

the bottom line

Welcome to the Spring edition of "the bottom line" our taxation and accountancy information newsletter. This edition deals with the 2005 Budget, Disciplinary and Grievance Procedures, The Civil Partnership Act and News in Brief.

2005 BUDGET

The budget took place on Wednesday 16 March 2005 and as always, the detail was buried in the press releases. As the last budget before a general election it was considered to be a political budget and the Chancellor gave the impression that this was a pre-election give away by increases in inheritance tax thresholds, a doubling in the stamp duty land tax starting threshold, freezing of tax rates, a further deferral of any increase in fuel duty, an extension of the exemption for ISAs etc. However, many balancing tax increases had already been announced in particular with regard to employee benefits. General 'tax avoidance' is still high on the Chancellor's agenda with a raft of press releases dealing with 'double tax relief anti-avoidance', financial avoidance, and capital gains tax anti-avoidance measures etc. However with the announcement of the General Election the Government needed to push through the Finance ACT 2005 before the dissolution of the last Parliament. Consequently it

dropped some proposals, particularly those relating to the anti-avoidance provision. Which ever party forms the next Government we can look forward to a further Finance Act.

We will deal with some of the more relevant proposals below in more detail.

Personal Tax

- Starting and base rate limits have been increased in line with statutory indexation and there are no changes to income tax rates. Most allowances including the personal allowance have been increased by statutory indexation although the personal allowance for individuals aged 65 and over has increased by more than statutory indexation.
- The current individual savings account (ISA) limits of £7,000 for the overall maximum and £3,000 for the cash component will continue until 5 April 2010.

- From 6 April 2006 any charity that grants the public the right to view property that it preserves or maintains may accept a donation that qualifies for gift aid instead of an admission charge.

- Technical changes will be made to the 'simplified' pension regime that will operate from 6 April 2006. In addition further consultation will attempt to eliminate anomalies arising from different treatment of scheme pensions and lifetime annuities in the calculation of pension commencement lump sums.

- The figure for the company car and fuel benefit charge will remain unchanged at £14,400 for 2005/06. The CO₂ emissions level qualifying for the minimum petrol percentage charge of 15% will be 140g/km for 2005/06, 2006/07 and 2007/08. The waiver of 3% supplement for diesel cars meeting Euro IV standards will be withdrawn for all cars registered from 1 January 2006.
- From 1 September 2005, payments of up to £15,000 for an academic year can be made free of tax to employees for periods of attendance on full-time education courses at recognised educational establishments. From the same date such payments will also be free of Class 1 National Insurance Contributions.

Business Taxes and VAT

- A new Business Premises Renovation Allowance scheme will provide 100% first-year allowances for capital expenditure on renovating or converting vacant business properties in designated disadvantaged areas.
- Legislation will clarify the amount of double taxation relief that will be given when foreign tax is paid on income that is a trade receipt for UK tax purposes (or on other income computed in a similar way for UK tax purposes.)

The changes are effective 16 March 2005 for companies and from 6 April 2005 for individuals.

- The VAT registration turnover limit rises to £60,000 from 1 April 2005. The deregistration limit increases to £58,000. There are no changes to cash accounting, annual accounting and flat-rate schemes turnover limits.
- New VAT fuel scales charges apply from the start of the first accounting period beginning after 30 April 2005. (see below)

- Changes are made to the partial exemption rules from 1 April 2005 to address weaknesses in the calculation methods. In future approval or direction of a special method will have to be in writing.
- The disclosure rules have been extended for VAT schemes where a tax advantage is given that does not appear on a VAT return. Previously schemes only needed to be disclosed if it made a difference to the figures on their VAT returns.

VAT Scale Charges

	3-Month Period				1-Month Period			
	Diesel		Petrol		Diesel		Petrol	
	Scale Charge £	VAT due Per car £	Scale Charge £	VAT due Per car £	Scale Charge £	VAT due Per car £	Scale Charge £	VAT due Per car £
CC	236	35.15	246	36.64	78	11.62	82	12.21
Up to 1400cc	236	35.15	311	46.32	78	11.62	103	15.34
Over 2000cc	300	44.68	457	68.06	100	14.89	152	22.64

Capital Taxes

- The inheritance tax nil rate band has been increased to £275,000 from 6 April 2005, to £285,000 for 2006/07 and to £300,000 for 2007/08.
- The annual capital gains tax exemption has been increased to £8,500 from 6 April 2005 with the annual exemption for trusts being £4,250.
- Individuals who leave the UK temporarily will no longer be able to use the terms of any double taxation agreement to escape tax on capital gains arising while they are abroad. The charge will be effective from 5 April 2005 but may affect some individuals who

left between 16 March 2005 and 5 April 2005.

- From 16 March 2005 changes were made to the rules for determining where certain assets are located for the purposes of tax on chargeable gains. The change will bring certain assets within the scope of capital gains tax for individuals who are resident but not domiciled in the UK, and who are therefore not generally taxed on gains on assets located outside the UK.
- The threshold for Stamp Duty Land Tax on residential transactions is doubled to £120,000 from 17 March 2005. For transactions

between £120,000 to £250,000 stamp duty land tax will be charged on the whole of the consideration. All other rates and bands are unchanged.

- Disclosure rules have been introduced in respect of schemes and arrangements intended to avoid stamp duty land tax on commercial property transactions in the UK with a market value of at least £5million. They take effect from July 2005.
- From 17 March 2005 new provisions were introduced to block several stamp duty land tax avoidance schemes.

