



ROBINSON
— REED —
LAYTON

The Budget 2005



MAIN BUDGET PROPOSALS

- Stamp duty land tax thresholds raised
- Income tax and national insurance rates unchanged
- Tax breaks on ISAs extended until 2010
- Child Tax Credit increased
- No changes to rates of corporation tax, capital gains tax, air passenger duty, insurance premium tax or climate change levy
- Extension of film tax reliefs
- Anti-avoidance measures

BUT NOTHING ON

- Residence and domicile
- Corporation tax reform

PREVIOUS ANNOUNCEMENTS

Some of the changes detailed in this summary have been the subject of earlier announcements. Here is a reminder of some of the more important ones:

- Introduction of the Child Trust Fund
- The new rules on pre-owned assets
- Taxation of company vans
- Employer-provided childcare
- Anti-avoidance relating to employee remuneration

Gordon Brown presented his ninth Budget on Wednesday 16 March 2005. At under an hour it certainly fell well short of the longest continuous Budget speech ever. That was delivered by William Gladstone on 18 April 1853 and ran to four hours and 45 minutes!

If the British public were hoping for a Budget filled with pre-election sweeteners then they were disappointed. Gordon Brown used his speech to remind us of his golden rule, to balance the current budget over the economic cycle, and to set out his long-term vision for the country.

Press speculation, which was somewhat muted in the run up to the Budget, had focused on stamp duty land tax breaks for first time buyers and the Chancellor did not disappoint.

As expected, a raft of anti-avoidance measures were announced. This was the expected outcome of last year's new tax scheme disclosure regime.

In addition the government will continue to consider ways to reduce administrative burdens on business following the Hampton Review.

Our summary focuses on the issues likely to affect you, your family and your business. To help you decipher what was said we have included comment and suggested action points. If you have any questions then please do not hesitate to contact us for advice or to discuss any action you may wish to take.

The Budget proposals may be subject to amendment in the Finance Act. You are therefore advised to contact us before taking any action as a result of the contents of this summary.

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PERSONAL TAX

■ Tax rates

For the sixth consecutive tax year, income tax rates remain at 10%, 22% and 40%. The special rules for savings income and dividends continue to apply. Further details of tax rates and bands can be found on page 15.

Comment

It seems likely that Labour will fight the forthcoming General Election with a promise not to raise the basic and top rates of income tax. Time will tell but undoubtedly it raises the spectre of further national insurance rises instead.

■ Allowances

The 2005/06 personal allowances were announced in last December's Pre-Budget Report. The personal allowance for the under 65s is increased in line with inflation to £4,895. Personal allowances for those aged 65 and over are increased in line with earnings. The allowances are summarised on page 15.

■ Child Tax Credit

The Child Tax Credit which is means tested is potentially available to families who have responsibility for one or more children. The credit is paid direct to the main carer. There are several elements to the credit but broadly the maximum is an annual amount for 2005/06 of £1,690 per child together with a family element (one per family) of £545 per annum. The amount per child will increase at least in line with earnings up to and including 2007/08. The family element has been frozen since the introduction of the credit.

■ Working Tax Credit (WTC)

The WTC was introduced to reward the work of people on low incomes whether or not they

have children. It also provides working families with assistance to meet the costs of childcare. The annual income threshold for 2005/06 is £5,220 (up from £5,060 in 2004/05) with a reduction of 37p for every extra £1 of income. The basic maximum benefit is increased to £1,620 for 2005/06.

Childcare costs continue to form part of the WTC calculation at a rate of 70% of eligible costs up to a maximum of £175 per week (£300 if two or more children). This element is paid with Child Tax Credit. Although the limits were frozen for 2004/05 they have been significantly increased for 2005/06.

Comment

In his Pre-Budget Report speech last December, the Chancellor referred to the percentage of childcare costs covered by the WTC rising from 70% to 80%. However this change is not intended to take effect until April 2006.

■ Child Trust Fund (CTF)

The CTF was originally announced in the 2003 Budget and is about to become a reality. It is described by the government as a 'new long-term savings and investment account for children'. A child born since September 2002 is eligible for a CTF account if Child Benefit has been awarded for them and they are living in the UK.

The CTF was officially launched in January 2005 with an announcement of the official providers and an advertising campaign. The government will provide an initial endowment of £250 (£500 for low income families).

Vouchers have been sent out and should be used to open a CTF account when they become fully operational in April 2005.

Comment

The government is also considering, subject to consultation, further payments at secondary school age.

■ **Child Benefit**

Child Benefit is currently payable to children up to the age of 16. It is also payable for children between the ages of 16 and 19 if they are in full-time non-advanced education. It will be extended under provisions in the Child Benefit Bill to the families of 16-19 year olds in unwaged work-based training and 19 year olds completing a course of education or training. From April 2005 the weekly rate of Child Benefit will be £17.00 for the first child and £11.40 for subsequent children.

