

4 APRIL 2005 2005 BUDGET BRIEFING FOR GARBETTS CLIENTS

This is a brief summary of last months 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.

Brown Woos Grey Vote

Not my headline this year, but one lifted from “Britain Today”, a small volume newspaper operating on P&O Cruise Ships. However, whilst it may not be original, it certainly is true. This was most definitely a pre election budget – quite light on business matters, heavy on small giveaways for the general public:

- Free off peak local bus travel for the over 60s, from 2006.
- £200 off of Council Tax for the over 65s.
- Protection of state pension payments whilst in hospital, again from 2006.
- Increase in the starting rate for Stamp duty.
- Above inflation Increase in Inheritance Tax threshold.
- Sharp increase in childcare element of tax credits.

So, something for everyone really. Which raises some interesting questions; with most of the budget proposals centring around individuals – understandably so with an imminent election, and no one can blame the Chancellor for seizing a political advantage – where is the necessary attention to business taxation and the economy? Are these just also runs? Whilst “hands off” has its merits, businesses are left dangling on issues like the response to the pre-budget consultation on Small Company Taxation and the 2006 pension reforms.

Add to this to annual farce of when's-the-budget-set-for with the speech date only announced 3 or 4 weeks in advance, and it starts to impress the need for the showpiece political budget performance to be separated from the technical aspects of business taxation and the economy.

That's not intended to be criticism of this Chancellor or the politics of this Government, so much as a criticism of the wheels of Government itself. Businesses need to operate in a zone of well thought through certainty, not an add on when the headline vote catching stuff is done.

Income Tax

- Rates unchanged. Most allowances indexed/increased:

	2004-05	2005-06
Personal allowance (under 65)	£4,745	£4,895
Personal allowance (65-74)	£6,830	£7,090
Personal allowance (74 and over)	£6,950	£7,220
Married couples allowance (born pre 6/4/35)	£5,725	£5,905
Married couples allowance (over 75)	£5,795	£5,975

Tax bands:

0%	£2,020	£2,090
22%	£2,021 to £31,400	£2,091 to £32,400
40%	over £31,401	over £32,401

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

- 50% capital allowances on SME equipment not extended beyond 31 March 2005, first year allowances revert to the statutory 40%:

	2004-05	2005-06
Year of purchase		
IT Equipment	50%	40%
Other Equipment (including vans)	50%	40%
Cars *1	25%	25%
Industrial Buildings	4%	4%
Subsequent years		
IT Equipment	25%	25%
Other Equipment (including vans)	25%	25%
Cars *1	25%	25%
Industrial Buildings	4%	4%

*1 maximum £3,000 pa

- Extension of current ISA limits (£7,000 maximum or £3,000 full) till April 2010 – they had been due to reduce to £5,000 and £1,000 respectively from April 2006.

- Announcement relating to simplification of pensions, but appears to be exactly the same as last years announcement. The new “simplified” regime comes in from April 2006 but a lot of detailed rules are still awaited.

- No other significant Income Tax changes published.

National Insurance

- No changes in rates or scope, thresholds indexed:

<u>Employees</u>	2004-05	2005-06
Lower earnings limit	£79 week	£82 week
Employers and Employees primary threshold	£91 week	£94 week
Employees upper earnings limit	£610 week	£630 week
Employees rate on earnings between primary threshold and upper earnings limit (i.e. £91-£610 a week)	11%	11%
Employees rate on earnings over the upper earnings over £610 a week)	1%	1%
Employers rate on earnings over primary threshold	12.80%	12.80%
 <u>Self employed</u>		
Lower profits limit for self employed	£4,745 pa	£4,895 pa
Upper profits limit for self employed	£31,720 pa	£32,760 pa
Class IV (self Employed) rate on profits between upper and lower limits	8%	8%
Class IV (Self Employed) on profits over upper limit	1%	1%
Class II contribution	£2.05 week	£2.10 week

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

- No other significant NI changes published.

Corporation Tax

- No change in Corporation Tax rates:

	2004-05	2005-06
Up to £10k	nil	nil
£10k to £50k	23.75%	23.75%
£50k to £300k	19%	19%
£300k to £1,500k	32.75%	32.75%
£1,500k and over	30%	30%
Minimum Corporation Tax on distributed profits (non corporate distribution rate).	19%	19%

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

Capital Taxes

- No rate changes, significant extensions of exempt bands for stamp duty and IHT:

	2004-05	2005-06
CGT Exempt Amount	£8,200	£8,500
CGT Rates (dependant on overall income)	10%/20%/40%	10%/20%/40%
IHT Exempt Amount	£263,000	£275,000
IHT Rate	40%	40%
Stamp duty		
Property < £60k	nil	
Property < £120k		nil
Property £60k to 250k	1%	
Property £120k to 250k		1%
Property £250k to 500k	3%	3%
Property £500k >	4%	4%
Shares	0.50%	0.50%

(rounded to nearest £5)

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

- The stamp duty threshold increase only applies at the lower level, and higher thresholds remain unchanged. The Government estimate this will effect 300,000 house sale transactions a year.

