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THIS YEAR'S TAX CHANGES

1.1 Introduction

This chapter summarises many of the changes to the tax rules and rates which take effect for 2008–09. Also included are some important changes announced for future years. Some were introduced by this year's Budget and Finance Bill, whilst others were announced and enacted previously. Tax planning pointers have been included in italics and these are amplified in Chapter 26. At the end of this chapter you will find a table of key rates and allowances for 2008–09.

You should remember that not all the changes included in the 2008 Budget take effect for 2008–09, which gives a planning interval.

1.2 Income tax

The rate bands have been widened and some of the personal allowances have increased.

1.2.1 Income tax rates (5.0)

- ▶ The basic rate ceiling has increased to £34,800.
- ▶ The basic rate goes down to 20 per cent from 2008–09.
- ▶ The 10 per cent rate is removed from 2008–09 for income apart from dividends and certain savings income.
- ▶ A new 10 per cent starting rate for savings income only applies to any that you have within your top slice of income but below £2,320.

1.2.2 Allowances and reliefs

- ▶ Allowances such as personal allowance and age allowance have been increased (3.3).
- ▶ The pensions relief annual earnings cap goes up to £235,000 under the new system (14.3.1 & 14.6.2).
- ▶ Child tax credit (3.4.4) increases for 2008–09.
- ▶ Working Tax Credit (WTC) increases for 2008–09 (3.4.4).
- ▶ Child benefit (3.2.2) increases.

1.2.3 Transitional gift aid relief for charities

For 2008–09, 2009–10 and 2010–11 only, charities are enabled to reclaim tax on gift aid donations corresponding to the previous 22 per cent basic rate instead of the current 20 per cent (15.2.1).

1.3 Tax on employments

- ▶ The emission thresholds for company car tax reductions are lowered and there is a new lower rate of 10 per cent for cars with CO₂ emissions of 120 grams per kilometre or less (10.6.5).

- ▶ The first £30,000 paid under the new GLA severance pay scheme will be free of income tax.
- ▶ From 6 April 2008, income tax exemption applies to Return to Work Credit, In-Work Credit, In-Work Emergency Discretion Fund and In-Work Emergency Fund.

1.4 Business taxation

Included in the provisions related to businesses are capital allowances, research and development (R&D) and vaccine research (VR) schemes.

- ▶ Generally operating from 2008–09, there are widespread changes to the capital allowances and research and development relief systems. These include phasing out over 4 years writing down allowances on industrial and agricultural buildings and having a new allowance of 100 per cent on the first £50,000 spent each year on plant and machinery, but reducing the normal writing down allowance to 20 per cent.
- ▶ Writing down allowance on long life assets becomes 10 per cent, with special pooling arrangements.
- ▶ R&D relief for small and medium companies is increased to 175 per cent for 2008–09 and to 130 per cent for large companies. A cap is being introduced for R&D and VR relief for small and medium companies of euros 7.5m per project.

1.4.1 Corporation tax rates (13.2 & 13.6)

- ▶ The main companies rate becomes 28 per cent from 1 April 2008 (13.2).
- ▶ The small companies rate becomes 21 per cent from 1 April 2008.

1.5 Capital gains tax

1.5.1 Rates and exemptions

- ▶ From 6 April 2008, the capital gains tax system for individuals is simplified, with one rate of 18 per cent applying.
- ▶ From that date, disposals no longer obtain indexation or taper relief.
- ▶ A new 'Entrepreneur's Relief' will apply at 10 per cent on the first £1m of certain disposals of businesses etc. after 5 April 2008.
- ▶ The annual exemption remains, being £9,600 for 2008–09.

1.6 Tax-efficient investments

- ▶ From 6 April 2008, the ISA (8.12) annual subscription limits are £7,200 overall, of which a maximum of £3,600 can be cash.
- ▶ Subject to EC approval, the EIS (11.26) annual subscription limit increases to £500,000 from 6 April 2008.

- ▶ Also from 6 April 2008, the trades of shipbuilding, and coal and steel production are excluded for EIS, VCT (8.13) and CV (13.28) schemes.

1.7 Trusts

Various capital gains tax changes are of benefit to trusts with effect from 2008–09. In particular:

- 1.7.1 The tax rate becomes 18 per cent compared with generally 40 per cent previously.
- 1.7.2 Indexation and tapering are no longer applicable.
- 1.7.3 Entrepreneurs' relief applies to certain business disposals (21.7).

1.8 Pensions taxation

- ▶ The planned radical reforms took effect from 6 April 2007. For 2008–09 there is a single lifetime allowance and an annual allowance, set at £1.65m and £235,000 respectively (14.4.4 and 14.5.2).
- ▶ For internationally mobile workers in the UK, funds in non-UK pension schemes that have received UK tax relief are to be identified for the purposes of UK tax limits.
- ▶ FA 2008 confirms that between 1 April 2004 and 5 April 2006, a company's pension deductions were limited to the contributions paid each year.

The current scheme involves many planning choices. A particular area concerns the choice between taking an annuity or a pension by what was known as 'draw down'. Under the previous rules, an annuity had to be taken by age 75; draw down can now continue, but regard should be had to potential tax on claw-back and future IHT.

1.9 Inheritance tax

1.9.1 Rates

The nil rate band increases to £312,000 for 2008–09, £325,000 for 2009–10 and £350,000 for 2010–11 (22.5).

The extra amounts of nil rate band provide scope for additional tax free gifts by will and during your lifetime.

