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### MAIN TAX RATES, ALLOWANCES AND RELIEFS 2008/09

#### Income Tax

	2008/09	2007/08
<b>Taxable bands</b>		
Starting rate - 10%	N/A	£0 - £2,230
Basic rate - 20% (2007/08: 22%)	£0 - £36,000	£2,231 - £34,600
Higher Rate - 40%	over £36,000	over £34,600

Savings income rate - 10% starting rate for income up to £2,320.  
Dividends - 10% for income below the basic rate limit and 32.5% above that.

#### Main allowances and reliefs

##### Personal

Age under 65	£5,435	£5,225
Age 65 - 74 ¶	£9,030	£7,550
Age 75 and over ¶¶	£9,180	£7,690

##### Married Couple's ¶

Age less than 75 and born before 6/4/35	£6,535 *	£6,285 *
Age 75 and over	£6,625 *	£6,365 *
Minimum allowance	£2,540 *	£2,440 *

Income limit - age allowances	£21,800	£20,900
Blind Person	£1,800	£1,730
Payment on loss of office	£30,000	£30,000
Enterprise Investment Scheme	£500,000 **	£400,000 **
Venture Capital Trusts	£200,000 ***	£200,000 ***
Rent a Room exemption threshold	£4,250	£4,250
Maintenance payments §	£2,540 *	£2,440 *
ISAs - maximum investment	£7,200	£7,000

\* Relief restricted to 10% \*\* Relief restricted to 20% \*\*\* Relief up to 40%

§ Only applies where either party born before 6/4/35

¶ Reduced by £1 for every £2 income in excess of income limit until minimum allowance reached. Only applies where one party born before 6/4/35

#### National Insurance Contributions 2008/09

Lower earnings limit, primary Class 1	£90 per week
Upper earnings limit, primary Class 1	£770 per week
Primary threshold	£105 per week
Secondary threshold	£105 per week
Employees' primary Class 1 rate	11% of £105.01 to £ 770 per week 1% above £770
Employees' contracted-out rebate	1.6%
Married women's reduced rate	4.85% of £105.01 to £770 per week 1% above £770
Employers' secondary Class 1 rate	12.8% above £105 per week
Employers' contracted-out rebate, Salary-related schemes	3.7%
Employers' contracted-out rebate, money-purchase schemes	1.4%
Class 2 rate	£2.30 per week
Class 2 small earnings exception	£4,825 per year
Special Class 2 rate for share fishermen	£2.95 per week
Special Class 2 rate for volunteer development workers	£4.50 per week
Class 3 rate	£8.10 per week
Class 4 lower profits limit	£5,435 per year
Class 4 upper profits limit	£40,040 per year
Class 4 rate	8% of £5,435 to £40,040 per year 1% above £40,040

#### Capital Gains Tax

##### Rates

Companies: Gains charged to corporation tax.

Individuals: Gains charged at 18% (2007/08: Gains charged at 10% where the gains when added to total income are within the starting rate band, 20% if within the basic rate band and 40% where they exceed that band.)

##### Reliefs

	2008/09	2007/08
Annual exemption: Individuals	£9,600	£9,200
Most trusts	£4,800	£4,600
Chattels exemption	£6,000	£6,000
Entrepreneurs' relief:		
• Lifetime allowance	£1,000,000	N/A
• Reduction in gain	4/9ths	N/A
• Effective rate of tax	10%	N/A

#### Company car benefits

Tax is charged on a percentage of the value of the car and this percentage varies according to the level of the car's carbon dioxide (CO2) emissions measured in grams per kilometre (g/km). The value of the car will normally be the list price, together with any accessories. The percentage ranges from 15% to 35% in 1% increments for a petrol car. The CO2 emissions figure which determines the 15% rate is 135g/km. A lower rate of 10% for cars with CO2 emissions of exactly 120g/km or less will have effect from 6 April 2008. Second cars are taxed in the same way as first cars. There are special rates for diesel cars.

