

GARBETTS

BUDGET 2006

BRADING ROMAN VILLA

26 APRIL 2006

“Tax system complexities threaten to dull competitive edge, say directors”

Financial Times 21 April 2004

Source: Members Survey Institute of Directors

Budget 2006

- 64 Budget notices
- 5 National press releases
- 12 Regional press releases
- 22 other documents by the Treasury
- 43 other documents by HM Revenue & Customs

For the taxpayer

- Income Tax & NI rates- unchanged
- Income Tax & NI bands and allowances – indexed
- CGT rates – unchanged, allowances indexed
- Corporation Tax rates and bands – unchanged, but 0% band abolished
- VAT – no change in rates, thresholds indexed

For the home owner

- IHT – threshold increased by £10,000 to £285,000 – but that’s 3.64% against 5.3% rise in house prices (Source: Nationwide)
- £5,000 increase in stamp duty entry threshold, now £125,000, which is 4.17% - had the level risen with house price inflation it would be £192,000 (Source: Nationwide)

For companies

- 0% rate band and Non Corporate Distribution Rate abolished from 1 April 2006.
- Means we are back to where we were in Spring 2000. Along the way we have had
- 10% starting rate on £10,000
- 0% starting rate on £10,000
- 0% starting rate on £10,000 but clawed back on dividends (NCDR)

In practice... ... suppose a business makes profits of £20,000 per annum.

- Tax as sole trader (2006-07 rates) £4,341
- Tax as company (206-07 rates) (assume £5k salary) £2,850
- So still a worthwhile saving

Capital Allowances

Increase in First Year Allowances for small businesses from 40% to 50% for one year only.

What does that mean in cash terms, buying, say, a van for £10,000?

- last year a company, paying 19% Corporation Tax, would have got tax relief in year one of £760
- this year they get £950

But they lose it via lower relief in future years

Business measures

- Real Estate Investment Trusts
- Film Tax Relief
- R&D tax credits
- Sale of leases

... and others

Real Estate Investment Trusts

Where a company qualifies

- Exemption from Corporation Tax on property income
- Dividends assessable on shareholders as income from property
- For larger companies that means a reduction in the effective tax rate for a private investor who pays basic rate tax from 30% to 22%. For a Higher Rate Tax payer, it's a reduction from 50% to 40%.

Company must:

- Distribute 90% of its tax-exempt income each year
- Shares must be listed
- No one investor to hold more than 10% of the shares

Will costs outweigh the benefits?

London Olympic Games

Exemption from UK tax for:

- International Olympic Committee / members
- Competitors and support staff temporarily resident in the UK

Chancellor's speech referred to £3.4bn of public money from Government, London Authority & National Lottery.

Chancellor announced £600m "funding for world class athletes", including a Schools Olympics every year between now and 2012.

So how will the books be balanced?

Pensions

A Day came in from 6 April 2006

- One regime replaces eight - But what's the regime?
- 3 February 2006 – rules for pension recycling published
- 29 March 2006 – final draft guidance on deductions for pension contributions by employers
- 7 April 2006 – draft guidance for residential property and other naughty assets in pension schemes
- 22 March 2006 - Budget day – IHT & pension simplification rules (relating in particular to ASPs published)

IHT & trusts

- New rules for Accumulation & Maintenance Trusts and Interest in Possession Trusts
- Currently exempt from entry, periodic and exit charges to IHT
- Exemptions abolished from 22 March 2006 unless:
 - For a minor child: (i) created at death and (ii) trust vests at 18
 - For a disabled person
- Period of grace till 6 April 2008

Computers & Mobile phones

- Tax exemption for home computers provided by employers abolished
- But, an employer can still provide a computer if for business purposes and private use restricted
- Tax exemption on mobile phones provided to employees, restricted to one phone
- What if you have a Blackberry or PDA and a phone? Are these both phones?

International Tax Enforcement Arrangements

- “The new powers will allow the UK to enter into bi-lateral and multi-lateral arrangements for the exchange of information in relation to both direct and indirect taxes. The existing rules provide for arrangements only in respect of direct taxes.

“They will also provide for such arrangements to include for the first time provisions on mutual assistance in tax collection in respect of both direct and indirect taxes”

BN 64 – Source www.hmrc.com

Husband & Wife companies

- Arctic Systems (Jones v Garnett)
- Taxpayer lost at Special Commissioners (June 2004)
- Taxpayer lost at High Court (April 2005)
- Taxpayer won at Court of Appeal (November 2005)

Carnwath LJ, “If the legislature wishes such an arrangement to be brought within a special regime for tax purposes, clearer language is necessary to achieve it.”

- HMRC given Leave to appeal to House of Lords – expected towards end 2006

Carter report

- Businesses should be required to file VAT, PAYE and Corporation Tax forms online in phases from April 2008
- From 2008 Self Assessment deadline moves from 31 January to 30 November (online) and 30 September (paper)
- HMRC to invest £340m in Online Service Infrastructure over 9 years
- Aim for universal electronic delivery of tax returns from businesses and IT literate individuals by 2012

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