J F HORNBY & CO

Chartered Accountants

The Tower, Daltongate Business Centre, Daltongate, Ulverston, Cumbria LA12 7AJ

T: 01229 588077 F: 01229 588061 E: jfh@jfhornby.com *W: www.jfhornby.com*

NEWSLETTER MARCH 2007

MAIN TAX RATES, ALLOWANCES AND RELIEFS 2007/08

Income Tax

Taxable bands	2007/08	2006/07
Starting rate - 10%	**£0-£2,230**	£0-£2,150
Basic rate - 22%	**£2,231-£34,600**	£2,151-£33,300
Higher Rate - 40%	**over £34,600**	over £33,300

Savings income rate - 10% for income within the starting rate band, 20% for income within the basic rate band and 40% above that. Dividends - 10% for income below the basic rate limit and 32.5% above that.

Main allowances and reliefs

	2007/08		2006/07	
Personal				
Age under 65	**£5,225**		£5,035	
Age 65 - 74 ¶	**£7,550**		£7,280	
Age 75 and over ¶	**£7,690**		£7,420	
Married Couple's ¶				
Age less than 75 and born before 6/4/35	**£6,285**	*	£6,065	*
Age 75 and over	**£6,365**	*	£6,135	*
Minimum allowance	**£2,440**	*	£2,350	*
Income limit - age allowances	**£20,900**		£20,100	
Blind Person	**£1,730**		£1,660	
Payment on loss of office	**£30,000**		£30,000	
Enterprise Investment Scheme	**£400,000**	**	£400,000	**
Venture Capital Trusts	**£200,000**	***	£200,000	***
Rent a Room exemption threshold	**£4,250**		£4,250	
Maintenance payments §	**£2,440**	*	£2,350	*
ISAs – maximum investment	**£7,000**		£7,000	

** Relief restricted to 10%   ** Relief restricted to 20%   *** Relief up to 40%*

§ Only applies where either party born before 6/4/35

¶ Reduced by £1 for every £2 income in excess of income limit until minimum allowance reached. Only applies where one party born before 6/4/35

Capital Gains Tax

Individuals**:** Gains charged at 10% where the gains added to the total income are within the starting rate band, 20% if within the basic rate band and 40% where they exceed that band.

		2007/08	2006/07
Annual exemption:	Individuals	**£9,200**	£8,800
	Most trusts	**£4,600**	£4,400
Chattels exemption		**£6,000**	£6,000

Companies**:** Gains charged to corporation tax.

Company car benefits

Car benefit scale charges

Tax is charged on a percentage of the price of the car and this percentage will vary according to the level of the car's carbon dioxide (CO_2) emissions measured in grams per kilometre (g/km). The starting point for calculating the value of the car will normally be the list price, together with any accessories. A minimum charge of 15% of the car's price will apply to cars emitting CO_2 at or below 140g/km (2006/07: 140g/km). The percentage charge will build up in 1% steps for every additional full 5g/km over that level, up to a maximum charge of 35% of the car's price. There are special rates for cars run on diesel.

Provision of fuel

Flat rate benefit of £14,400 x CO_2 emission percentage. No fuel benefit if the employee is required to pay for (and actually pays) all private fuel or if fuel is only provided for business journeys.

National Insurance Contributions 2007/08

Lower earnings limit, primary Class 1	£87 per week
Upper earnings limit, primary Class 1	£670 per week
Primary threshold	£100 per week
Secondary threshold	£100 per week
Employees' primary Class 1 rate	11% of £100.01 to £670 per week 1% above £670
Employees' contracted-out rebate	1.6 per cent
Married women's reduced rate	4.85% of £100.01 to £670 per week 1% above £670
Employers' secondary Class 1 rate	12.8% above £100 per week
Employers' contracted-out rebate, salary related schemes	3.7 per cent
Employers' contracted-out rebate, money-purchase schemes	1.4 per cent
Class 2 rate	£2.20 per week
Class 2 small earnings exception	£4,635 per year
Special Class 2 rate for share fishermen	£2.85 per week
Special Class 2 rate for volunteer development workers	£4.35 per week
Class 3 rate	£7.80 per week
Class 4 lower profits limit	£5,225 per year
Class 4 upper profits limit	£34,840 per year
Class 4 rate	8% of £5,225 to £34,840 per year. 1% above £334,840