■ **Pensions**

The maximum earnings for which tax allowable pension contributions can be made is increased from £102,000 to £105,600 from 6 April 2005.

Action point

Under the current pensions regime, individuals can contribute £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make substantial contributions to pension schemes.

The new pensions regime, originally announced in December 2002, will finally take effect in April 2006. From that date there will be a single set of tax rules for all registered pension schemes. A further package of measures has recently been announced, many of which arise

as a result of further liaison with the pensions industry. The new measures fall into four main areas:

- benefits and contributions
- lifetime allowance
- unauthorised payments
- transitional issues.

They are intended to provide additional flexibility, clarify certain points in the legislation, smooth the transition to the new regime and introduce further anti-abuse and compliance rules. The new measures do not alter the key points of the new regime which remain as follows:

- a single, lifetime limit on the amount of pension saving that can benefit from tax relief, initially to be set at £1.5 million and rising to £1.8 million by 2010
- any excess over the lifetime limit to be subject to a 25% 'recovery' charge
- pension funds in excess of the lifetime limit may be withdrawn entirely as a lump sum subject to a higher recovery charge of 55%
- an annual allowance (the maximum contribution qualifying for tax relief in a tax year) of £215,000 rising to £255,000 by 2010
- individuals will be entitled to tax relief on personal contributions in any given tax year up to the higher of 100% of relevant earnings or £3,600
- an increase in the age at which pensions can be drawn to 55 by 2010.

Action point

Where an individual has pension rights valued in excess of £1.5 million when the new rules are introduced, this value can be protected together with any growth up to the RPI. Alternatively individuals who plan to cease contributions to all pension schemes by April 2006 can register for 'enhanced' protection thereby avoiding the recovery charge altogether. Therefore consider boosting contributions over the next year if you are a high earner or already have a valuable pension fund.

■ Pension Protection Fund (PPF)

The Pensions Act 2004 legislated for the PPF which will come into being from 6 April 2005. The fund will assume responsibility for defined benefit schemes whose sponsoring employers have become insolvent. The PPF will pay compensation to scheme members in lieu of the benefits they would have received from the scheme. The PPF is not a pension scheme but will be given the same tax treatment as the pension scheme it protects.

■ Pre-owned assets

Back in December 2003 the government announced its intention to legislate against what it saw as inheritance tax (IHT) avoidance.

New measures effective from 6 April 2005 introduce an annual income tax charge in circumstances where an individual has been able to remove an asset from their estate for IHT purposes but still continues to be able to enjoy the use of it or to benefit from it. These new rules come as the Inland Revenue's response to the successful use of IHT saving

schemes particularly in relation to the family home. The new rules apply to land, chattels and certain interests in trusts.

The annual income tax charge is based on the value of the benefit from using the asset, ie its rental value. Logically there will be a deduction for any rent actually paid and a de minimis threshold of £5,000. Other exclusions cover situations where:

- the asset still counts as part of the taxpayer's estate for IHT purposes or
- the asset was sold at an arm's length price, paid in cash.

In addition individuals who have already entered into a scheme now caught by the new rules can elect to avoid the income tax charge and accept instead that the asset is still in their estate for IHT purposes.

Action point

Despite the fact that the new regime is only effective from 6 April 2005, it can apply to arrangements that may have been put in place at any time since March 1986. Existing schemes need to be reviewed to see if the new charge will apply.

Comment

Although the start date for the new rules is almost upon us, there are still questions as to how the regime will operate in practice, in particular the question of valuing assets, which will always be subjective. This raises concerns that practical issues relating to the application of the regime will not be addressed until after it becomes fully operational in April.

■ Individual Savings Accounts (ISAs)

The ISA rules are changing on 6 April 2005. From that date it will still be possible to hold an insurance policy in an ISA but the separate mini insurance ISA will end and instead, depending on the type of insurance policy, it will now qualify for either the:

- mini ISA cash component with an unchanged limit of £3,000
- mini ISA stocks and shares component with an increased limit of £4,000
- maxi ISA with a limit of £7,000.

Comment

When ISAs were introduced in 1999 they were guaranteed to run for ten years to 2009. Currently the overall annual investment limit is £7,000 with a maximum of £3,000 in cash and this was guaranteed to run until the end of 2005/06. The government now plans to further extend the existing limits until 2009/10.

■ Gift Aid

To encourage additional Gift Aid donations, the scope of the exemption which allows for the right of free admission to donors to be disregarded as a benefit will be expanded to allow more types of charities to benefit. In addition, the exemption will be amended, so Gift Aid will apply where a donation is at least 10% more than the normal admission charge or where a donation results in the unlimited right of admission for a period of not less than 12 months.

These changes will be introduced in April 2006 to allow time for charities to make any necessary changes.

■ Civil Partnership Act (CPA)

The CPA which gives legal recognition to same-sex couples became law in November 2004. However the Act does not come into effect until 5 December 2005. The Act will allow same-sex couples to make a formal legal commitment to each other by entering into a civil partnership through a registration process. A range of important rights and responsibilities will flow from this including legal rights and protections.

