

9 APRIL 2003 - BUDGET 2003

BRIEFING FOR GARBETTS CLIENTS

This is a brief summary of today's budget proposals as they impact upon typical clients of Garbetts – as such it is not intended to be a full exposition of all budget proposals.

As always, the comments are general in their nature and professional advice should be obtained before entering into or refraining from entering into any particular course of action.

Check Against Delivery

As has become customary, as soon as Gordon Brown sits down, accountants hit the net to download the budget speech and press releases. The downloaded budget speech starts with a warning "*Check against delivery*". Obviously this is to warn the reader to beware of "on the hoof" changes by Mr Brown.

However the comment – unintentionally – has wider significance. Mr Brown was in a hole – borrowing up, expenditure up, growth looking sluggish, a war to finance. What was expected in this budget was a significant set of tax increases. What we have is in fact one of the dullest budgets for many a year; little change on tax rates (although don't forget the NI increases for this year announced last year and, unlike the good news, not re-spun umpteen times since) and little technical change. Steady as she goes. Mr Brown has been at best optimistic with his projections for economic performance as a whole, borrowing, growth and tax revenues, and at worst he has taken a gamble on the economy coming right for him. If he – and the economy – delivers – then all well and good – the third term in office for New Labour comes closer, Mr Brown is better placed in his personal goal of succeeding Mr Blair, and all (for Mr Brown at least) is rosy. However if the economy doesn't deliver then the deficits will be all the more painful this time next year – politically and fiscally. Today would have been "a good time to bury bad news", but he didn't. Whether this is quiet confidence or over confidence, time will tell. As the speech writer said, "*Check Against Delivery*".

Income Tax

- Rates unchanged. Some allowances indexed, other frozen.

	2002-03	2003-04
Personal allowance (under 65)	£4,615	£4,615
Personal allowance (65-74)	£6,100	£6,610
Personal allowance (74 and over)	£6,370	£6,370
Married couples allowance (born pre 6/4/35)	£5,465	£5,565
Married couples allowance (over 75)	£5,535	£5,635
Tax bands:		
0%	£1,920	£1,960
22%	£1,921 to £29,900	£1,961 to £30,500
40%	over £29,900	over £30,500

- For more detail on tax rates visit www.inlandrevenue.gov.uk/rates/index.htm

- 100% capital allowances on IT equipment extended for a further 12 months to 31 March 2004.

- Exemption on payment of £104 per annum (yes, as much as that) from an employer to an employee (including company director) for additional costs of working at home. Amounts can be paid in excess of this but would be subject to justification on a case by case basis.

- Increases in the allowances for long service awards, annual parties and third part gifts. All fairly minor, but you can now spend £150 per head on the Christmas bash, rather than £75. Exemption for up to six cyclists breakfasts (or other meals) a year on official "cycle to work days".
- New – and welcome – package of reliefs for those adopting and fostering children.
- Domestic workers – basically Nannies – brought into the Intermediaries Legislation (IR35). No IR35 changes for other workers/contractors/PSCs.
- New scheme to rebate tax repayments to charity.

National Insurance

- No changes announced over and above those in last years budget (a 1% across the board rise).

<u>Employees</u>	2002-03	2003-04
Employers and Employees primary threshold	£89 week	£89 week
Employees upper earnings limit	£585 week	£595 week
Employees rate on earnings between primary threshold and upper earnings limit (i.e. £89-£595 a week)	10%	11%
Employees rate on earnings over the upper earnings limit (i.e. on earnings over £595 a week)	-	1%
Employers rate on earnings over primary threshold	11.8%	12.8%
<u>Self employed</u>		
Lower profits limit for self employed	£4,615 pa	£4,615 pa
Upper profits limit for self employed	£30,420 pa	£30,940 pa
Class IV (self Employed) rate on profits between Upper and lower limits (i.e. £4,615 to £30,940 pa)	7%	8%
Class IV (Self Employed) on profits over upper limit	-	1%
No changes announced to Class II contribution	£2 week	£2 week

- For more detail on NI rates visit www.inlandrevenue.gov.uk/rates/index.htm
- No other NI changes published

Corporation Tax

- No change in Corporation Tax rates – the reductions in April 2002 have not been restricted or reversed.