Statutory mileage rates – 2007/08

Cars: First 10,000 miles 40p
Over 10,000 miles 25p
Motorcycles: 24p
Bicycles: 20p
Each passenger on same trip: 5p

VAT scale charges on provision of fuel for private mileage – 2007/08

From start of next VAT period beginning on or after 1 May 2007 Rates vary according to CO_2 emissions in grams per kilometer (g/km), increasing for each 5g/km between 140g/km and 240g/km.

For accounting periods prior to this the rates are:

Quarterly returns	Petrol		Diesel	
Cylinder capacity (cc)	Scale charge	VAT due	Scale charge	VAT due
Up to 1400	£273	£40.66	£260	£38.72
1401-2000	£346	£51.53	£260	£38.72
over 2000	£508	£75.66	£331	£49.30

MAIN TAX RATES, ALLOWANCES AND RELIEFS 2007/08 (contd.)

Corporation Tax rates and fractions

	Year to 31/3/08	Year to 31/3/07
Small companies' rate: 20% (2006/07: 19%)	**£0 - £300,000**	£0-£300,000
Marginal rate: 32.5% (2006/07: 32.75%)	**£300,001-£1,500,000**	£300,001-£1,500,000
Full rate: 30%	**£1,500,001 or more**	£1,500,001 or more
Marginal relief fraction	**1/40**	11/400

Pensions and Annuities

From 6th April 2007 there are no restrictions on the number or type of approved personal pension schemes. From 6th April tax is charged on the value of the pension contributions made that exceed the annual allowance or relevant earnings. Tax is also charged if the value of the pension at retirement exceeds the individual's lifetime allowance.

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	2007/08	2006/07
Annual allowance	**£225,000**	£215,000
Lifetime allowance	**£1,600,000**	£1,500,000
Earnings cap	**N/A**	N/A

Main capital allowances

Plant and machinery:

• first year allowance - small businesses	50%
• first year allowance - medium sized businesses	40%
• writing down allowance (some long life assets 6%)	25% reducing balance
• Motor cars (£3,000 pa maximum for each car)	25% reducing balance
• Industrial buildings writing down allowance	4% straight line
• Energy saving plant and machinery	100%
• Commercial buildings in enterprise zones	100%

Value Added Tax

From	**1/4/2007**	1/4/2006
Rates:		
• Standard	**17.5%**	17.5%
• Reduced	**5%**	5%
• Zero	**0%**	0%
VAT fraction	**7/47**	7/47
Registration limit	**£64,000**	£61,000
Deregistration limit	**£62,000**	£59,000
Cash accounting scheme – max turnover	**£1,350,000**	£660,000
Annual accounting scheme – max turnover	**£1,350,000**	£1,350,000
Flat rate scheme - max turnover	**£150,000**	£150,000

Inheritance Tax

	2007/08	2006/07
First £300,000 (2006/07 - £285,000)	**Nil**	Nil
Tax on excess	**40%**	40%
Annual exemption - donor	**£3,000**	£3,000
Small gifts to any one person	**£250**	£250
Gifts made in consideration of marriage:		
• Parent	**£5,000**	£5,000
• Grandparent	**£2,500**	£2,500
• Between the parties to the marriage	**£2,500**	£2,500
• Other	**£1,000**	£1,000

Relief on gifts made within 7 years of death:

Years before death	0 – 3	3 – 4	4 - 5	5 – 6	6 - 7
Death charge percentage	100%	80%	60%	40%	20%

Stamp Duty and Stamp Duty Land Tax

Stocks and shares 0.5%

Land and buildings

Rate	**Residential in disadvantaged areas**	**Residential outside disadvantaged areas**	**Non-residential**
Zero	£0 - £150K	£0 - £125K	£0 - £150K
1%	£150,001 - £250K	£125,001 - £250K	£150,001 - £250K
3%	£250,001 - £500K	£250,001 - £500K	£250,001 - £500K
4%	More than £500K	More than £500K	More than £500K

BUDGET 2007 – A SUMMARY OF THE TAXATION PROVISIONS

Set out below is a summary of the main contents of the Chancellor's Budget speech presented to the House of Commons on Wednesday 21 March 2007. We have concentrated on the taxation aspects of the Budget that are most likely to affect individuals and smaller enterprises. Should you have any queries relating to the contents of this summary or require advice concerning any aspect of the Budget, please do not hesitate to contact us.