With effect from 5 December 2005 registered same-sex couples will be treated in the same way as married couples for tax purposes.

Comment

One of the key areas affected will be inheritance tax where transfers between partners will be exempt.

■ Residence and domicile

The government is continuing to review the residence and domicile rules as they affect the taxation of individuals and is considering various aspects of this issue in light of the responses to the background paper published in Budget 2003. The government would welcome further contributions to the debate, which will then be taken forward by the publication of a consultation paper setting out possible approaches to reform.

Comment

It does seem as though the government has rather lost its way on this issue. The background paper was originally published two years ago and to date there is no further detail or indication of the proposed way forward.

■ National Insurance Contributions (NICs)

There is no change in the rates of NIC. The detailed limits and rates are set out on page 16 of this booklet.

Action point

Although employees' NICs only become payable once earnings exceed £94 per week in 2005/06, it is still the case that earnings between £82 and £94 per week protect an entitlement to basic state retirement benefits without incurring a liability to NICs. Consider whether you are making full use of this rule. A PAYE scheme would be needed to establish the employees' entitlement to benefits.

■ Childcare costs

Currently employees are exempt from both tax and NICs on childcare provided in an employer-operated nursery. In addition childcare vouchers and other childcare paid for by the employer (such as a place in a commercial nursery) are specifically exempt from NICs but not tax. There are no financial limits on the exemptions currently available.

A new regime takes effect from 6 April 2005 and the main changes are outlined below.

- The employer-operated exemption is extended to include employees of other organisations if they work at the same location as the employer's staff. As before there is no financial limit on the relief.
- The exemption for childcare vouchers is extended to cover tax as well as NICs. However the exemption is limited to £50 per week and any excess is liable to both tax and NICs.
- Any formal registered childcare or

approved home childcare contracted for by the employer such as a local nursery, out-of-school club or childminder will be exempt from both tax and NICs but as with vouchers the exemption is limited to £50 per week.

- Where schemes operate they should be open to all employees.

Comment

Some employers may decide to operate a childcare 'salary sacrifice' scheme whereby the employee formally agrees to give up part of their salary in exchange for childcare vouchers or other employer-provided childcare. An employee could save up to £850 per year if they are a basic rate taxpayer, rising to over £1,000 for a higher rate taxpayer. In addition the employer could save over £300 in NICs per employee.

However the following should not be overlooked:

- *salary sacrifice schemes must be put in place carefully to ensure they work*
- *salary sacrifice would probably not be appropriate for employees in receipt of Working Tax Credit including the childcare element because part of the entitlement to these credits is based on childcare costs paid personally rather than by the employer*
- *employees currently receiving vouchers substantially in excess of the £50 limit may be worse off under the new rules because the NICs exemption will be capped at £50 per week.*

■ Company car tax

Currently a company car is taxed according to the level of CO₂ emissions. The benefit on fuel provided for private use is also related to the same scale.

- The starting point for the scale decreases to 140 grams per kilometre for 2005/06 and will remain unchanged until at least 5 April 2008.
- The fuel benefit calculation remains unchanged for 2005/06.
- As previously announced the waiver of the 3% supplement for Euro IV diesel cars ceases from 6 April 2006 for cars registered on or after 1 January 2006.
- The range of discounts for alternative fuels is to be simplified.

Comment

Drivers who are provided with fuel for private use need to check if this really is a benefit. The other changes will prevent the rules becoming unwieldy.

■ **Company vans**

As previously announced the rules are changing on 6 April 2005 so that there will only be a taxable benefit where an employee has unrestricted private use of a company van. The taxable benefit remains at its previous level of £500 (or £350 for older vans). If the employer specifically prohibits private use, other than 'ordinary commuting' (primarily home to work travel) and other 'insignificant' private use, there will be no charge at all.

Comment

The charge for unrestricted private use will increase significantly to £3,000 in April 2007. A separate charge of £500 on private fuel provided by the employer (currently included in the scale charge) will also be introduced at the same time.

Action point

Employers need to reconsider their policies on the use of company vans and, if possible, introduce a restriction on private use to ensure that the tax charge (and the corresponding Class 1A NIC charge) is removed.

■ **Computer and bicycle exemptions**

The loan of a bicycle to an employee is tax-free as is the loan of computer equipment where the exemption applies to the first £500 of annual benefit. If at the end of the loan period the employee purchases the computer or decides to buy the bicycle, there will not be a tax charge provided the employee pays the employer the market value for the computer or the bicycle.

Comment

A sensible simplification which should make the rules understandable.

■ **Payments to employees attending college**

Where an employee attends a full-time course at a recognised educational establishment for at least 20 weeks a year and their employer helps to meet the costs of accommodation, subsistence and travel, these are currently tax exempt up to a total of £7,000 per academic year. This figure will increase to £15,000 for the academic year which begins in September 2005. The payment will also be exempt from Class 1 NIC.

