

# the bottom line

Welcome to the Spring edition of "the bottom line" our taxation and accountancy information newsletter. This edition focuses on the 2007 Budget, Advisory Fuel Rates and Personal Incidental Expenditure.

## The 2007 Budget

Gordon Brown's 11th and probably last budget was intended to make life for the Conservative Party uncomfortable; it was almost a pre-election budget. The 2% cut in basic rate Income and Corporation Taxes was headline grabbing but changes elsewhere more than matched the cost of this. As with previous budgets a number of changes will not come into effect immediately. Below is our summary of the main changes.

### Personal Taxation

For 2007/08 the starting rate, basic rate, higher rates remain at 10%, 22% and 40% respectively, although the starting rate bands and basic rate bands have all been increased. With effect from 5th April 2008 the starting rate of 10% will be abolished for earned and pension income but will continue to apply to savings income and capital gains. The basic rate will be reduced from 22% to 20%.

Many UK resident individuals choose to acquire overseas properties through companies to avoid local inheritance tax or forced heirship rules. In the past HMRC have taken the view that such structures could result in benefit in kind charges for the accommodation. The government has announced that provided the company exists solely to own and let a property it will not seek to tax the owners on the benefit in kind.

A number of minor changes have been made to the rules governing Venture Capital Schemes and Enterprise Management Incentives. In the main the changes are relaxations and will come into effect on 6th April 2007.

Tax Relief is to be removed on pension contributions that are being used to finance personal term insurance policies.

The rules relating to alternatively secured pensions (ASPs) will be tightened up and with effect from 6 April 2007 there will

be a requirement to withdraw at least a minimum level of income; tax charges will arise on a remaining fund when a member dies and also when a fund is transferred. The changes will effectively close the use of ASP's for Inheritance Tax mitigation.

Late elections are to be allowed under pre-owned assets legislation so that assets caught can be elected back into an individual's estate for Inheritance Tax purposes thereby avoiding an annual pre-owned assets charge.

The annual subscription limits for mini ISA's and maxi ISA's will be increased from £3,000 and £7,000 to £3,600 and £7,200 respectively.

Employee car and fuel benefits will be reduced by 2% where the car has been manufactured to run on E85 fuel (85% ethanol and 15% petrol).

### Capital Gains Tax

The annual exemption for 2007/08 will be increased to £9,200 for individuals and £4,600 for the majority of trusts.

A targeted anti-avoidance rule will be introduced to extend the existing rules for companies to individuals. Any loss arising from 6th December 2006 will not be allowable if it arose as a result of arrangements that were entered into with the main purpose of gaining a tax advantage by creating artificial losses.

### Corporation Tax

For the year commencing 1 April 2007 the main rate of Corporation Tax remains at 30%, however the small companies' rate goes up by 1% to 20%.

From 1 April 2008 the main rate for Corporation Tax will be reduced to 28%. The small companies' rate will increase to 21% from this date and to 22% from 1 April 2009.

Subject to approval from the EU commission, legislation will be introduced to extend Research and Development tax relief as follows:

- For large companies relief for qualifying R & D will increase from 125% to 130% of expenditure;
- For small and medium enterprises the rate will increase from 150% to 175%.

As previously announced legislation will be introduced to prevent perceived tax avoidance carried out by managed service companies.

Additional anti avoidance legislation will be introduced to prevent tax avoidance using employee benefit trusts.

### Capital Expenditure

The 50% first year allowance for small businesses is to be extended for a further year to 31 March 2008 (or 5 April 2008 for unincorporated entities). The rate remains at 40% for medium sized enterprises.

Consultation is to be undertaken to reform the system of capital allowances for plant and machinery. For 2008/09, first year allowances for SME's will be replaced by an "investment allowance" of £50,000. This implies that SME's will be able to claim 100% relief in respect of first £50,000 of capital expenditure on plant or machinery.

