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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 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 Focus

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.

Vehicle Excise Duty

Band	CO ₂ emissions g/km	Petrol & Diesel	Alternative fuel cars
A	100 and below	£0	£0
B	101 - 120	£35	£15
C	121 - 150	£120	£100
D	151 - 165	£145	£125
E	166 - 185	£170	£150
F*	186 and above	£210	£195
G**	226 and above	£400	£385

* Cars registered before 23 March 06 ** Cars registered from 23 March 06

2008

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Changes in Business Taxation

The Chancellor confirmed the changes to the capital allowance regime, announced in 2007, will take effect from April 2008.

Companies with unrelieved losses attributable to Enhanced Capital Allowances, on energy saving or environmentally beneficial equipment, may choose to surrender such losses for a cash payment.

Annual Investment Allowance (AIA)

Tax relief on the first £50,000 of investment in plant and machinery, except for cars, will be at 100%. This will apply to any size of business, but there will be provisions to prevent multiple claiming. Businesses will be able to allocate their AIA in any way they wish; so it will be quite acceptable for them to allocate their allowance against expenditure otherwise qualifying for a low rate of allowance.

Writing Down Allowance (WDA)

Any additional expenditure over the AIA level will enter either the 10% pool or the 20% pool, attracting WDA at the appropriate rate. The 10% pool will contain long-life assets, thermal insulation added to existing commercial buildings, and 'integral features' of buildings (including replacement expenditure). The 20% pool will apply to most other plant and equipment, including cars costing £12,000 or less. Cars costing more than £12,000 will continue to qualify for a 25% WDA subject to a maximum of £3,000.

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.

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.

Enterprise Management Incentives (EMI)

Currently, employees cannot hold qualifying EMI options (taking into

account Company Share Option Plan options also granted to them) with a total market value at the date of grant of more than £100,000. For EMI options granted on or after 6 April 2008, this limit will be increased to £120,000. Options granted after the date of Royal Assent will not be qualifying EMI options if the company has 250 or more employees and/or it is involved in shipbuilding or coal and steel production.

Anti-avoidance

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

- Individuals carrying on a trade in a non-active capacity and sideways loss relief
- Plant or machinery lease schemes
- 'Disguised interest' schemes
- Controlled foreign companies
- The transfer of intangible assets between related parties where one party is subject to insolvency proceedings
- Capital allowance buying and acceleration.

Corporation Tax Rates

Taxable profits	Financial year to 31 March 2009	Financial year to 31 March 2008
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 Taxes

The annual exempt amount (CGT Annual Exemption) has been confirmed at £9,600 for individuals for 2008/09.

Other changes to the CGT system, announced in 2007 and the subject of much debate, have been confirmed from 6th April 2008, including the 18% single CGT rate.



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.

Entrepreneurs' Relief 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 £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. The nil-rate band for IHT has been confirmed at £312,000 for 2008/09.

VAT

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.

Correction of Errors

New limits will apply, for a number of taxes including VAT, from 1 July 2008 for the correction of errors in the return for the period in which the error is discovered.



National Insurance

Significant changes for NICs in 2008/09 include an increase in the upper limit for the 11% Class 1 employee charge to £770 per week and a new ceiling on the 8% Class 4 charge of £40,040.

Non-domiciles and the Remittance Basis

The Chancellor has confirmed that his controversial proposals for the taxation of people resident but not domiciled in the UK and others benefitting from the remittance basis of assessment will become effective from 6 April 2008.

Key last minute changes included:

- De minimis increased to £2,000 a year
- £30,000 charge will not apply to minors
- £30,000 will be allocated as a payment in respect of unremitted income and gains, allocable by the tax payer and available for credit when such income and gains are remitted
- £30,000 will probably now qualify for tax treaty relief
- More exclusions for assets brought into the UK
- 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.

Value Added Tax Rates and Thresholds

From	1 April 2008	1 April 2007
Standard Rate	17.5%	17.5%
VAT Fraction (Turnover)	7/47	7/47
Registration – last 12 months or next 30 days over	£67,000	£64,000
Deregistration – next 12 months under	£65,000	£62,000
Cash and Annual Accounting Schemes – up to	£1,350,000	£1,350,000
Optional Flat-rate Scheme – up to	£150,000	£150,000

Income Tax and Personal Savings

As previously announced there will be a starting rate of 10% for 2008/09 on savings income up to £2,320. This will not be available if taxable non-savings income exceeds £2,320.

Income Tax Rates	2008/09	2007/08
Starting Rate Band	See above	£2,230
Tax Rate	10%	10%
Basic Rate	£36,000	£32,370
Basic Rate	20%	22%
Savings Rate	20%	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%

Personal Allowances	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
Allowances that reduce tax		
<i>Married Couple's Allowance (MCA)</i>		
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.

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 undo 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 through Finance Bill 2009 and will not enact legislation effective from 6 April 2008.

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 opposite. The first line of figures in the table relate to the new category of qualifying low emissions cars (QUALECs). Discounts of between 2% and 6% are given for cars other than QUALECs that can be driven on alternative fuels.

The car fuel benefit is calculated by applying the same percentages to the fuel multiplier, which for 2008/09 is increased from £14,400 to £16,900.

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 shows the VAT chargeable for quarters commencing on or after 1 May 2008.

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.

CO ₂ emissions (g/km)	Car & Fuel Benefit Appropriate Percentage		Private Use Fuel 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