

Botting & Co Ltd News

Budget 2006

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Tax Data 2006/07

Income Tax

Personal Allowance: £5,035

Tax rates:

First £2,150 @ 10%
Next £31,150 @ 22%,
Savings & Gains @ 20%
Divs @ 10%
Above £33,300 @ 40%,
Divs @ 32.5%

National Insurance

Class 1 employers:

12.8% over £5,035

Class 1 employees:

11% on £5,035 to £33,540,
plus 1% above £33,540

Class 4:

8% on £5,035 to £33,540 plus
1% on profits above £33,540

Class 2: £2.10 per week

Class 3: £7.55 per week

Capital Gains Tax

Annual exemption: £8,800

Inheritance Tax

Nil rate band: £285,000
Excess taxed at 40% on death.

Pension Contributions

With no earnings: £3,600 gross
otherwise 100% of earnings.
Tax relief per year cap: £215,000
Pension fund cap: £1.5 million

Corporation Tax

Small co: 19% to £300,000
Marginal: 32.75% to £1.5 m
Large co: 30% over £1.5 m

VAT turnover thresholds:

Registration over: £61,000
Deregistration under: £59,000
Flat rate scheme up to: £150,000
Cash Accounting up to: £1.35m*
Annual accounting up to: £1.35m*
* to be confirmed

Tax free mileage rates

Own car:

First 10,000 miles 40p
Over 10,000 miles 25p

Company car (fuel only):

	Petrol	Diesel	LPG
To 1400 cc	10p	9p	7p
To 2000 cc	12p	9p	8p
2000 cc +	16p	13p	10p

Small company tax



In his tenth Budget Gordon Brown has increased corporation tax with one hand and given a small crumb of tax relief with the other.

From 6 April 2006 companies with profits of less than £50,000 will pay corporation tax at 19%, regardless of whether those profits are retained within the company or paid out to shareholders as dividends. For the last six years these small companies have enjoyed a 10% or 0% tax on the first £10,000 of profits, although recently the non-corporate distribution rate has meant that when dividends were paid to individuals the company had to pay more corporation tax.

If your company's profits are less than £50,000 you can make the most of the zero rate of corporation tax that applies until 31 March 2006 by postponing your next dividend until April 2006. A delay until 6 April will take the dividend income into the next tax year. However if you have paid yourself less than £37,295 in salary, dividends and benefits in the current tax year you may want to top up your income with a small dividend paid between 1 April and 5 April 2006. These figures may vary according to your personal circumstances, so do ask us to check your tax position before paying further dividends.

The small crumb of tax relief is an acceleration of capital allowances from 40% to 50% on any new equipment bought in the year starting 1 April 2006.

No phone 4u (or computer)



Six years ago the Government thought it was a good idea for everyone to have access to a computer at home, so it encouraged employers to lend computer equipment to their employees completely tax free. Many businesses took up this idea, and some substituted part of their employee's pay with part of the value of the borrowed equipment.

Now the Government believes the scheme is being abused so businesses will not be able to provide any more computers to employees for non-business purposes after 5 April 2006. Any computer equipment currently on loan to employees will not be taxed, but computers lent under new agreements will be taxed as a benefit in kind. If the computer is used entirely for the employee's work, there is no tax charge.

The other little tax loophole that is being blocked is the provision of mobile phones. Currently an employer can provide any number of mobile phones to his employees completely tax free. Even if an employee's spouse or child uses the phone, the company can pick up the phone bill with no income tax charges. From 6 April 2006 an employer will only be able to provide one tax free mobile phone per employee, and that phone cannot be given to a member of the employee's family.

However, we don't know whether a Blackberry is considered to be a second mobile phone, or a computer. This should become clear when the legislation is published.

This news letter is written for the general interest of our clients and is not a substitute for professional advice. This issue was prepared from the Government press releases as at 22nd March 2006, more information will be available when the legislation is published. Please contact Botting and Co Ltd before taking any action.