Introduction

This was Gordon Brown's eleventh and, almost certainly, his last Budget speech.

The Chancellor re-confirmed his forecast made in the Pre-Budget Report of last year that growth will be approximately 2.75% - 3.25% in 2007 and approximately 2.5% - 3% in 2008. The Treasury forecasts that public sector borrowing will be approximately £35 billion in 2006/2007 which represents 2.7% of GDP. However, borrowing will fall to £34 billion in 2007/2008 (2.4% of GDP), £30 billion in 2008/2009 (2% of GDP) and £28 billion in 2009/2010 (1.8% of GDP).

The Treasury estimates that the current budget deficit (excluding net investment) will be £9.5 billion in 2006/2007 and will fall to approximately £4 billion in 2007/2008. In future years, it is estimated that there will be a rising surplus.

In relation to tax revenues, the Treasury forecasts that these will rise from 37.2% of GDP in this year to 38.1% of GDP in 2009/2010 and future years.

Personal

Income tax rates

The starting rate limit and basic rate limit for income tax have been increased in line with inflation to £2,230 and £34,600 respectively.

From April 2008 the starting rate for income tax is to be abolished and the basic rate will be reduced from 22% to 20%. However, the starting rate of 10% will remain for savings income and capital gains tax.

Allowances and reliefs

Personal allowances

As announced in the Pre-Budget Report, the personal allowance for those aged under 65 will increase to £5,225. For those aged 65 and over the personal allowance will increase to £7,550 for those aged 65-74, and for those aged 75 or over to £7,690. Other allowances will be increased by inflation.

Reliefs

- Venture capital trusts (VCT)
  The maximum permitted annual investment for tax relief will remain at £200,000.
- Enterprise investment schemes (EIS)
  The maximum permitted annual investment for tax relief will remain at £400,000.

National Insurance Contributions

National Insurance (NIC) rates and thresholds for 2007/08 were announced in the 2006 Pre-Budget Report. The starting point for employers', employees' and self-employed NICs in 2007/08 will increase in line with inflation to £100 per week. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from April 2007 from £645 to £670 per week (£34,840 a year). For the self-employed the rate of Class 2 contributions will increase to £2.20 a week.

Capital gains tax

The annual exemption amount is set at £9,200 for the tax year 2007/08 for individuals and £4,600 for most other trusts. For individuals, the amount chargeable to capital gains tax is added to the income liable to income tax and is treated as the top part of that total. Capital gains tax is charged at the following rates: below the starting rate limit at 10 per cent, between the starting rate limit and basic rate limit at 20 per cent, and above the basic rate limit at 40 per cent.

Inheritance tax

The value of estates above the inheritance tax (IHT) threshold is taxed at 40 per cent. For the tax year 2007/08 the inheritance tax threshold has been increased to £300,000 (2006/07: £285,000).

Future increase will be as follows:

- 2008/2009 £312,000
- 2009/2010 £325,000
- 2010/2011 £350,000

Pensions

The annual allowance for pension scheme contributions is increased from £215,000 to £225,000 for 2007/2008 with the lifetime allowance being increased from £1,500,000 to £1,600,000.

Individual Savings Accounts (ISAs)

The Chancellor announced that from April 2008 the maximum that an individual can invest in an ISA will be increased from £7,000 to £7,200. The maximum that can be held in a cash ISA will be £3,600 and the balance must be held in stocks and shares.

From April 2008 the distinction between a maxi-isa and a mini-isa will be abolished and individuals will be allowed to purchase any type of ISA.

Managed service companies

As was widely predicted, the Chancellor announced measures to be included in the Finance Act 2007 concerning managed service companies (MSC). If an individual operates though an MSC, any income received by the company in relation to services provided by the individual will be treated as employment income. This means that the MSC will have to operate a PAYE scheme for the individual from 6 April 2007.