#### Provision of fuel

Flat rate benefit of £16,900 x CO2 emission percentage. No fuel benefit if the employee is required to pay for (and actually pays) all private fuel or if fuel is only provided for business journeys.

#### Statutory mileage rates - 2008/2009

Cars: First 10,000 miles 40p  
Over 10,000 miles 25p  
Motorcycles: 24p  
Bicycles: 20p  
Each passenger on same trip: 5p

#### VAT scale charges on provision of fuel for private mileage - 2008/2009

Rates vary according to CO2 emissions in grams per kilometre (g/km). New CO2 bands corresponding to those for income tax apply for periods beginning on or after 1 May 2008.

**MAIN TAX RATES, ALLOWANCES AND RELIEFS 2008/09 (contd.)**

**Corporation Tax rates and fractions**

	Year to 31/3/2009	Year to 31/3/2008
Small companies' rate: 21% (2007/2008: 20%)	<b>£0 - £300,000</b>	£0 - £300,000
Marginal rate: 29.75% (2007/2008: 32.5%)	<b>£300,001 - £1,500,000</b>	£300,001 - £1,500,000
Full rate: 28% (2007/2008: 30%)	<b>£1,500,001 or more</b>	£1,500,001 or more
Marginal relief fraction	<b>7/400</b>	1/40

**Pensions and Annuities**

From 6 April 2007 there are no restrictions on the number or type of approved personal pension schemes. From 6 April tax is charged on the value of the pension contributions made that exceed the annual allowance or relevant earnings. Tax is also charged if the value of the pension at retirement exceeds the individual's lifetime allowance.

	2008/09	2007/08
Annual allowance	<b>£235,000</b>	£225,000
Lifetime allowance	<b>£1,650,000</b>	£1,600,000

**Main capital allowances**

	2008/2009	2007/2008
Plant and machinery		
• First year allowance - small businesses	<b>N/A</b>	50%
• First year allowance - medium sized businesses	<b>N/A</b>	40%
• Annual investment allowance		
Expenditure up to	<b>£50,000</b>	N/A
Allowance	<b>100%</b>	N/A
• Writing down allowances		
General plant	<b>20%</b>	25%
Long life assets	<b>10%</b>	6%
Integral fixtures	<b>10%</b>	N/A
Motor cars (maximum £3,000 per car)	<b>20%</b>	25%
Industrial and agricultural buildings writing down allowance	<b>3%</b>	4%
Energy saving plant and machinery - first year allowance	<b>100%</b>	100%
Commercial buildings in enterprise zones - first year allowance	<b>100%</b>	100%

**Value Added Tax**

	From	1/4/2008	1/4/2007
Rates:			
• Standard		<b>17.5%</b>	17.5%
• Reduced		<b>5%</b>	5%
• Zero		<b>0%</b>	0%
VAT fraction		<b>7/47</b>	7/47
Registration limit		<b>£67,000</b>	£64,000
Deregistration limit		<b>£65,000</b>	£62,000
Cash accounting scheme -			
max turnover		<b>£1,350,000</b>	£1,350,000
Annual accounting scheme -			
max turnover		<b>£1,350,000</b>	£1,350,000
Flat rate scheme -			
max turnover		<b>£150,000</b>	£150,000

**Inheritance Tax**

	2008/09	2007/08			
First £312,000 * (2007/08 - £300,000)	<b>Nil</b>	Nil			
(* From 9 October 2007 unused proportion of nil-rate band can be transferred to surviving spouse or civil partner.)					
Tax on excess	<b>40%</b>	40%			
Annual exemption - donor	<b>£3,000</b>	£3,000			
Small gifts to any one person	<b>£250</b>	£250			
Gifts made in consideration of marriage:					
• Parent	<b>£5,000</b>	£5,000			
• Grandparent	<b>£2,500</b>	£2,500			
• Between the parties to the marriage	<b>£2,500</b>	£2,500			
• Other	<b>£1,000</b>	£1,000			
Relief on gifts made within 7 years of death:					
Years before death	0-3	3-4	4-5	5-6	6-7
Death charge percentage	100%	80%	60%	40%	20%