- Abolition of stamp duty relied on commercial property in disadvantaged areas. Bad news for Ryde St Johns, Ryde North East, Pan, and parts of Ventnor. Being replaced in due course by Local Enterprise Growth Initiatives.

- Changes to CGT rules for temporary non residents; this blocks schemes to circumvent the five year temporary non residence requirement.

Value Added Tax

- No rate changes. Indexation of thresholds:

	2004-05	2005-06
Basic Vat Rate (reduced rate)	17.5% (5%)	17.5% (5%)
Registration threshold	£58,000	£60,000
De-registration threshold	£56,000	£58,000
Cash accounting and annual Entry	£660,000	£660,000
accounting threshold Exit	£825,000	£825,000

Excise duties

- Increase in duties for alcohol, tobacco, and vehicles (fuel and excise duty/road fund licence).

- Road Fuel increase deferred till September.

Other business measures

- Exemptions related to the taxation of employees interests in Research Institution Spinout Companies (eg from Universities or Hospitals exploiting Intellectual Property created by their staff).
- Further changes to anti avoidance provisions on Film Tax Reliefs, and extension of Low Budget Film Tax Relief.
- Now traditional package of business anti avoidance rules, including:

stamp duty and commercial property
vat and commercial property
double taxation relief
financial products

The schemes blocked are all quite esoteric and definitely “big boys” stuff, rather than common place small business fodder.

- Exemptions on employees being taxed excessively if a previously loaned cycle or computer is given to them. Market value now applies.
- Increase in amounts that can be paid tax free to employees in full time education.
- Capital Allowances on renovating and bringing back into use empty commercial properties in disadvantaged areas. Property must have been empty for a year or more.
- Final publication of the Hampton Report on reducing regulation for businesses – recommendations to reduce form filling requirements, the number of regulators from 31 to 7, and a lighter touch inspection regime.

Other personal measures

- Further consultations on changes for trusts.
- Enactment into the tax regime of Civil Partnerships so that, for the most part, participants in a Same Sex Civil Partnership are treated as Husband and Wife for tax purposes.
- Landlords energy saving allowance – allows £1,500 per building maximum deduction for loft or cavity wall insulation.
- Free off peak local bus travel for the over 60s, from 2006.
- £200 off of Council Tax for the over 65s.
- Protection of state pension payments whilst in hospital, again from 2006.

Charities

- Changes for charities on Gift Aid linked to rights of admission.
- Reduced vat rate on expenditure relating to advice or information for promoting the welfare of elderly, disabled and children.

Mileage rates, allowances & benefit in kind charges

Mainly static, adjustments in vat scale charge rates:

	2004-05	2005-06
Income Tax:		
Car mileage rate first 10k miles	40 ppm	40 ppm
Car mileage rate over 10k miles	25 ppm	25 ppm
Car passenger miles	5 ppm	5 ppm
Motorcycle miles	24 ppm	24 ppm
Cycle miles	20 ppm	20 ppm
Van benefit (less than 4 years old) *1	£500	£500
Van benefit (over 4 years old) *1	£350	£350

*1 from April 2005, no van benefit if private use (excluding travel to and Work) is restricted.

VAT: Scale charge vat due pa			
< 1400 cc	Diesel	£128.82	£140.74
	Other	£138.51	£146.70
1400cc to 2000 cc	Diesel	£128.82	£140.74
	Other	£175.00	£185.43
2000 cc >	Diesel	£163.08	£178.72
	Other	£257.65	£272.55

- From April 2005 travel to and from work in a company van doesn't count as private use, and incidental private use is disregarded meaning a lot, possibly most, of van users will now have no benefit in kind charge.

Tax credits

	2004-05	2005-06
Working Tax credit		
Basic element p/a	£1,570	£1,620
Couple and lone parent element p/a	£1,545	£1,595
30 hour element p/a	£640	£660
Childcare element 1 child p/w	£135	£175
Childcare element 2 children p/w	£200	£300
Child Tax Credit		
Family element	£545	£545
Family element, baby addition	£545	£545
Child Element	£1,625	£1,690
First income threshold - WTC & CTC claimants	£5,060	£5,220
First income threshold - CTC only claimants	£13,480	£13,910
Withdrawal rate over first threshold	37%	37%
Second income threshold (CTC family element only)	£50,000	£50,000
Withdrawal rate over second threshold	6.67%	6.67%
Income disregard	£2,500	£2,500

Conclusions

Definitely a pre election “vote grab” budget, business measures quite un-controversial. Quite how long this lack of controversy will go on post election is anyone’s guess.

PRG
18/3/04