be announced.

***UHY George Hay Comment** – The Government continues to attack businesses where dividends are used to split income between couples, so in their opinion smaller businesses and their owners pay a 'fair' amount of tax, after they lost the Artic Systems case recently.*

### **AIR PASSENGER DUTY(APD)**

The Government have announced that from 1 November 2009 they intend to replace APD with a tax payable per plane rather than per passenger. In the meantime, they will introduce measures from 1 November 2008 to amend at what rate passengers pay, whether at the full or reduced rate, depending on "seat pitch" or "leg room".

***UHY George Hay Comment** – In what seems a response to the Conservatives proposals at their recent conference the Government will look at ways to raise more taxes by taxing any plane rather than the passengers that fly in them.*

## RESIDENCE & DOMICILE REVIEW

Current rules mean that UK residents who are not domiciled or not ordinarily resident within the UK can currently use the remittance basis of taxation. This means that any income and capital gains arising overseas are only taxed here when that income or gain is remitted into the UK.

Proposed changes from 6th April 2008

After a non-domiciled individual has been resident in the UK for 7 years they will only be able to use the remittance basis of taxation if they pay an additional tax charge of £30,000 a year. Where an individual then decides not to use the remittance basis (and not pay the additional tax charge) they will be taxed on all their worldwide income or gains whether or not they are remitted to the UK.

If for example an individual not domiciled within the UK who has been resident in the UK for 5 years in April 2008 will only be able to claim the remittance basis of taxation for 2 more years before they have to pay either the £30,000 annual tax charge or account for tax under the arising basis.

*UHY George Hay Comment – This new charge is obviously politically motivated. It will be interesting to see how this is policed.*

## INCOME TAX SELF ASSESSMENT – INCREASE IN PAYMENT ON ACCOUNT THRESHOLD

From 2009/10 the threshold below which taxpayers do not need to make in year payments on account has been doubled from £500 to £1,000. The first POA affected will be those in January and July 2010.

## FUEL BENEFIT CHARGE

Employees who drive company cars and receive private fuel from their employer currently pay tax based on £14,400 multiplied by their CO<sub>2</sub> factor. This sum is to increase to £16,900 from 6th April 2008.

*UHY George Hay Comment – Any employer who pays for private fuel for their employees should consider ceasing this in most cases, as both parties usually benefit from the change.*

Legislation to implement these proposals will not be enacted until Finance Act 2008. Therefore any tax planning should be undertaken with care.

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