**Stamp Duty and Stamp Duty Land Tax**

**Stocks and shares 0.5%**

**Land and buildings**

Rate	Residential in disadvantaged areas	Residential outside disadvantaged areas	Non-residential
Zero	£0 - £150K	£0 - £125K	£0 - £150K
1%	£150,001 - £250K	£125,001 - £250K	£150,001 - £250K
3%	£250,001 - £500K	£250,001 - £500K	£250,001 - £500K
4%	More than £500K	More than £500K	More than £500K

*The above information has been prepared from proposals contained in the Budget of 12 March 2008. These proposals may be amended in the Finance Bill.*

## BUDGET 2008 – A SUMMARY OF THE TAXATION PROVISIONS

Set out below is a summary of the main contents of the Chancellor's Budget statement presented to the House of Commons on Wednesday 12 March 2008. We have concentrated on the taxation aspects of the Budget that are most likely to affect individuals and smaller enterprises. Should you have any queries relating to the contents of this summary or require advice concerning any aspect of the Budget, please do not hesitate to contact us.

### Introduction

This was Alistair Darling's first Budget statement following eleven Budget speeches by Gordon Brown. In a speech lasting just 50 minutes the Chancellor outlined the United Kingdom's economic position and future prospects and gave brief details of a number of measures to be introduced by the government.

Like many Budgets, the devil will lie in the detail, although it has now become the norm to disclose a considerable amount of detail in the Pre-Budget Report in the autumn of each year. Indeed, some two years ago the then Chancellor, Gordon Brown, announced a number of measures which are to start this year.

### The economy

The Chancellor conceded that growth in the United Kingdom for this year would be just 1.75% to 2.25%, but made the point that whilst such predicted growth was modest it was in excess of many other countries. The Chancellor forecast that next year growth would increase to between 2.25% and 2.75% and that inflation would be back on target by 2009.

Borrowings were predicted to be £36 billion for this year, rising to some £43 billion next year and rising slightly more than originally anticipated. However, the Chancellor stated that borrowings would be back on track by 2012.

The detail of the tax measures contained in the Budget are set out below but can be summarised as follows:

- Personal allowances and National Insurance Contributions to rise in line with inflation except for age related allowances which are increased above inflation
- Abolition of the starting rate for income tax and a reduction of 2% in the basic rate
- Considerable increases in alcohol duties
- No increase in fuel duty until October this year
- No additional cuts in corporation tax other than those announced earlier
- Measures relating to "income shifting" will not now go ahead until 2009
- Changes in relation to the capital gains tax rate and entrepreneurs' relief are as outlined in the Pre-Budget Report

### Personal

#### *Income tax rates*

The starting rate band has been abolished except for savings income which will be taxed at 10% for income up to £2,230. The basic rate limit for income tax has been increased in line with inflation to £36,000. The basic rate percentage is reduced from 22% to 20%.

#### *Allowances and reliefs*

##### *Personal allowances*

As announced in the Pre-Budget Report, the personal allowance for those aged under 65 will increase to £5,435. For those aged 65 and over the personal allowance will increase to £9,030 for those aged 65-74, and for those aged 75 or over to £9,180. Other allowances will be increased by inflation.

##### *Reliefs*

- Venture capital trusts (VCT)  
The maximum permitted annual investment for tax relief will remain at £200,000.
- Enterprise investment schemes (EIS)  
The maximum permitted annual investment for tax relief has been increased by £100,000 from £400,000 to £500,000.

##### *National Insurance Contributions*

National Insurance (NIC) rates and thresholds for 2008/09 were announced in the 2007 Pre-Budget Report. The starting point for employers', employees' and self-employed NICs in 2008/09 will increase in line with inflation to £105 per week. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from April 2008 from £670 to £770 per week (£40,040 a year). For the self-employed the rate of Class 2 contributions will increase to £2.30 a week.

