paylesstax

2008budgetedition

Beer and wine cost more, but basic rate income tax falls to 20%!

Alistair Darling presented his first budget on 12th March 2008 which included some headline grabbing reductions in tax rates. Wait a minute that was last year. The new Chancellor has not only padded out his speech with the previous Chancellor's initiatives, but issued hundreds of pages of budget notes and press releases largely restating announcements from both the previous Budget and the October 2007 Pre-budget.

As always there is masses of detail to wade through, 270 pages of budget notes, 48 pages of press notices, not to mention around a further 100 pages of supplementary documents, before you even consider the budget report and speech themselves. In this edition of pay less tax we review the changes and what action you can take to save tax.

Budget déjà vu on company rate changes

As already announced the main rate of corporation tax will fall to 28% from 1st April 2008. Unfortunately this reduction will only apply to certain large companies and some investment companies.

From 1st April 2008 the Corporation Tax rate for smaller companies increases to 21%, rising further to 22% from 1st April 2009. Whilst these tax increases are aimed at reducing the numbers of sole traders and partnerships transferring their trades into a company, there are still significant tax savings to be enjoyed by transferring a business into a company.

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We offer a business health check to identify the possible tax savings that can be enjoyed.

VAT Registration & Deregistration Limits Increase

From 1st April 2008 the threshold for registering for VAT has increased to £67,000 and the deregistration limit to £65,000.

Where errors are made on VAT returns for accounting periods commencing on or after 1 July 2008, the errors can be corrected on subsequent returns, where the error is less than the greater of;

- £10,000, or
- 1% of the net VAT turnover (subject to an upper limit of £50,000).

This will avoid the need for many voluntary disclosures to HMRC for relatively small errors.

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Consider using the flat rate VAT scheme if your business has few costs and turnover is less than £150,000 per year. The calculations of what VAT is due are much simpler and in some cases can provide a tax saving.

Capital allowance complications offer significant potential savings

The 2007 Budget announced that industrial and agricultural buildings allowances (IBA's and ABA's) are being phased out, and will be abolished after April 2011.

To combat the complexities of the rules regarding capital allowances and property, from April 2008 a new classification of "integral features" of a building is being introduced, on which writing down allowances of 10% per annum will be allowed. This formalises an existing practice of claiming tax relief on plant integral to a building, or caravan sites. However as the government believed that the existing practice was too generous, many commercial property owners are likely to suffer as a result, although those owning Industrial buildings may well benefit.

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We offer a property review which could establish significant tax savings using the most beneficial claims for your circumstances.

Investment limits for Individual Savings Accounts (ISA's) increased

From 6th April 2008 the amounts that can be invested into ISA's will increase up to:

- £3,600 per tax year for 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 to both ISA's in a tax year. This will increase the amount an individual can save without suffering income tax or capital gains tax on their investment.

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As anyone 16 or over can open a cash ISA and earn interest tax free it is well worth older children considering opening an account.

Annual investment allowance welcome news for small businesses

From April 2008 first year allowances are replaced by a 100% annual investment allowance (AIA) of £50,000 on most plant and machinery. Despite the allowance being proposed in the 2007 Budget, much of the detail was issued in December 2007. The new 100% allowance is quite welcome for small businesses and individuals carrying on qualifying activities, especially as they will be free to allocate the AIA in any way they wish, leaving them free to maximise their tax savings by ensuring that the allowance is allocated against assets that would normally qualify for the lowest reliefs.

Unfortunately group companies, related companies and unincorporated businesses under common control are unlikely to be entitled to more than one AIA between them.

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For some it may be possible to achieve two or more allowances with some careful planning.

For most plant and machinery the annual writing down allowance will fall from 25% to 20%, and the rate for long life assets (useful life of at least 25 years) will increase from 6% to 10%.

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Despite the changes investing in energy efficient or water efficient plant and equipment could still result in the full cost being allowed for tax in the year that you bought it. It is surprising what qualifies, as it could be basic light fittings, heat pumps or mere toilets that could save tax. Further details of what qualifies can be found at www.eca.gov.uk.

Tax savings on green company cars extended

One of the new initiatives under this Budget is to extend the current 100% first year allowances for businesses providing cars with low $CO2$ emissions. However the limit under which cars will qualify for the 100% allowance is being reduced from the current 120g/km to 110g/km. Despite this reduction in the $CO2$ emission limits for capital allowances, employees who are provided with company cars up to 120g/km will be able to enjoy a lower tax bill from 6th April 2008, with the benefit in kind based upon 10% of the list price for petrol cars and 13% for diesels.