Comment

The relaxation of the tax rules is part of the overall drive to ensure that the skill and knowledge base in the UK is improved.

■ Outplacement counselling

When an employee loses their job their old employer may agree to meet some or all of the costs of outplacement counselling and retraining where appropriate. The current tax exemption which only applies to full-time employees is being extended to cover provision of these facilities to part-time employees. It will also apply in all cases to retraining courses lasting up to two years and the condition that the course has to be substantially full-time is removed.

Comment

Redundancy is often a traumatic experience and the opportunity to receive counselling and retraining is usually welcomed. The extension of the tax exemption in this way is both logical and desirable.

■ Employment-related securities

The new disclosure rules have focused Inland Revenue attention on schemes using 'employment-related securities' to avoid income tax and NICs. The government's intention is that 'all of the value received by way of remuneration in the form of shares and other securities is taxed at the time it is accessed by the employee'. The legislation is being amended to stop particular schemes with effect from 2 December 2004.

Comment

It is large bonuses in the financial sector that seem to be the focus of the recent changes. However concerns have been raised that further uncertainties have been introduced into an already complex area of the law.

■ Corporation tax rates

The corporation tax rates continue to be a 0% starting rate, a 19% small companies rate and a main rate of 30%. The profits limits used to determine the appropriate rate of tax are reduced for a company that is part of a group or has associated companies.

Comment

The benefit of the 0% rate is not available to companies whose profits are distributed to non-company shareholders. This follows a change in the rules made in 2004 so that a minimum rate of 19% applies where profits are distributed in this way.

■ Corporation tax reform

A Technical Note published last December gave details of further legislative proposals on the reform of corporation tax. This followed the two measures (extension of relief for management expenses and reform of the rules on transfer pricing and thin capitalisation) included in Finance Act 2004. The note covered topics addressed in previous consultation documents:

- the reform of the schedular system for companies
- the tax treatment of capital assets
- the taxation of leasing transactions
- tax differences between trading and investment companies.

Comment

It was surprising that there was no further detail in this area and no indication of a likely timescale.

■ Landlords Energy Saving Allowance (LESA)

The LESA was introduced from 6 April 2004 where landlords who pay income tax incur expenditure on installing cavity wall or loft insulation. It provides immediate tax relief on expenditure up to £1,500 per building. This is extended from 7 April 2005 to include the installation of solid wall insulation.

Comment

Insulation costs would normally be treated as a capital expense and so no tax relief would be available until the property was sold. This accelerated relief is part of the government's package of environmentally friendly policies.

■ Business Premises Renovation Allowance (BPRA)

As part of last December's Pre-Budget Report the government issued a consultation document on the proposed new BPRA scheme. The stated aim is to raise investment in disadvantaged areas.

The scheme will provide 100% first year capital allowances for costs of converting or renovating business property in the designated disadvantaged areas. To qualify:

- the property may be owned or leased
- the property must have previously been vacant for 12 months or more and
- the costs must be incurred in order to bring it back into business use.

The allowance will be given through the normal capital allowances system and is due to be

introduced when state aid approval has been obtained.

Comment

The relief is available to traders and landlords irrespective of the size of the business. The proposed rules will in some cases simply give tax relief sooner than it is currently due. In other cases the new allowance will give full tax relief where none would otherwise have been due.

■ Researchers acquiring shares in spinout companies

Universities and public sector research establishments which own intellectual property (IP) often develop that IP further through companies created in association with the researcher who helped create it. This allows the researcher to benefit where the IP is subsequently exploited. The shares in the spinout company held by the researcher increase in value on introduction of the IP into the company. This creates immediate income tax and NIC charges on the value of the benefit before cash is available to meet the bill. The government is concerned that this has significantly reduced the creation of new spinout companies.

Legislation has been introduced, which is effective from 2 December 2004, to remove the income tax and NIC charges if certain conditions apply. In general terms the rules work by ignoring the effect of the transfer of IP into the company on the researcher's shares in the spinout company.

Spinout companies set up before 2 December 2004 will be able to elect, no later than 15 October 2005, that income tax and NICs will not be payable unless and until the company is successful.

Comment

To what extent the removal of the tax and NIC charges will encourage the set-up of such companies remains to be seen but the move is a welcome one nonetheless.

■ Intangible assets

A new regime for intangible assets, for example goodwill and brand names, was introduced for companies in 2002. A new class of asset, namely payment entitlement under the single payment scheme for farmers, will be brought within this regime for acquisitions on or after 22 March 2005.

Two further changes are made from 16 March 2005 to ensure that the rules work as intended:

- the closure of a loophole in the rules designed to prevent relief on transactions between related parties
- amendment of the rules so that interaction with other taxes, such as income tax and capital gains tax, work as intended.

Comment

Once again, the last two changes have been brought to the Inland Revenue's attention because of the disclosure rules on anti-avoidance.