Profits	2002/03 and 2003/04
Up to £10k	nil
£10k to £50k	23.75%
£50k to £300k	19%
£300k to £1,500k	32.75%
£1,500k and over	30%

- For more detail on tax rates visit www.inlandrevenue.gov.uk/rates/index.htm
- No other significant Corporation Tax changes published

Capital Taxes

- No rate changes. Increase in CGT annual exemption to £7,900 pa. IHT exemption increased to £255,000.
- Reforms of stamp duty on property leases, and an exemption from stamp duty on commercial property transactions below £150,000. Enhanced stamp duty exemption on commercial property deals in disadvantaged areas.
- Package of technical changes for CGT in respect of taper relief and similar anomalies
- For more detail on tax rates visit www.inlandrevenue.gov.uk/rates/index.htm

Value Added Tax

- Increase in registration threshold to £56k, no change in vat rate or scope.
- Abolition of automatic penalties for business with a turnover of less than £200k
- Confirmation of extension of flat rate scheme to business with a gross (vat inclusive) turnover of up to £150k. Three new trade sectors introduced (including hair dressing and beauty treatment as a separate classification).
- Some minor changes in the vat treatment of the sale of face value vouchers, eg phone cards, gift vouchers. This will affect retailers not users.
- Extension of security powers which allow HMC&E to take a security deposit from businesses with a poor compliance record.
- New powers to disallow vat where the claimant knows/suspects their supplier will not pay the vat over. Restricted to the IT and telecoms sector – essentially HMC&Es latest response to the ever prevalent missing trader frauds in these industries.
- Change to vat recovery rules for property used for mixed business and private purposes.
- Changes in scale charges for private use of vehicles – see www.hmce.gov.uk/forms/notices/bn25-03.htm
- New legislation to allow HMC&E to exchange information with other EU member states – most people (including HMC&E staff) probably thought they could anyway...

Excise duties

- Sprints frozen. Wine, beer and tobacco have small increases.
- Insurance Premium Tax, Air Passenger Duty, Aggregates Levy and Climate Change Levy frozen. Landfill tax up by £1 per tonne.
- Freeze on fuel duties till October in light of the Gulf conflict. Road Fund Licence increases by £5 for cars, unchanged lorries and motorcycles.

Other business measures

- On line small business training advice program in partnership with banks – the mind boggles – how much does the Government or the banks head offices know about small businesses?

- Consultation on a further increase in the statutory audit threshold later this year (currently £1m, £4m has been rumoured).
- National Minimum Wage to £4.50 per hour from October 2003 (£3.80 for workers 18-21).
- Consultation to review the tax treatment of private use of employer provided vans.
- Enhanced capital allowances available for energy saving and water efficient assets – specifically water efficient toilets... ..spending a penny, save a pound...
- Reduction in minimum expenditure threshold for R&D tax credits to £10k (was £25k). Some relaxation in the definition of R&D.
- £66m extra investment in tax compliance and enforcement, focusing on protecting the Exchequer from non payment of tax/NI and non filing for returns, fraud and concealment and avoidance of tax and NI on employment income. The press release is light on detail, and the wording leads to the question is this more investment in enforcement of existing legislation, or is new legislation due – eg making company directors liable for company tax debts?

Other personal measures

- New Child Trust Fund backdated to September 2002. £250 per child (more for poor children – but how do you tell a poor child when he or she is born?) from the Government in a trust fund for when they reach 18. Possible extra government payments during school years. Parents and grandparents also able to contribute £1,000. Accounts to be provided by banks and other financial institutions.
- Further consultation of regarding the tax rules for residence and domicile – could be a helpful clarification of the law in this notorious tax minefield where much relies on practice and case law rather than legislation. A review was started this time last year, so they cannot be accused of rushing it.

Public expenditure & economics

- Inflation average 2.3% in last year, target set at 2.5%
- Government borrowing/debt repayment:

2002/03	£12bn deficit (projected outturn)	
2003/04	£8bn deficit	}
2004/05	£1bn deficit	}
2005/06	£2bn surplus	} projected
2006/07	£6bn surplus	}
2007/08	£9bn surplus	}

So much for moving away from stop – go economic cycles! 2005/06 looks favourite for the next general election.

- Outturn growth 1.8% in 2002 (was 2.1% 2001).
- 2-2.5% overall economic growth predicted for 2003 (against 3-3.5% predicted this time last year)

Conclusions

This budget is almost certainly the blandest Mr Brown has produced, which is strange given that it was possibly the toughest he had to address. Only time will tell whether the problems facing UK PLC have been addressed properly.

For small businesses the main message from the budget will be what is not included:

- no further immediate tax or vat rises,
- the 2002-03 Corporation Tax reductions still there – almost all partnerships and sole traders must consider incorporation now.