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Cars with low emissions may be a very cheap way of providing family members with cars whilst saving tax. It is surprising what cars have low emissions. A list of cars can be found at www.comcar.co.uk.

Controversial income shifting rules delayed for a year

Whilst the Chancellor's speech was silent on the matter, buried in the press releases a brief announcement admitted that further consultation was necessary and agreed to delay the implementation of any new rules until 2009. Although hidden within the budget, this move will be very welcome by many small business owners and partnerships. The proposed legislation in its current format would have created uncertainty for small businesses and increased their administrative burden.

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For companies we offer a remuneration review to identify the most tax efficient combination of options to extract funds from the company and save as much tax as possible.

Basic rate tax band falls to 20% from 6th April 2008.

From 6th April 2008 the basic rate of income tax will be reduced to 20%, and the 10% starting rate will be abolished for non-savings income. Just to complicate matters there will be a 10% starting rate for savings income. The big losers of these changes are likely to be those on low incomes. To compensate pensioners, their personal allowances have been increased in excess of inflation, and the impact on low income families is likely to be mitigated by increases to the child tax credit and benefits.

Despite the reduction in the basic rate tax band the government will supplement charities for the reduction in the tax they will be able to reclaim under the gift aid scheme, without any effect on the donor.

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For higher rate taxpayers, donations to charity under the gift aid scheme between 6th April 2008 and 5th April 2011 inclusive will cost them less than currently. Not only can the charity effectively claim 27.5p for every £1 donated, but the higher rate donors can reclaim 25p for every £1 donated. If a couple wish to make a donation and one is a higher rate taxpayer, then it is more tax efficient for the higher rate taxpayer to make the payment and get higher rate tax relief on the donation.

Non Domiciles face £30,000 levy.

From 6th April 2008 non domiciled individuals, who have been resident in the UK for more than 7 out of the last 10 tax years, will be liable to an annual charge of £30,000 to take advantage of the remittance basis of UK taxation, unless their unremitted foreign income and gains they leave outside the UK are less than £2,000.

The rules have been relaxed to exclude non-domiciled children from the levy, and the charge is being treated as tax on unremitted income or gains, allowing it to be considered for Double Taxation agreements in the individual's country of domicile.

Where the remittance basis is used the individual will not be entitled to a personal allowance or the capital gains annual exemption.

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The individual can select what foreign income, unremitted income or gains the £30,000 is paid on. This income or gains will not be taxed again when it is eventually remitted to the UK.

Invest more and get more tax back!

From 6th April 2008 the limit for investments into Enterprise Investment Schemes (EIS) increases to £500,000, subject to European Commission approval. Where investments are made into EIS then the investor can claim 20% tax relief on the investment.

The eventual sale of the shares would be exempt from Capital Gains Tax, providing certain conditions are met. It may be possible to defer any other personal capital gains into the investment to avoid paying Capital Gains Tax now.

Financial advice should always be sought to ensure the right investments are made for your circumstances and the risks you wish to take.

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If you are setting up a new business and introducing funds, consider whether it can be set up under the EIS rules and you enjoy the same tax breaks as for an EIS investment. Care would be needed but the tax savings could be substantial.

Capital Gains Tax changes are still to go ahead

From 6th April 2008 a flat 18% Capital Gains Tax will be introduced, whilst Taper Relief and Indexation will be withdrawn. Entrepreneur's relief will be available to many business owners resulting in the first £1 million of lifetime gains (from 6th April 2008) being effectively charged at 10% tax.

The relief is also available where an individual sold their company shares prior to 6th April 2008 for shares or loan notes, and then disposes of these after 6th April. One important downside is that there is no aggregation of the shares held by respective spouses. Hence should one spouse own 2% and the other 4%, neither of them would qualify for the relief.

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There are a number of actions that can be considered, some of which may need action prior to 6th April 2008 and some after. For example a married couple may wish to transfer assets that had been owned prior to 6th April 1998 between them in order to lock in the inflation, without triggering a tax charge.

We can help

Despite statements about simplifying the UK tax system, the truth is that it gets increasingly complex each year. But we can help.

We can guide you through the complexities of the legislation and help you to pay much less tax.

So if you would like to discuss ways in which we can help you to make tax savings, or if you would like to discuss any of the issues identified in this edition of 'Pay Less Tax' please do not hesitate to contact us.