■ Tax relief for British films

The Chancellor has extended the current tax relief for low budget films until 31 March 2006. A series of measures to counter tax avoidance schemes has also been introduced.

Comment

The existing reliefs for low budget films were originally due to expire in July 2005. The film industry has expressed concerns about the proposed replacement relief which explains why the current reliefs have been extended.

■ International Accounting Standards (IAS)

Some companies will adopt IAS from 1 January 2005. The government has considered the transitional adjustments arising from the change and announced in the Pre-Budget Report last December that any tax effects arising would be deferred until the impact could be determined and managed. This was intended to 'relieve companies of a considerable degree of uncertainty following their representations'.

However shortly after last December's Pre-Budget Report the government announced changes, effective from 14 December 2004, to ensure that companies do not get relief for losses arising on transactions designed solely to accelerate relief that would otherwise be deferred until 2006 at the earliest.

In addition a number of technical amendments have been made to the legislation introduced last year. These reflect developments in both IAS and UK Generally Accepted Accounting Practice as well as correcting some errors and omissions.

■ Corporation tax: anti-avoidance

The government has taken action in an attempt to prevent corporation tax avoidance by companies in specific areas:

- use by companies of capital redemption bonds to generate artificial losses
- exploitation of the loss buying rules in relation to the carry forward of non-trading losses on debt where there is a change in ownership of a company.

The measures are effective from 10 February 2005.

Further legislation was introduced on 16 March 2005 to address arrangements:

- seeking to bypass the controlled foreign company rules
- obtaining credit for foreign tax on income treated as dividends in the UK but for which the payer gets a deduction as interest
- using arbitrage schemes that involve hybrid entities or instruments.

■ Double Tax Relief (DTR)

DTR is designed to prevent double tax arising where income is taxed both in the UK and abroad. DTR should not exceed the amount of UK tax due on the sum already taxed overseas. Where tax is charged on profits, it is necessary to determine exactly which profits are attributable to the transaction that gave rise to the foreign tax. The new rules, effective from 16 March 2005 for companies and 6 April 2005 for individuals, clarify how this calculation of profit should be done.

In addition any company, individual or partnership that enters into an arrangement in specified situations in order to claim DTR, where tax avoidance is one of the main purposes, will be subject to anti-avoidance rules. The Inland Revenue will be able to deny the increase in DTR resulting from the scheme. These measures generally take effect from 16 March 2005 and give effect to the announcement made on 10 February 2005 that DTR will be denied where income was acquired to secure excessive DTR.

Comment

The introduction of these measures is due at least in part to the disclosure rules introduced last year whereby, broadly, tax scheme promoters must provide details of their schemes to the Inland Revenue. In the government's words 'these rules provide early warning of avoidance schemes....(and) enable the government....to respond to tax avoidance'.

■ Transfer pricing

The transfer pricing rules require the market value of transactions between connected businesses to be recognised for tax purposes. In April 2004 the rules were extended to apply to purely domestic transactions. Further changes announced on, and effective from, 4 March 2005 extend the rules further to apply where parties who collectively could control a business act together to finance that business.

Comment

This measure is intended to ensure businesses cannot increase tax relief for their financing costs simply by arranging their finance in a particular way.

CAPITAL TAXES AND TRUSTS

■ Capital gains tax (CGT) annual exemption

The annual exemption for 2005/06 is £8,500. For most trusts the exempt limit is increased to £4,250.

■ CGT rates of tax

For individuals capital gains continue to be treated as the top slice of income. For 2005/06 rates continue to be aligned with those applying to savings income. Tapered gains are charged at 10% where gains plus total income do not exceed £2,090; 20% between £2,091 and £32,400; and 40% on any balance.

For trustees the rate of CGT was increased from 34% to 40% in April 2004. The 40% rate continues to apply in 2005/06.

■ Inheritance tax (IHT) threshold

The IHT nil rate band is increased to £275,000 with effect from 6 April 2005. The Chancellor has announced that the band will rise to £285,000 in 2006 and to £300,000 in 2007.

Comment

It is disappointing that no attempt was made to increase the nil rate band to reflect recent rises in the housing market. The family home remains the main asset in many estates and some IHT planning should be considered if the value of the estate exceeds the nil rate band.

■ Trusts

Following the increase in the rate of tax on the income and capital gains of trusts from 34% to 40% in April 2004, a further package of measures was considered to modernise the tax system for trusts. Budget 2005 has confirmed the introduction of two of these as follows:

- a standard rate band of £500 is being introduced with effect from 6 April 2005 for all trusts paying tax at the 'rate applicable to trusts', so that around 25,000 trusts with small amounts of taxed income will have no further liability and will no longer have to submit a self assessment return every year
- new rules backdated to 6 April 2004 are being introduced so that trusts set up for the most vulnerable, for example, for the disabled, are taxed as if the beneficiary had received the income and gains directly.

Comment

Other proposals for trusts are still being considered and after a further consultation process are to be included in the 2006 Finance Bill.

