



**BUDGET 2007**

**BULLIMORES' NOTES AND COMMENTARY**

**ON THE CHANCELLOR'S STATEMENT 21 MARCH 2007**

**“YES, PRIME MINISTER”**

When Comrade Brown delivered his eleventh and inevitably last budget yesterday, did any of us expect that he would gamble with the support of small business owners across the country? Certainly there was disquiet in the Treasury about tax motivated incorporation, but to displease such a large part of the electorate so close to his inauguration is surely his biggest risk since he trusted Tony to stand down.

Perhaps the Chancellor believes that he has already lost political support amongst small business owners and that raising corporation tax rates for small businesses is a fair price to pay to please big business and attract foreign investment .

The theme of the budget was ‘prosperity and fairness to families’ against a background of fiscal and environmental sustainability. Whilst the tax credit system has been used to help pensioners and working couples with children, the small business owners and motorists who also have families are paying most of the price. His pièce de résistance of reducing the basic income tax rate is negated by the removal of the 10% tax band and National Insurance realignment.

In the battle of which party is the ‘greenest’, Gordon Brown laid down a number of measures to grab the headlines from Mr Cameron. The Chancellor stopped short of racing the Conservative Party Leader to the Commons on a bike, although to be fair, his red box is probably somewhat weightier.

The Chancellor emphasised that the UK is increasingly a top performer in the G7 and well placed to meet the global challenges ahead, and that the commitment to increased investment in frontline services will be sustainable. It is difficult to think of anyone that would not applaud this, but with a shrinking workforce, who is going to pay?

**“The Government that robs Peter to pay Paul can always depend on the support of Paul”.** (George Bernard Shaw). If you find yourself as Peter, please speak to us at Bullimores – tel 01306 880880.

**“Benjamin Franklin said nothing is certain but death and taxes: but at least death doesn't get worse each year”.** (Anon).

## INCOME TAX/PERSONAL SAVING

- From 6<sup>th</sup> April 2008, 10% band abolished for non-savings income, basic rate tax reduced to 20% and basic rate band extended over and above inflation
- Commitment that 75 year olds will not pay tax on income up to £10,000 by 2011
- Personal allowance increased for pensioners above inflation
- ISA limits have increased from 6<sup>th</sup> April 2008 to £3,600 per tax year for cash ISA and up to £7,200 per tax year in total
- Tax credits increased to help more children out of poverty and encourage people into employment
- Relief on pension term assurance life cover removed
- Child benefit to increase in stages to £20 per week by 2010

Have you made use of your ISA limits and optimised pension contributions?

## VAT

- Fuel scale surcharge - from 1<sup>st</sup> May 2007 will be by reference to CO<sub>2</sub> emissions. HMRC have separate tables for monthly, quarterly and annual returns and special rules for bi-fuel cars and old vehicles
- No changes in the rates charged, although some items are re-classified
- Transfer of going concern – from 1<sup>st</sup> September 2007 seller will retain their VAT records instead of passing them to the buyer. Obligation to disclose certain information to the buyer
- Granny flat extensions – reduced rate of 5% in certain circumstances
- Carousel trading – joint and several liability for unpaid VAT is extended to include certain electronic goods
- Charities – if the use of the building changes in unforeseen circumstances, there will not necessarily be a self-supply

## NATIONAL INSURANCE

- Bands for NI Contributions to be aligned with income tax bands by 2009/10. Threshold will be increased above indexation by £3,900 per year in 2008/09 and by £500 per annum in 2009/10
- Rates remain the same as 2006/07

## SOME CRITICAL DEADLINES

28 February 2007 5% surcharge on **unpaid 2005/2006 tax** (late submission penalties)  
19 May 2007 **P35** and **P14s** for year ended 5 April 2007 (penalty of £100 for each 50 employees, per month)  
6 July 2007 **P11D/P9D** for the year ended 5 April 2007 (penalties up to £3,000)  
19 July 2007 Pay Class 1a NI **P11D(b)** forms (penalty £100, as above)  
31 July 2007 Second payment on account for 2006/07 ( Second 5% surcharge)