##### *Capital gains tax*

The annual exemption amount is set at £9,600 for the tax year 2008/09 for individuals and £4,800 for most other trusts. For individuals, the main change to capital gains tax had been announced in the Pre-Budget Report, ie a flat rate of 18% but with the abolition of taper relief and indexation allowance. As predicted, a new Entrepreneurs' Relief has been introduced which, to a degree, takes the sting out of the abolition of taper relief and indexation allowance by giving a lifetime allowance of up to £1 million with a reduction in any gain of 4/9ths giving an effective rate of tax of 10%.

### **Inheritance tax**

The value of estates above the inheritance tax (IHT) threshold is taxed at 40 per cent. For the tax year 2008/09 the inheritance tax threshold has been increased to £312,000 (2007/08: £300,000). The Chancellor had already announced that for deaths occurring on or after 9 October 2007, any unused proportion of an individual's nil-rate band for IHT can be transferred to a surviving spouse or civil partner.

Future increases in the nil-rate band will be as follows:

- 2009/2010 £325,000
- 2010/2011 £350,000

### **Pensions**

The annual allowance for pension scheme contributions is increased from £225,000 to £235,000 for 2008/2009 with the lifetime allowance being increased from £1,600,000 to £1,650,000.

### **Fuel payments**

Fuel benefits will increase from £200 to £250 for those aged 60 and over and from £300 to £400 for those aged 80 and over.

### **Individual Savings Accounts (ISAs)**

The Chancellor announced that from April 2008 the maximum that an individual can invest in an ISA will be increased to £7,200. The maximum that can be held in a cash ISA will be £3,600 and the balance must be held in stocks and shares.

From April 2008 the distinction between a maxi-isa and a mini-isa will be abolished and individuals will be allowed to purchase any type of ISA.

### **Fuel duty**

The Chancellor must have been sorely tempted to increase fuel duty immediately in order to preserve the "green" image of this government. However, a considerable lobby against immediate increases prevailed and increases in duty have been shelved until 1 October this year. On that date the increases will be as follows:

<b>Pence per litre (unless stated)</b>	<b>Old duty rate</b>	<b>Change</b>	<b>New duty rate</b>
Ultra-low sulphur petrol/diesel	50.35p	+2p	52.35p
Sulphur-free petrol/diesel	50.35p	+2p	52.35p
Biodiesel	30.35p	+2p	2.35p
Bioethanol	30.35p	+ 2p	32.35p
Liquefied petroleum gas used as road fuel	16.49p per kg	+ 4.28p per kg	20.77p per kg
Natural gas used as road fuel	13.70p per kg	+ 2.89p per kg	13.70p per kg
Rebated gas oil (red diesel)	9.69p	+ 0.38p	10.07p
Fuel Oil	9.29p	+ 0.37p	9.66p

### **Vehicle excise duty**

As predicted, vehicle excise duty have been increased with the Chancellor targeting the "petrol guzzling" Band G group of vehicles. Set out below are the increases for private vehicles:

<b>VED band</b>	<b>CO2 (g/km)</b>	<b>Change</b>	<b>Alternative Fuel cars</b>	<b>Petrol and Diesel</b>
A	100 and below	-	£0	£0
B	101 to 120	-	£15	£35
C	121 to 150	+£5	£100	£120
D	151 to 165	+£5	£125	£145
E	166 to 185	+£5	£150	£170
F	186 to 225	+£5	£195	£210
G*	226 and above	+£100	£385	£400

\* for new cars registered from 23 March 2006

### **Alcohol and tobacco**

The duty on beer is increased by 4 pence per pint, on sparkling cider by 14 pence per 75cl bottle, on still cider by 3 pence per litre, on wine by 14 pence per 75cl bottle and on sparkling wine by 18 pence per 75cl bottle. After a freeze for a number of years, spirits have borne the brunt of the increases on alcohol, with the price of a 70cl bottle of spirits (37.5 abv) increasing by 55 pence.

As is the case in recent Budgets, increases were announced for tobacco products. A packet of twenty cigarettes will increase by 11 pence and a packet of 5 five cigars by 4 pence.

### **Business**

#### **Corporation tax**

The small companies' corporation tax rate is increased from 20% to 21% for the year to 31 March 2009.