■ Capital gains and residence

A new measure has been introduced with effect from 16 March 2005 to ensure that individuals or trustees of settlements cannot exploit any double taxation agreements (DTAs) to avoid being within the charge to UK tax in respect of chargeable gains.

Comment

The measure is designed to prevent individuals and trustees benefiting from a nil or small liability overseas in respect of a gain where the terms of the relevant DTA prevent the UK from taxing the gain.

In addition an anti-avoidance measure has been introduced amending the rules that determine where certain assets are located for capital gains purposes.

■ Stamp Duty Land Tax (SDLT) residential threshold

The threshold for residential transactions is being raised from £60,000 to £120,000.

This means that no SDLT will be payable where the purchase price of a property does not exceed £120,000. Above that figure the 1% band comes fully into play. This change means that the purchaser of a property costing £100,000 will now save £1,000.

The change will affect property transactions where completion takes place on or after 17 March 2005.

Comment

The change was well trailed, although the new limit is higher than many predicted. It is good news for first time buyers.

■ SDLT changes to disadvantaged areas relief

A significant number of areas in the country are designated as disadvantaged areas and any transaction involving a commercial property in such an area was exempt from SDLT. The Chancellor has decided to withdraw that relief with immediate effect and normal rates of SDLT will apply to transactions entered into on or after 17 March 2005. This means that any commercial property transaction of over £150,000 will attract SDLT.

Where a contract was entered into on or before 16 March 2005 and completion has not yet taken place, the old rules will continue to apply. This is provided that the contract is not varied or assigned before completion and the

transaction is not the exercise of an option or right of pre-emption.

The purchaser of a commercial building in a disadvantaged area costing £400,000 will now face an SDLT charge of £12,000.

Residential properties in disadvantaged areas have a threshold of £150,000 before SDLT is payable. This remains unchanged.

Comment

This is really bad news for those seeking to develop businesses in disadvantaged areas.

■ SDLT anti-avoidance measures

The tax planners have clearly been busy identifying loopholes in the SDLT legislation and the process of blocking those loopholes has now begun. A range of anti-avoidance measures is to be introduced to deal with a variety of schemes.

In addition the Chancellor is bringing schemes to avoid SDLT on commercial property into the regime which requires scheme providers to make early disclosure to the Inland Revenue. This measure will be effective for schemes or arrangements made available or implemented on or after 1 July 2005.

Comment

It was predictable that the planners would get to work on SDLT and the Chancellor's reaction was equally predictable.

■ VAT thresholds

The VAT registration limits increase with effect from 1 April 2005 as follows:

- the threshold for compulsory registration is £60,000
- the threshold for voluntary deregistration is £58,000.

■ Avoidance scheme disclosure rules

New rules are to be introduced requiring businesses to disclose when they use or are party to schemes that give a tax advantage that does not appear on their VAT returns, eg in relation to VAT that cannot be deducted because it relates to exempt supplies or non-business activities.

■ Other VAT measures

- Changes to the partial exemption scheme rules which will affect those businesses using a 'special method'. In addition the benefit of rounding up in the standard method for large businesses whose residual input tax is more than £400,000 per month is removed.
- Local authority provision of certain services, such as childcare and welfare, will be reclassified as non-business rather than an exempt activity for VAT purposes from 1 April 2005. This will remove the restriction on VAT refunds.
- An extension to the list of energy saving materials qualifying for the 5% reduced rate on installation.
- Extending the 'unjust enrichment' provisions so that no business can unfairly benefit from charging too much VAT.

- Consultation on the introduction of a 5% reduced rate of VAT, for welfare charities and 'state regulated' welfare providers, on certain services in connection with the welfare of the elderly, disabled or children.
- The government is seeking to agree a 5% rate on the VAT costs incurred by charities in the construction, renovation and maintenance of memorials. In the meantime an interim grant scheme will be introduced.
- The extension of the listed places of worship scheme for three years until 2007/08 unless a permanent reduced rate is achieved earlier.
- Proposals to reform the VAT fuel scale change to a CO₂ emissions basis.

■ Vehicle Excise Duty (VED)

VED is frozen for the four least polluting CO₂ bands and increased by the standard £5 for the two most polluting bands, as well as for cars and light goods vehicles of over 1549cc registered before 1 March 2001. Changes take effect for licences commencing on or after 1 April 2005.

■ Fuel duty

Excise duty rates on main road fuels will be increased by 1.22 pence per litre in line with inflation from 1 September 2005.

■ Landfill tax

The standard rate of landfill tax has been increased to £18 per tonne from 1 April 2005. The lower rate for inactive waste remains at £2 per tonne.

PROPOSED RATES AND ALLOWANCES 2005/06

INCOME TAX RATES

2005/06		2004/05	
Band	Rate	Band	Rate
£	%	£	%
0 - 2,090	10	0 - 2,020	10
2,091 - 32,400	22*	2,021 - 31,400	22*
Over 32,400	40**	Over 31,400	40**

* Except dividends (10%) and savings income (20%).

