

Botting & Co Ltd News

Budget 2007

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Tax Data 2007/08

Income Tax

Personal Allowance: £5,225

Tax rates:

First £2,230 @ 10%
Next £32,370 @ 22%,
Gains @ 20% Divs @ 10%
Above £34,600 @ 40%,
Divs @ 32.5%

National Insurance

Class 1 employers:

12.8% over £5,225

Class 1 employees:

11% on £5,225 to £34,840
plus 1% above £34,840

Class 4:

8% on £5,225 to £34,840 plus
1% on profits above £34,840

Class 2: £2.20 per week

Class 3: £7.80 per week

Capital Gains Tax

Annual exemption: £9,200

Inheritance Tax

Nil rate band: £300,000
Excess taxed at 40% on death.

Pension Contributions

With no earnings: £3,600 gross
Otherwise 100% of earnings.
Tax relief per year cap: £225,000
Pension fund cap: £1.6 million

Corporation Tax

Small co: 20% to £300,000
Marginal: 32.5% to £1.5 m
Large co: 30% over £1.5 m

VAT turnover thresholds:

Registration over: £64,000
Deregistration under: £62,000
Flat rate scheme up to: £150,000
Cash Accounting up to: £1.35m
Annual accounting up to: £1.35m

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	9p	9p	6p
To 2000 cc	11p	9p	7p
2000 cc +	16p	12p	10p

Take from the small and give to the big

This is exactly what Gordon Brown has done to companies in this Budget. The corporation tax rate for small companies with profits of up to £1.5 million increases immediately on **1 April 2007** from 19% to 20%, then it will increase again in April 2008 to 21%, and once more in 2009 to 22%. Meanwhile the corporation tax rate for large companies with profits of £1.5 million or more drops from 30% to 28% on 1 April 2008.

These corporation tax changes for small companies are intended to discourage businesses from incorporating just to save tax, as the corporation tax rate will be higher than the basic rate of income tax, which will apply on profits of up about £43,000 by 2009. However, an individual also has to pay Class 4 NI at a further 8% on his self-employed profits, on top of the income tax due.

To assess the overall effect of these different tax charges, consider a business making profits of £50,000 in 2009. As a company it will pay corporation tax of £11,000. Trading as an individual the total income tax and NI payable will amount to £12,614, (assuming allowances increase in line with inflation). The tax saving for the company is thus expected to be about £1,600 per year. However the funds are held within the company, transferring the money to the shareholder may create a further tax charge.

If you are considering forming a company, or want to cease using one, please talk to us first so we can work through the numbers. There will be a different answer for each business.

VAT changes

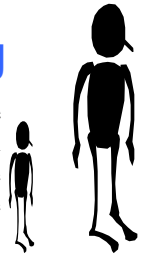
From 1 April 2007 the compulsory VAT registration threshold increases to £64,000, and the deregistration threshold becomes £62,000. The maximum turnover limit for joining the cash accounting scheme also increases to £1,350,000.

From 1 July 2007 VAT rate on certain housing alterations for elderly people will be cut from 17.5% to 5%. We await details of exactly what building alterations this will apply to.

From 1 May 2007 there is a new scale charge for the VAT on motor fuel provided by employers, which is used for private journeys.

If you deal in electronic goods such as mobile phones, computer equipment and from 1 May 2007; leisure goods such as satellite navigation systems (Sat Navs), you need to be very sure that your suppliers and business customers are genuine and will pay the VAT they owe. HMRC have the power to demand from you any unpaid VAT arising in the supply chain, if you did not carry out reasonable checks to establish the integrity of your supplies, supplier and customers.

If you are concerned that you could be caught up in deals that deliberately under-price the goods on offer, please talk to us without delay.



Not equal
for tax



Looking behind the income tax cut

Gordon Brown wanted his last Budget to be remembered for the dramatic cut in the basic rate of income tax from 22% to 20%, but most taxpayers will see little benefit from this tax reduction, due to the tax increases which will come in at the same time.

We have to wait for over a year for the new 20% tax rate as it does not take effect until **6 April 2008**. On the same day the 10% tax band will disappear for earned income, and the upper income limit for the main rate of national insurance (11% for employees) will increase to approximately £40,000. As a result of all these changes a single person on a salary of £20,000 will pay about £28 less in tax per year, but someone currently in the upper tax bracket on a salary of £45,000 will reap a net saving of £390 per year.

The new 20% band will have a knock-on effect on personal

pension contributions. Currently if you want your pension fund to receive £4,000 you make a contribution of £3,120 net of 22% tax, and the pension scheme reclaims £880. From 6 April 2008 to achieve the same payment into your pension fund, you will have to pay £3,200 net of 20% tax, and the pension scheme will reclaim £800. So you end up paying £80 more into your pension scheme for the same result.

Charities will also be hit hard by the reduction in the basic rate. At present when you make a charitable gift of £100 and certify it under the gift aid scheme, the charity can claim back a further £28.20 from the Government. From 6 April 2008 the same gift of £100 will only be worth £125 to the charity, so they will lose £3.20 of income for every £100 of gift-aided donations.



Where's the benefit?

All change for capital allowances

When you buy a piece of equipment to use in your business you normally can't set the full cost against that year's profits, unless the value of the item is quite small, or a special tax relief applies. The cost of more expensive items is written off against profits over a number of years, using the capital allowances system. The same principle applies for expenditure on certain industrial or agricultural buildings.

From **April 2008** it is proposed that the first £50,000 spent on equipment in one year will be set-off in full against the profits for that year. This limit should cover most items of machinery purchased by smaller businesses, although cars will be treated separately. Where the expenditure exceeds £50,000 in one year the excess will be written off at a rate of 20% per year.

The capital allowances currently available for the cost of buildings will be phased out, and the changes will apply for any alteration in the ownership of those buildings from now on. Where equipment is fixed to a building you can currently claim 25% of the remaining cost each year against profits. This will be reduced to 10% per year from 2008.

Up until April 2008 the old system of capital allowances largely remains in place, except small businesses can claim a 50% first year allowance for the cost of equipment.



Up to £50,000 of new stuff to get 100% allowance

Taxation of let property



Loft insulation qualifies

The landlords energy saving allowance was introduced in 2004 to encourage private landlords to improve the energy efficiency of their residential properties. Up to £1,500 spent on certain insulation products installed in a let property can be deducted from the rents received in the year of expenditure. Such expenditure would normally be treated as a property improvement, so could not be deducted from the rental profits without this special tax relief.

A big change for this tax relief is that it will be claimable by corporate landlords, rather than be restricted to individuals and partnerships. However the start date for companies to benefit has not been announced. The scheme will also be extended to 2015, from its previous life expectancy of 2009. Expenditure on floor insulation will be added to the list of insulation products that qualify for the tax relief from 6 April 2007.

If you receive most of your income in the form of rents, you

could be one of the winners from the cut in the basic rate of income tax from 2008. As rents do not normally attract national insurance, the reduction in the tax rate is not cancelled out by the increase in national insurance as it is for earned income (see above).

If you own commercial premises in Northern Ireland or in a designated disadvantaged area, you may want to take advantage of a new tax relief for renovation costs. When the property has been empty for at least 12 months you can claim a 100% allowance for the capital cost of making it useable again. There are a number of other conditions for this tax relief, so ask us before starting the renovation.

The rates of Stamp Duty Land Tax (SDLT) have not changed. The duty is payable on all homes valued at over £125,000, (or £150,000 in a disadvantaged area), and on all commercial properties valued at over £150,000. Zero-carbon homes will be exempt from SDLT for values up to £500,000 from 1 October 2007.