The full rate for corporation tax is reduced from 30% to 28% for the year to 31 March 2009.

The profit bands to which the rates apply remain unchanged.

### **National Insurance Contributions**

NIC rates have been increased in line with inflation. See the above table for the rates for 2008/2009.

### **Capital allowances**

The Chancellor gave details of radical changes made to capital allowances, with the majority of such changes having been announced prior to the Budget. Details of the main allowances are set out above.

### **Company cars**

#### **Car benefit charges**

There have been no major changes in relation to the treatment of company car benefits. The starting point for the measurement of carbon dioxide emissions which is expressed in grams per kilometre is reduced to 135g/km. However, a new rate of 10% for cars with CO2 emissions of exactly 120g/km or less will have effect from 6 April 2008.

#### **Provision of fuel**

The flat rate benefit increases from £14,400 to £16,900.

### **Stamp taxes**

The rate of stamp duty on the transfer of shares remains unchanged at 0.5% and there have been no changes in relation to the stamp duty on land and buildings.

### **Value added tax**

The VAT rates remain the same as last year.

### **Registration and de-registration thresholds**

From 1 April 2008, the registration threshold for VAT is increased from £64,000 to £67,000 and the de-registration threshold from £62,000 to £65,000.

### **Special VAT schemes**

There have been no changes to the cash accounting scheme, the annual accounting scheme and the flat rate scheme.

## **CAPITAL GAINS TAX – ENTREPRENEUR'S RELIEF**

Following much publicised representation from business and the professional bodies, the March Budget contained a measure designed to soften the blow of the capital gains tax changes that were originally announced in the 2007 Pre-Budget Report (PBR). A new relief ("entrepreneurs' relief") will be available for gains arising on the disposal of a business.

The relief will take effect from 6 April 2008 and will run alongside the CGT reform programme announced in the 2007 PBR. Broadly, the CGT changes mean that from 6 April 2008 there will be a single rate of CGT of 18 per cent. The tax-free annual exempt amount of £ xxx will remain, but taper relief and indexation allowance will be withdrawn.

Entrepreneurs' relief will apply to:

- gains made on the disposal of all or part of a business; or
- gains made on disposals of assets following the cessation of a business;
- by certain individuals who were involved in running the business.

The first £1 million of gains that qualify for relief will be charged to CGT at an effective rate of 10 per cent. Gains in excess of £1 million will be charged at the normal 18 per cent rate. An individual will be able to make claims for relief on more than one occasion, up to a lifetime total of £1 million of gains qualifying for relief.

There will be no minimum age limit for entrepreneurs' relief and in general entrepreneurs' relief will be available where the relevant conditions are met for a period of one year.

The relief will apply to gains arising on disposals of the whole or part of a trading business (including professions and vocations, but not including a property letting business other than furnished holiday lettings) that is carried on by the individual, either alone or in partnership. Where a business is not disposed of as a going concern, but simply ceases, relief will be available on gains on assets formerly used in the business and disposed of within three years of the cessation of the business.

The relief will also apply to gains on disposals of shares (and securities) in a trading company (or the holding company of a trading group) provided that the individual making the disposal:

- has been an officer or employee of the company, or of a company in the same group of companies, and
- owns at least five per cent of the ordinary share capital of the company and that holding enables the individual to exercise at least 5 per cent of the voting rights in that company.

Where an individual qualifies for entrepreneurs' relief on a disposal of shares or securities under the previous paragraph, relief will also be available in respect of any "associated disposal" of an asset which was used in the company's (or group's) business. For example, if a company director who owns the premises from which the company carries on its business sells the premises at the same time as he sells his shares in the company, the sale of the premises may count as an 'associated disposal' and any gain attract entrepreneurs' relief. The relief due on an associated disposal will be restricted where the asset in question was not wholly in business use throughout the period it was owned.

A similar rule will allow relief on an 'associated disposal' by a member of a partnership who is entitled to relief on disposal of his interest in the assets of the partnership. (Again, relief will be restricted where the asset in question was not wholly in business use throughout the period of ownership.)

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