In Summary

Whilst there do not appear to be at first sight any significant increases in rates or reductions in reliefs, it is startling to recognise, as the Chancellor nears the end of his second term in office, how the tax take increases due to 'fiscal drag'. A large number of thresholds and exemptions have remained frozen for a number of years including (but not limited to):-

- £30,000 exemption for employee compensation payments;
- £8,500 figure of which a person ceases to be 'lower paid';
- £12,000 level at which a car becomes 'expensive' for capital allowance or leasing cost restrictions;
- £8,000 tax-free reimbursement of employee's removal costs (unchanged since its introduction in 1993);
- £3,000 annual exemption for inheritance tax gifts.

Countered Coupled with the large increases in house prices over recent years, the tax revenues from houses that are bought or inherited have significantly increased. Hence, increases arising as a result of 'doing nothing' have allowed the Chancellor to 'give away' pre-election. budget.

DISCIPLINARY AND GRIEVANCE PROCEDURES

New Employment regulations came into force on 1 October 2004 with regard to statutory procedures for disciplinary and grievance matters.

There are two disciplinary procedures and two grievance procedures and set circumstances when each one will apply. The three step disciplinary procedure is:-

- (1) The employer to set out in writing the concerns and send a copy of this statement to the employee.
- (2) The employer must invite the employee to a hearing and after the meeting the employer must inform the employee about any decision and offer the employee the right of appeal.

- (3) If the employee wishes to appeal, the employer must invite the employee to attend a further hearing.

The other disciplinary procedure consists of a two-step process that does not require a meeting.

In respect of grievances the standard procedure also involves three steps:-

- (1) The employee must set out in writing the nature of the alleged grievance and send this to the employer.
- (2) The employer must invite the employee to at least one hearing.
- (3) If the employee considers that the grievance has not

been satisfactorily resolved there should be an appeal.

A two-step grievance procedure involves the requirement for a written statement detailing the alleged grievance by the employer followed by a written response from the employer to the employee.

If the procedures are not followed any dismissal will automatically be unfair. A failure to complete the relevant statutory procedure will affect any subsequent employment tribunal award depending on whether it is the employee's or the employer's default. The procedures can also impact when an application can be made to a tribunal.

CIVIL PARTNERSHIP ACT

We did mention briefly in our last newsletter the changes in legislation from 5 December 2005 which introduce the concept of a civil union for same-sex couples. These changes present both opportunities for tax planning and also impose

restrictions that currently only apply to married couples, to civil partners. For example, inheritance tax and capital gains tax reliefs are available on transfers between the couple but the couple will only be able to own one property on which

private residence relief is available.

We strongly recommend that you review your financial affairs if this legislation will affect you and would be happy to advise you accordingly.

NEWS IN BRIEF

Company vans

From 6 April 2005 employees entitled to private use of a company van and who currently pay tax on a benefit of £500 can have the charge reduced to nil if they have the van mainly for business travel and any private use other than to and from work is insignificant. Home to work journeys are still classed as private use but the new rules ignore this and home to work journeys can be incurred without paying tax. The Revenue have given examples of what they class as insignificant private use.

Insignificant includes:-

- Taking rubbish to the tip once or twice a year;
- Making a minor detour via the newsagents;
- Calling in at the dentist on the way home.

Use which is not classed as insignificant includes:-

- Shopping at the supermarket each week;
- Taking the van on holiday;
- Using the van outside of work for social activities.

If an employee can meet the conditions for a nil charge, the employer should notify the Revenue as soon as possible so that tax codes can be altered.

Payroll Giving

The Payroll Giving Grants Programme has been set up to reward small businesses for setting up a Payroll Giving Scheme for employees with a cash grant of £500.

Death in Service Insurance

Employees with death in service cover should carefully review with their employer the wording of any policy documentation as the Revenue view is that if an individual is able to nominate a potential beneficiary the proceeds should form part of his estate and hence be subject to inheritance tax on death. Most life assurance companies make available standard discretionary trusts and with the death in service benefit arranged in this way, a substantial inheritance tax saving can be made. Even if the option was not used when the policy was set up, it can still be effected by assigning the existing policy into trust at a later date.

Employers Liability Insurance

With effect from 28 February 2005 companies that only employ their owner no longer have to purchase compulsory Employers' Liability Insurance.

National Minimum Wage

This has been increased to £5.05 per hour from October 2005 for workers aged 22 and over with a further increase to £5.35 in October 2006. The rate for workers aged 21 and below will increase to £4.25 in October 2005 and to £4.45 in October 2006.

Employer Provided Childcare

The new tax and national insurance regime is now in place and has wide reaching benefits not only for clients who provide a workplace nursery or who receive such benefits. Many more employers may now find giving financial assistance to their employees to help with childcare costs a viable option. The legislation allows small family companies to use the exemptions for their employees including the director/shareholders. It is possible for a husband and wife company to save over £2,500 each year in tax and national insurance by providing childcare vouchers or financial assistance for other 'approved' childcare. Please contact us if you would like more advice on this.

Contacts:

For further information about the issues raised in this newsletter or if you would like to find out about the range of services we that we can offer, please contact Stephen Dabby, Morisha Christy, Martin McNally, Tony Sian or Nick Nicolaou.



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