Lower car tax for some in the future

Most people only change their cars every three or four years, and some keep their vehicles for longer, so it pays to look ahead to future tax changes that may effect your purchase decision.

The amount you are taxed on for using a company car has been frozen from 6 April 2005 to 5 April 2008, but this annual chargeable benefit will increase by 1% of the list price for most cars after that date. However cars with CO₂ ratings of 121gr/km to 135gr/km will continue to be taxed at 15% of the vehicle's list price, and the taxable benefit for very clean cars that emit less than 121gr/km of CO₂, will actually drop to just 10% of the list price. So if you are planning to change to a new low emissions company car it may be better to wait until 2008.

But how will the company that buys the car be taxed? Currently it can claim a 100% capital allowance in the year it buys a new low emission car, but this accelerated allowance will cease on

Childcare and the company

Last year the Government made positive steps to encourage businesses to help their employees with the cost of childcare. From 6 April 2005 employers could give their employees tax and NI free childcare vouchers, or pay for childcare directly in a commercial nursery to the value of £50 per week for each employee with a child aged under 16. The £50 limit will be raised to £55 per week from 6 April 2006. This is good news for parents as £50 does not pay for much childcare, but it represents a 10% rise in employment costs for the employer, if he pays the full tax free amount.

A solution, which is perfectly acceptable to the Revenue, is to substitute some of the employee's pay with the childcare voucher. This way the employer can make savings as employer's NI contributions are not payable on the value of the vouchers. However there are some practical difficulties with such a salary substitution. The employee must agree to the

Taxation of let property



Energy efficient?

If you let residential properties you may not worry about how much the building costs to heat as the tenants generally pay the heating bills. However when you sell or let your property on a new lease from mid 2007, you will need to provide a new energy performance certificate that records the building's energy efficiency.

In 2004 the Government introduced an energy saving tax allowance to encourage landlords to improve the energy use in let residential properties. From 6 April 2004 up to £1,500 spent on loft or wall insulation per let property can be deducted from the rents received in the year of expenditure. Such expenditure is normally treated as a property improvement, so cannot be deducted from the rental profits without this special tax relief.

31 March 2008. The whole system of capital allowances for company cars is also under review, although the Government's consultation paper indicates that special allowances will continue for low emissions cars.



Examine your choice of car

If you drive your own car for business journeys you will also benefit from choosing a low emissions vehicle as these cars now attract lower rates of vehicle excise duty (VED). The VED for cars with CO₂ emissions ratings of 150gr/km or less has reduced by up to £35, but owners of cars with CO₂ emissions above 185gr/km must pay £25 more per year. Buyers of cars registered from 23 March 2006 with CO₂ emissions of more than 225gr/km now pay £210 VED. If you have a small 'clean' car whose VED has reduced you can cash in your old annual tax disc and buy a new one at the new lower rate for no extra charge.



Pay or childcare?

change in their gross pay before it takes effect, which normally means signing a revised employment contract. When an employee is no longer eligible for the childcare vouchers, perhaps because the child is too old, the childcare vouchers will need to be withdrawn and the employment terms readjusted.

If you run your own company and have young children you can give yourself tax free childcare vouchers, but these vouchers can only be redeemed by a registered or authorised childminder or nursery. The vouchers do not qualify as tax free if they can be exchanged for cash.

Do ask us if you want to give childcare vouchers to your employees, as there are a number of other conditions that must be met before the vouchers can be tax free.

From 6 April 2006 expenditure on draught proofing and hot water system insulation will also qualify for the energy saving allowance. However the expenditure on any of these energy savings measures must be made before 6 April 2009 to qualify for the tax relief. The message from the Government is clear: if you improve the energy efficiency of your let properties the tax you pay on your rental income will immediately reduce.

The Government is also considering introducing another special annual tax allowance for let residential properties that have a good energy efficiency rating as recorded on the new Energy Performance Certificate. This annual allowance may replace the 10% wear and tear allowance that can currently be claimed for furnished let properties.