** Except dividends (32.5%).

Other income taxed first, then savings income and finally dividends.

INCOME TAX RELIEFS

		2005/06	2004/05
		£	£
Personal allowance	- under 65	4,895	4,745
	- 65 - 74*	7,090	6,830
	- 75 and over*	7,220	6,950
Married couple's allowance (relief at 10%)	- aged less than 75 and born before 6.4.35*	5,905	5,725
	- 75 and over*	5,975	5,795
	- min. amount	2,280	2,210
* Age allowance income limit		19,500	18,900
(reduce age allowance by £1 for every £2 of excess income over £19,500)			
Blind person's allowance		1,610	1,560

TAX CREDITS

	2005/06	2004/05
	£	£
Working tax credit (WTC)		
Basic element		
- max.	1,620	1,570
Childcare element		
70% of eligible costs to a max. of £175 (£135) per week (£300 (£200) if two or more children)		
Child tax credit (CTC)		
Child element		
per child - max.	1,690	1,625
Family element	545	545
Baby addition	545	545

Reductions in maximum rates

37% of income above
£5,220* (£5,060) p.a.

* If only CTC is claimed, the threshold is
£13,910 p.a. (£13,480). The family
element of CTC is not reduced unless
income is more than £50,000 p.a. when it
is reduced by £1 for every £15 of
additional income.

PENSION PREMIUMS

	% of		
	Net Relevant Earnings (NRE)		
	2005/06 and 2004/05		
Age at the beginning of the tax year	*Personal Pensions (including stakeholder)	Retirement Annuities	
35 or less	17.5	17.5	
36 - 45	20	17.5	
46 - 50	25	17.5	
51 - 55	30	20	
56 - 60	35	22.5	
61 - 74	40	27.5	

* Maximum contributions 2005/06 and
2004/05: higher of

- £3,600 (gross)

- % of NRE capped at £105,600 in
2005/06 (2004/05 £102,000).

CAR AND FUEL BENEFITS

Company cars 2005/06		
CO ₂ emissions (gm/km (round down to nearest 5gm/km))	% of car's list price taxed	Fuel benefit t (£14,400 x %)
		£
up to 140	15	2,160
145	16	2,304
150	17	2,448
155	18	2,592
160	19	2,736
165	20	2,880
170	21	3,024
175	22	3,168
180	23	3,312
185	24	3,456
190	25	3,600
195	26	3,744
200	27	3,888
205	28	4,032
210	29	4,176
215	30	4,320
220	31	4,464
225	32	4,608
230	33	4,752
235	34	4,896
240 and above	35	5,040

Company cars

- For diesel cars add a 3% supplement, but maximum still 35%. Until 5.4.06 supplement waived for Euro IV diesels.
- Discounts apply to certain environmentally friendly cars.
- For cars registered before 1.1.98 charge is based on engine size.
- The list price includes accessories and is subject to an upper limit of £80,000.
- List price is reduced for capital contributions made by the employee up to £5,000.

Fuel benefits

- The fuel benefit charge is proportionately reduced if provision of private fuel ceases part way through the year.
- The fuel benefit is reduced to nil only if the employee pays for all private fuel.

Van benefit per vehicle - 2005/06 and 2004/05

Vehicles under 4 years old	Vehicles at least 4 years old
£500	£350

Notes

- For 2005/06 the charge only applies if there is unrestricted private use of the van.
- Van benefits include fuel for private use.

MILEAGE ALLOWANCE PAYMENTS

	2005/06 and 2004/05	
Cars and vans	Rate per mile	
Up to 10,000 miles	40p	These rates represent the maximum tax-free mileage allowances for employees using their own vehicles for business. Any excess is taxable. If the employee receives less than the statutory rate, tax relief can be claimed on the difference.
Over 10,000 miles	25p	
Bicycles	20p	
Motorcycles	24p	

CAPITAL ALLOWANCES

Writing Down Allowance

Plant and Machinery*	25%#(reducing balance)
Motor Cars**	25% (reducing balance) - £3,000 max
Industrial and Agricultural Buildings and Hotels	4% (straight line)

* For small businesses: first year allowances (FYAs) of 50% for 12 months from 6.4.04 (1.4.04 for companies).

FYAs of 40% from 6.4.05 (1.4.05 for companies).

For medium-sized businesses: FYAs of 40%.

For all businesses: 100% FYAs on expenditure on energy saving plant and machinery.

**100% FYAs on new cars with CO₂ emissions not exceeding 120 gm/km until 31.3.08.

#6% on certain long life assets.

INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

	2005/06	£
Overall investment limit - maxi ISA		7,000
- mini ISA - stocks, shares and life insurance		4,000
- cash		3,000

PROPOSED RATES AND ALLOWANCES 2005/06

CORPORATION TAX

	Years to 31.3.06 and 31.3.05	
	Profits band £	Rate %
Starting rate	0 - 10,000	0*
Marginal (starting) rate	10,001 - 50,000	23.75
Small companies rate	50,001 - 300,000	19
Marginal (small companies) rate	300,001 - 1,500,000	32.75
Full rate	Over 1,500,000	30
Starting rate fraction		19/400
Small companies fraction		11/400

*Minimum rate of 19% applies when profits are distributed to non-company shareholders.

The profits limits are reduced for accounting periods of less than 12 months and for a company with associated companies.

VALUE ADDED TAX

Standard Rate	17.5%
Reduced Rate	5%
Annual Registration Limit - from 1 April 2005 (1.4.04 - 31.3.05 £58,000)	£60,000
Annual Deregistration Limit - from 1 April 2005 (1.4.04 - 31.3.05 £56,000)	£58,000
VAT on private fuel - scale charge due per quarter per car for accounting periods beginning on or after 1 May 2005.	

	Petrol		Diesel	
	Charge	VAT	Charge	VAT
Up to 1400cc	£246	£36.64	£236	£35.15
1401 - 2000cc	£311	£46.32	£236	£35.15
Over 2000cc	£457	£68.06	£300	£44.68

CAPITAL GAINS TAX

	2005/06	2004/05
	£	£
Individuals		
Exemption	8,500	8,200
Balance of gains (reduced by taper relief) charged as top slice of income (at savings rates - ie 10%, 20% or 40%)		
Trusts		
Exemption	4,250	4,100
Balance of gains (reduced by taper relief)	40%	40%

Taper relief 2005/06 and 2004/05 disposals

Percentage relief depends on number of complete years asset owned after 5.4.98.

Years of ownership	1	2	3	4	5	6	7	8	9	10
Business assets (% relief)	50	75	75	75	75	75	75	75	75	75
Non-business assets* (% relief)	0	0	5	10	15	20	25	30	35	40

*Add one extra year if asset owned before 17.3.98.

STAMP DUTY & STAMP DUTY LAND TAX

Land and buildings (On full consideration paid) From 17 March 2005			
Rate	Residential property		Non-residential
	Disadvantaged areas	Other	
	£	£	£
Nil	0 - 150,000	0 - 120,000	0 - 150,000
1%	150,001 - 250,000	120,001 - 250,000	150,001 - 250,000
3%	250,001 - 500,000	250,001 - 500,000	250,001 - 500,000
4%	Over 500,000	Over 500,000	Over 500,000

Shares and securities - rate remains unchanged at 0.5%

INHERITANCE TAX

Death Rate %	Lifetime Rate %	Chargeable Transfers			
		2005/06 £'000	2004/05 £'000		
Nil	Nil	0 - 275	0 - 263		
40	20	Over 275	Over 263		
Reliefs					
Annual exemption	£3,000	Marriage - parent	£5,000		
Small gifts	£250	- grandparent	£2,500		
		- bride/groom	£2,500		
		- other	£1,000		
Reduced charge on gifts within seven years of death					
Years before death	0-3	3-4	4-5	5-6	6-7
% of death charge	100	80	60	40	20

NATIONAL INSURANCE

Class 1 (employed) Contracted in	2005/06 Rates	
	Employer	Employee
Weekly earnings		
Up to £94	Nil*	Nil*
£94.01 - £630	12.8%**	11%**
Over £630	12.8%**	£58.96 + 1% †
* Entitlement to contribution-based benefits retained for earnings between £82.01 and £94 per week.		
** On earnings above £94.		
† On earnings above £630.		

Class 1A (employers)	12.8% on employee taxable benefits
Class 1B (employers)	12.8% on PAYE Settlement Agreements
Class 2 (self-employed)	flat rate per week £2.10 small earnings exception p.a. £4,345
Class 3 (voluntary)	flat rate per week £7.35
Class 4 (self-employed)	8% on profits between £4,895 and £32,760 plus 1% on profits over £32,760

MAIN SOCIAL SECURITY BENEFITS

	2005/06	2004/05
Weekly Benefit		
Basic Retirement Pension	- single person £82.05	£79.60
	- married couple £131.20	£127.25
Statutory pay rates	- average weekly earnings £82 (£79) or over	
Statutory Sick Pay	£68.20	£66.15
Statutory Maternity Pay		
First six weeks	90% of weekly earnings	
Next 20 weeks	£106.00*	£102.80*
Statutory Paternity Pay - two weeks	£106.00*	£102.80*
Statutory Adoption Pay - 26 weeks	£106.00*	£102.80*
* Or 90% of weekly earnings if lower.		

This summary is published for the information of clients. It provides only an overview of the main proposals announced by the Chancellor of the Exchequer in his Budget Statement, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this summary can be accepted by the authors or the firm.



ROBINSON
— REED —
LAYTON

Peat House, Newham Road
Truro, Cornwall TR1 2DP

Telephone: 01872 276116
Telefax: 01872 222172
www.rrl-truro.co.uk