## **DUTIES**

### **Stamp Duties**

- anti-avoidance on the manipulation of exchange dates
- fairer treatment for connected parties on property swaps
- relief for shared ownership to encourage affordable housing
- exemption for zero-carbon rated homes up to £500K for suitably certified properties
- share reconstruction simplification

### **Vehicles**

- 2p per litre on main road fuels from 1<sup>st</sup> October 2007, 2p from 1<sup>st</sup> April 2008, and 1.8p from 1<sup>st</sup> April 2009.
- low band 'B' vehicles road licence cut to £35
- top band vehicles increased road licence to £300 (£400 – 2008)

### **Alcohol and Tobacco**

- beer and cider up 1p
- wine up 5p and sparkling wine 7p ( that does not promote marriage!)
- duty increases on all types of tobacco - cigarettes up 11p but VAT on nicotine patches reduced to 5% to help the stress in July!

## **BUSINESS TAX AND INVESTMENT INCENTIVES**

### **Rates of taxation**

- mainstream corporation tax reduced to 28% from 30% effective April 2008
- small company rate increased to 20% from April 2007; 21% April 2008; 22% April 2009

### **Capital allowances**

- 50% capital allowances relief extended one year for small businesses
- phased elimination of industrial buildings allowance and agricultural buildings allowance over four years
- annual investment allowance of £50,000 to be introduced 2008/09 (further details to be announced, but presumably not fine art and wine)
- 2008/09 writing down allowances down to 20% from 25%
- long term assets allowance increase to 10% from 6%

### **Anti-avoidance**

- increase in rates of taxation on small companies to tackle artificial incorporation
- managed service companies required to apply PAYE
- time limits on contributions to an employee benefit trust

### **Enterprise and investment incentives**

- enhancements to research and development tax credits – up to 175%
- increased investment in public science will attract company relief
- business premises renovation allowance to commence 11<sup>th</sup> April 2007 targeting disadvantaged areas
- changes to VCTs and EMI Schemes involving employees, investment and group structures

## **CAPITAL TAXES**

### **Inheritance Tax**

- 2006/2007            £285,000  
2007/2008            £300,000  
2008/2009            £312,000  
2009/2010            £325,000
- Tightening of regulations on Alternatively Secured Pensions – tax charge of up to 82%

Review your will, record your assets and tell your executors where you keep them. Last chance to make an enduring power of attorney before new regime October 2007

### **Capital Gains Tax**

- The annual exemption will increase from £8,800 to £9,200 from 6 April 2007
- Countering of schemes to create artificial losses

Make use of your current year exemption now - £8,800 before 5 April 2007

## **GREEN AND ENVIRONMENTAL**

- Standard landfill tax increase from £21 to £24 per tonne on 1<sup>st</sup> April 2007. (£32 per tonne April 2008)
- Lower rate landfill tax to increase to £2.50 per tonne on 1<sup>st</sup> April 2008
- Extension of landlord allowances for energy saving measures
- Sale of electricity back to the grid tax-free
- No relief for rates on empty premises after a certain period of time
- 2% reduction in car fuel benefits for energy efficient company cars

## **OTHER ISSUES ARISING IN THE BUDGET SPEECH AND RELEASE NOTES**

- 2007/08 self-assessment return deadline for paper returns 31<sup>st</sup> October 2008
- Electronic filing and payment date to remain 31<sup>st</sup> January
- Changes to enquiry windows for HMRC in line with the actual filing dates
- Revised penalty regime
- Increase in Gift Aid benefit limits and encouragement for Gift Aid Scheme

This Budget Report was prepared immediately after the Chancellor's Budget Statement based on official press releases and supporting documentation. The Budget proposals are subject to amendment before the Finance Act receives Royal Assent. This Report is for guidance only, and professional advice should be obtained before acting on any information contained herein.