With effect from 2008/09 the rate of writing down allowance will be reduced 25% to 20%; the writing down allowance for 'long life assets'



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will be increased from 6% to 10%. At the same time the rate of writing down allowance for certain fixtures which are integral to a building will be reduced from 25% to 10%. It is also proposed to introduce a new tax credit for capital expenditure on certain green technologies.

Industrial and Agricultural buildings allowance are to be abolished gradually from 2008/09, with the immediate abolition of balancing events.

There will be a new 100% business renovation allowance for properties which have been vacated for at least one year and located in designated, disadvantaged areas which are brought back into business use after 11th April 2007.

The landlord's energy saving allowance has been extended to entitle landlords to claim deductions of up to £1,500 for qualifying expenditure on each property rather than each building.

Consultation is to take place on tax incentives for the development of brown field land.

### Value Added Tax

VAT registration threshold will rise to £64,000 1st April 2007; the deregistration limit will rise to £62,000.

With effect from 1st May 2007 VAT Fuel Scale Charges will be based on the vehicle's CO2 emissions.

Changes have been introduced on the methods of apportioning VAT where land and buildings are used for both business and non business purposes.

### Tax Compliance

A unified penalty regime for both direct and indirect taxes will be introduced. The new regime will apply to Individual Tax Returns with effect from 2008/09 and for accounting periods commencing after 31st March 2008.

The new rules will apply to inaccurate returns, claims, accounts and other documents for each of the taxes covered. The penalties will be based on co-operation with a possible exemption for an innocent mistake

and increasing penalties depending on the gravity of the offence.

There will be changes to the Self Assessment Tax Return filing dates with effect from 2007/08:

- For paper returns the deadline will be 31 October following the end of the tax year.
- The deadline for returns filed online will remain at 31 January.

The enquiry window will also be linked to the actual date of filing rather than the filing deadline.

## Advisory Fuel Rates

With effect from 1 February 2007 the fuel rates have been reduced to those set out below. The rates are the guideline rates at which employers can reimburse employees for business travel in company cars, or require employees to repay the cost of fuel used for private travel in company cars, without tax or NIC implications. Due to the lateness in notification of the reduced rates, the Revenue have confirmed that they will allow payments made in accordance with the old rates up until 28 February 2007.

Engine Size	Petrol	Diesel	LPG
Up to 1,400cc	9p	9p	6p
1,401cc to 2,000cc	11p	9p	7p
2,001cc plus	16p	12p	10p

## NEWS IN BRIEF

### Extension of Flexible Working for Carers

With effect from 1 April 2007, individuals that provide care to adults who are their spouse, partner or civil partner, relative or who lives at the same address as the employee and who satisfy minimum service criteria may make a request to work flexibly. There are only certain specified cases where this request can be refused and failure to notify the employee of the reason for refusal can lead to a tribunal complaint. Please contact us for further information.

## Personal Incidental Expenditure (PIE's)

As a reminder, relief is available for minor personal expenses incurred when staying away on business overnight where such expenses are £5 or less per night in the UK or £10 or less per night overseas. These include but are not limited to newspapers, laundry, in-room movies and phone calls home. Where on average over the trip PIE's are less than £5 per night (or £10 per night abroad) there is no liability to tax nor to national insurance and the expenditure does not need to be reported on Forms P11D.

Once the nightly amount is exceeded, on average, the entire amount is taxable, NICable and reportable. If the employer had contracted with the hotel then the expenses will be subject to Class 1A NIC with no employee liability and a later payment date. If the employer is simply reimbursing the employee for their personal expenditure, the amount will be subject to Class 1 NIC with employee and employer amounts payable calculated via the PAYE system.

### Cash Accounting Scheme

With effect from 1 April 2007 the threshold under which businesses may elect to use the cash accounting scheme is to be raised to £1.35 million.

The cash accounting scheme allows businesses with turnover below the limit to account for VAT when payments are made and received rather than when supplies are made and received. If VAT on outstanding debtors exceeds VAT on outstanding creditors this scheme will be beneficial to you.

It is only necessary to leave the scheme if your annual taxable turnover exceeds £1,600,000.

Please contact us if you require further information.

### Contacts:

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