BDO Stoy Hayward Northern Ireland

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Tax Newsletter

Budget 2008

If Brown went out with a bang, Darling came in with a whimper. In his first Budget on 12 March the new Chancellor kept it all very low key. The supporting notes to the Budget, where changes to tax legislation are outlined, were largely concerned with confirming changes announced in last year's Budget and in the Pre-Budget Report in October.

These include the much publicised reform of the Capital Gains Tax regime, large scale reforms of the Capital Allowances regime, taxation of Non-Domiciliaries and the transferability of nil-rate bands between spouses for Inheritance Tax purposes.

One change that will affect all taxpayers was announced at last year's Budget, that being the abolition of the lower 10% rate of income tax and the reduction in the basic rate from 22% to 20%.

From 6 April 2008 the first £36,000 of non-savings income (after personal allowances) will be taxed at 20% (10% for dividend income), while non-savings income in excess of £36,000 will be taxed at 40% (or 32.5% for dividend income).

There is still a lower rate band of 10% for savings income of up to £2,320 but this will only be available to those whose non-savings income does not exceed this amount.

Changes in the employee National Insurance Contributions ("NICs") thresholds from 6 April 2008 mean that the amount exposed to the 11% charge will be increased by £95 per week – this will affect those earning in excess of £665 in a week. Self employed NICs have also increased. The new weekly rate for Class 2 contributions will be £2.30 while the upper threshold for Class 4 NICs will increase significantly from £34,840 to £40,040 per year. As a result, sole traders and partners whose taxable business profits are in excess of £40,040 per year will see their annual Class 4 liability increase by almost £350.

There were some changes announced yesterday, including the following:

- Extension of 100% first year capital allowances for 'green' cars (now those with CO_2 emissions of less than 110g/km) to 31 March 2013.
- If a general pool for capital allowances has unrelieved expenditure of £1,000 or less this amount may be claimed in full rather than continuing to be subject to the reducing balance rule.
- Individuals carrying on a trade in a non-active capacity will have restrictions placed on loss relief available to set against other income (non-active is described as where the individual spends less than 10 hours per week engaged in the activities of the trade).
- From 6 April 2008 a non-repayable tax credit will be available to individuals in respect of dividend income from non-UK companies where the individual owns less than a 10% shareholding in the company. From 6 April 2009 this credit will available in respect of all dividend income from non-UK companies (subject to certain anti-avoidance measures). The credit will not be available if the source country does not levy some form of corporation tax on the company.

For full commentary and analysis of the Budget please follow the Budget 2008 link on our website at www.bdoni.com.

Year end tax planning

The current tax year is almost over so you might want to consider if you can take any action to reduce your tax liability.

Have you fully utilised your lower and basic rate tax bands?

For example, if you are a basic rate taxpayer and receive dividend income, then no additional tax is due on the dividends. Therefore, if you are a shareholder in your family company, you might want to check if you will have any basic rate band remaining (and sufficient reserves in the company) to declare and pay a dividend out of your company before 5 April 2008.

Should you reallocate income-producing assets to your spouse?[1]

If you own, for example, a buy-to-let property, or a share portfolio, you may wish to consider putting these into joint ownership with your spouse to effectively use two sets of allowances and the lower and basic rate tax bands.

Are you making the most of your capital gains tax annual allowances?

Only capital gains in excess of the annual exemption, currently £9,200 for individuals, are charged to capital gains tax. The exemption, however, cannot be carried forward or reallocated

[1] Please note that all references to spouse(s) include civil partner(s)

so if you don't use it, you lose it. What's more, spouses have a separate exemption each and, where you may own assets which could give rise to capital gains tax in the future, it might be possible to do something about minimising this future tax bill by utilising your exemptions each year as you go along.

NOTE: Please seek specific tax advice before transferring assets to ensure that the most tax efficient outcome is achieved in light of the changes to the capital gains tax regulations to be introduced from 6 April 2008.

Also, any assets transferred will legally belong to the recipient so you should be comfortable with the fact that you are giving up your legal ownership.

Is your business considering the purchase of new equipment?

If you are a sole trader/partner with an accounting year ending on 31 March, and you are thinking about buying new equipment for your business some time in the next few months, it is generally worth buying the equipment before the end of your accounting period so that you can get the tax relief a year earlier than you would if you were to delay the purchase until after your year end.

A further consideration this year is the abolition of first year allowances and the introduction of a new capped annual allowance of £50,000, together with a lower rate of 20% for capital allowances from April 2008. If you are considering investment in plant and machinery before the end of the current tax year you should contact us to determine the best timing in light of the changes to the capital allowances regime. If you require further information regarding these changes please do not hesitate to contact us.

Should you make pension contributions?

Significant savings can be achieved by making pension contributions. You can make fully tax relievable personal pension contributions of up to £225,000 per annum, or your earnings if lower. You would obtain basic rate tax relief at source with a further relief available via your tax return if you pay tax at the higher rate.

You may therefore wish to consider a one-off pension contribution in order to minimise your income tax liability for the 2007/08 tax year. The contribution must be paid before 5 April 2008. If you intend to make a contribution before this date it may be possible to reduce your 2007/08 payments on account.

Do you already make pension contributions?

If so you should be aware that, as mentioned above, the basic rate of income tax is reducing from 22% to 20% from 6 April 2008. This means the basic rate tax relief given by H M Revenue & Customs to your pension provider(s) on pension payments will also be reduced.

To maintain the same level of payment to your plan the net amount must therefore be increased to offset the reduction in tax relief.

Have you used your ISA allowance?

Individual Savings Accounts allow investments to grow free of tax. In the current tax year, you are entitled to save £7,000 in one of these accounts, of which not more than £3,000 may be invested in cash. Again, if you don't use this allowance, it is lost. So, if you have money lying in ordinary bank or building society accounts, why are you not using an ISA? Note that a separate ISA allowance is available to husbands, wives and children over the age of 18 (over 16 for £3,000 Cash ISAs).

If you have used your allowance you should note that from 6 April 2008 the rules for investing in ISAs are becoming more flexible. The following is a summary of the new rules:

- You can invest up to £3,600 in a Cash ISA
- You can invest up to £7,200 in a Stocks and Shares ISA
- Overall annual savings limit of £7,200
- Removal of Mini and Maxi ISAs
- All PEPs will automatically become Stocks and Shares ISA
- Any cash saved so far in ISAs can be rolled forward into a new Stocks and Shares ISA, in addition to that year's contribution limit.

Are there any other tax efficient investments you should be considering?

There are several ways in which tax efficient investments can help to mitigate your exposure to tax, for example, the Enterprise Investment Scheme (EIS).

If you would like us to provide specific advice on suitable plans for reducing your income tax, capital gains tax or inheritance tax exposure then please contact us.

Contact Details:

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