1.9.2 Civil partners

The tax exemptions covering civil partners in accordance with the CPA (from 5 December 2005) are particularly valuable in the field of inheritance tax. In the same way that married couples normally are free from inheritance tax on assets passing between them, so are single-sex partners under the new rules.

Partners within the CPA should take full advantage of the scope for passing on assets free of inheritance tax to the surviving partner. However, as with married couples, the nil rate band should not be wasted.

1.9.3 Trusts

Accumulation and maintenance (22.30.1) and interest in possession trusts were broadly brought into line with discretionary trusts (22.30.2) for IHT purposes. The rules apply to new trusts and additions made from 22 March 2006 and existing ones from 6 April 2008. Trusts for the disabled, certain will trusts for children under age 25 and IIP will trusts for spouses are excluded.

The transitional period for rearranging IIP trusts has now been extended to 5 October 2008.

1.9.4 Unused nil rate band

If a surviving spouse or civil partner dies after 8 October 2007, any nil rate band which was unused at the first death can be transferred to the estate of the survivor (22.5.2).

In order to preserve the second nil rate band, it is no longer necessary to leave it to others than the surviving spouse or civil partner.

1.10 Anti-avoidance etc.

New anti-avoidance measures include improvements to the disclosure regime and scheme reference number system: restrictions on trade loss relief for those working less than 10 hours weekly on commercial aspects of the trade: FA 2008 extends the powers of HMCE to charge penalties for incorrect returns etc. and failing to register or notify a new taxable activity.

Artificial tax avoidance schemes should always be approached with the utmost caution, but if you effect one, remember your responsibility to report it to the Revenue. If you are considering such a scheme, require the promoters to provide you with full information about the results of previous reports by them to the Revenue relevant to that scheme including the scheme reference number.

1.11 International matters

1.11.1 Residence

From 2008–09 in testing whether or not you are UK resident for tax purposes (17.3), you count any day when you are present here at midnight.

1.11.2 Domicile – remittance basis (18.0)

From 2008–09 there is a new annual tax charge of £30,000 which applies if you are non-domiciled, have been resident here for more than seven of the past ten years and claim the remittance basis. You will also forfeit your personal

allowances and capital gains tax annual exemption, but none of the foregoing applies if your unremitted foreign income and capital gains are less than £2,000.

If you are non-UK domiciled, you should carefully consider no longer claiming the remittance basis or perhaps ceasing to be UK resident.

1.12 Landfill tax (7.14)

- ▶ The standard rate of landfill tax increases to £40 from 1 April 2009.
- ▶ The maximum credit for contributions to bodies concerned with the environment becomes 6 per cent.

1.13 Value added tax

Changes include the following:

- ▶ The registration threshold increases to £67,000 (23.5).
- ▶ From 1 May 2008, new fuel scale charges take effect for private motoring based on carbon dioxide emissions.
- ▶ 'Over-the-counter sales' of smoking cessation products will continue to bear VAT at only 5 per cent.
- ▶ Revisions to the option to tax land and buildings.

1.14 Stamp duty

There are various new provisions including:

- ▶ Exemption from stamp duty on transfers of loan capital which are subject to a capital market arrangement on limited recourse terms.
- ▶ Exemption of instruments transferring stocks and shares previously liable to £5 stamp duty.
- ▶ Stamp duty land tax (SDLT) exemption will apply, subject to certain rules, to new zero-carbon flats costing up to £500,000.
- ▶ The thresholds at which a person has to notify HMRC of leasehold and non-leasehold transactions are raised from 12 March 2008.

1.15 National Insurance contributions

The changes include the following:

- ▶ Class 1 – the weekly earnings level below which you pay no contributions as an employee becomes £105.
- ▶ Class 2 (self-employed flat rate) – the weekly rate becomes £2.30.
- ▶ Class 3 (voluntary) – the weekly rate becomes £8.10.
- ▶ Class 4 contributions start at an annual earnings level of £5,435 and the charge at 8 per cent applies up to £40,040.
- ▶ From 2003–04 Class 1 employee and employer and Class 4 contributions each increased by 1 per cent. The 1 per cent charge extends above the respective main rate limits.

I.16 Key rates and allowances 2008–09

See table below.

INCOMETAX				<i>Reference</i>
Taxable income	Slice	Rate	Tax on slice	5.0
£	£	%	£	
34,800	0–34,800	20	6,960.00	
Remainder		40		
<p><i>Note:</i> Savings income in your £0–2,320 band is taxed at 10 per cent. Dividends within your £0–34,800 band carry a 10 per cent tax credit (non-refundable) and attract no further tax.</p>				
Income tax allowances			£	3.0
Personal allowance			6,035	
Age allowance			9,030	
Age 75 or over			9,180	
Income limit			21,800	
Married couple's allowance*				
Age 66–74			6,535	
75 and over			6,625	
Minimum amount			2,540	
Life assurance premium relief – only on pre-14 March 1984 policies			12.5%	
* relief restricted to 10 per cent.				
COMPANIES (Year to 31 March 2009)			%	
Corporation tax – small companies rate			21	13.6
full rate			28	13.7.1
CAPITAL GAINS TAX				
Rate (individuals)		18%		20.1
Annual exemption (individuals etc.)		9,600		20.5
INHERITANCE TAX				
Band	Death rate			22.5
£	%			
0–312,000	Nil			
312,000 upwards	40			
Annual exemption			3,000	22.17
VAT				
Main rate		17.5%		23.1
Registration threshold from 1 April 2008		67,000		23.5

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