Filing dates for self assessment tax returns
For 2007/2008 tax returns and those for subsequent years, there will be two separate filing dates. For paper returns, there will be a new date of 31 October (ie for the tax year 2007/2008 this will be 31 October 2008). For returns filed on line, the date will remain at 31 January (ie for the tax year 2007/2008 this will be 31 January 2009).

For taxpayers filing paper returns who want HMRC to calculate their tax liability for them, the cut off date will move from 30 September to 31 October to align with the new paper return filing deadline. A calculation of tax liability is automatically provided when a return is filed online.

Vehicle excise duty
As predicted, the Chancellor announced a substantial increase in vehicle excise duty (road tax) on large cars. The road tax on band G vehicles will increase by 30% this year and is £300, rising to £400 in April next year.

In a move to protect the environment there will be an increase in fuel duty rates of 2p per litre from 1 October 2007 and a 30% reduction in vehicle excise duty for band B vehicles.

VAT on smoking cessation products
In an effort to encourage individuals to give up smoking, VAT on over-the-counter sales of products designed to assist individuals to give up smoking will be reduced from 17.5% to 5%. This reduction will run for one year and will commence at the same time as smoking in public places is banned in England.

Alcohol and tobacco
The duty on beer and still cider is increased by 1p per pint, on sparkling cider by 5p per 75cl bottle, on wine by 5p per 75cl bottle and on sparkling wine by 7p per 75cl bottle. There will be no increase in the duty on spirits.

The duty on cigarettes is increased by 11p on a packet of 20.

Business
Corporation tax
The small companies corporation tax rate is increased from 19% to 20% for the year to 31 March 2008. This increase will rise to 22% by the year ending 2009/2010. However, these increases will be compensated for, in part, by an investment allowance of up to £50,000 and increased research and development tax credit relief from 150% to 175% (see below).

The full rate for corporation tax will remain at 30% for the year to 31 March 2008 but will be reduced to 28% for the year commencing 1 April 2008.

National Insurance Contributions
NIC rates have been increased in line with inflation. See the above table for the rates for 2007/2008.

Capital allowances
The Chancellor gave details of radical changes to be made to capital allowances with the majority of these changes taking place from 2008/2009 onwards. These include the reduction in the number of different types of capital allowances to just two types and these will in future be based on the economic life of the asset.

Research and development tax credits
There will be an increase to 175% in the enhanced deduction available to small and medium sized companies for research and development.

Company cars
Car benefit charges
There have been no changes in relation to the treatment of company car benefits. The starting point for the measurement of carbon dioxide emissions which is expressed in grams per kilometre remains at 140g/km.

Provision of fuel
The flat rate benefit of £14,400 remains the same as last year.

Stamp taxes
The rate of stamp duty on the transfer of shares remains unchanged at 0.5% and there have been no changes in relation to the stamp duty on land and buildings.

Value added tax
The VAT rates remain the same as last year.

Registration and de-registration thresholds
From 1 April 2007, the registration threshold for VAT is increased from £61,000 to £64,000 and the de-registration threshold from £59,000 to £62,000.

Special VAT schemes
The maximum turnover level for the cash accounting scheme has been more than doubled from £660,000 to £1,350,000. The increase in the threshold should encourage more businesses to use this scheme.

The turnover threshold for the annual accounting scheme remains at £1,350,000 and the flat rate scheme at £150,000.

VAT on the provision of fuel for private use
The method of calculating VAT on fuel provided by companies for private use has been changed in order to bring this into line with the method of calculation for company car benefit. The VAT charge will therefore be based on CO2 emissions. The new method of calculation will commence from the next VAT period commencing on or after 1 May 2007.

The environment

In addition to changes to vehicle excise duty and the increase in fuel duty (see above) the Chancellor announced a number of other changes intended to help protect the environment:

- Grants for the insulation of pensioners' homes.
- No stamp duty on first-time purchasers of zero-carbon homes that cost up to £500,000.
- An increase in the standard rate of landfill tax to £24 per tonne from 1 April 2007 with a further increase to £32 per tonne from 1 April 2008.
- An increase in climate change levy in line with inflation from April 2008.

WATCH THE TAX ON THOSE BUY-TO-LETS

Whilst a number of budding entrepreneurs have been moving into the buy-to-let market over the past few years, a number have done so without considering some of the potential tax pitfalls. This problem has now been exacerbated by the attitude that is being adopted by HM Revenue & Customs, who are reportedly targeting such investments, both in terms of income and capital taxes.

It is reported that the taxation authorities are using computer software to track down the many thousands of landlords (the majority of whom are private individuals) who have invested in property with a view to obtaining income from lettings and also capital profits on disposals.

The software searches letting advertisements in a particular locality or on websites and gathers information to enable inspectors to ascertain whether the relevant income and/or profits have been properly declared.

But, in addition to the use of computer software, the taxman also uses less sophisticated techniques such as physically walking around neighbourhoods and noting the numerous "To let" signs that abound. Finally, the taxman is always ready to listen to those who are prepared to whistleblow on individuals and inform the authorities about undeclared income and capital profits, often for personal reasons of revenge or pure jealousy.

In case readers should think that the amounts involved are not material, consider the fact that approximately 350,000 individuals took out mortgages last year to finance buy-to-let investments. Experts agree that many hundreds of thousands of landlords could be paying incorrect amounts of tax on buy-to-let investments but that the vast majority of any underpayments are totally innocent through ignorance of the tax regulations.

When considering how much tax has to be paid on buy-to-let investments, it is necessary to look at taxes due on capital disposals and on the income from lettings.

Capital taxes

Any capital gain made on the sale of the property can be set against the capital gains tax annual exemption which for the tax year 2007/8 is £9,200 and for 2006/7 was £8,800 per individual. As each spouse is entitled to his or her own annual exemption it is worth considering purchasing (or transferring) the property in joint names so that a total annual exemption of £18,400 can be used (2006/7 - £17,600).

In addition, you are able to claim non-business-asset taper relief on any buy-to-let property. This means that the longer you own the property, the less tax you will have to pay when you come to sell. If you are a higher rate tax payer and you hold the property for more than ten years, then instead of paying tax on any profit at 40% you will only pay 24%.

There is an additional saving that can be made if you are able to live in the property yourself and therefore claim that it is your "principal private residence" (PPR). There is no rule as to how long you must live in the property and a few weeks should suffice. Make sure that you are able to prove that you did, in fact, reside in the property for this period of time.

In addition to PPR relief, you may be able to claim for lettings relief. If you are a joint owner the maximum relief is £80,000 but you should be aware that this relief in limited to the amount of the PPR relief.

Finally, it might be worth considering making use of a trust which will own the property, with you and your tenant(s) being the beneficiaries of the trust. When you come to sell the property the sale will be wholly exempt from capital gains tax and the trust itself will qualify for PPR.

Tax on income

Any rental income received on a buy-to-let property will be subject to income tax. Against this income can be set any related expenses, the two most important of which are the interest you pay on any mortgage you take out to purchase the property and maintenance costs.

BEWARE THE BOILER ROOM SCAM!

Over the past months there has been a dramatic increase in what are often referred to as 'boiler room' scams. 'Boiler rooms' are high pressure sales organisations that target potential investors and attempt to sell them shares in companies. These shares are often overpriced and on many occasions do not exist at all. Even if they do exist they are often non-tradeable. By the time the investor has realised his or her mistake the organisation has disappeared without trace, having pocketed the investor's money. As these boiler rooms are usually based overseas, it is often impossible for the authorities to find them, let alone prosecute.

Many boiler room organisations obtain personal details about potential targets from the shareholder details kept by companies and from Companies House.

The Institute of Company Secretaries and Administrators (ICAS) has recently published advice as to what to do if you receive unsolicited investment advice, and an extract from this advice is set out below:

- Make sure you get the correct name of the person and organisation and make a record of any other information they give you, eg telephone number, address etc.

- Check that they are properly authorised by the FSA before getting involved. You can check at www.fsa.gov.uk/register.

- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can, preferably, be contacted by completing an online form or, if you do not have access to the internet, on 0845 606 1234.

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