

MAIN TAX RATES, ALLOWANCES AND RELIEFS 2006/2007

Income Tax

	2006/07	2005/06
Taxable bands		
Starting rate - 10%	£0 - £2,150	£0 - £2,090
Basic rate - 22%	£2,151 - £33,300	£2,091 - £32,400
Higher Rate - 40%	over £33,300	over £32,400

Savings income rate - 10% for income within the starting rate band, 20% for income within the basic rate band and 40% above that. Dividends - 10% for income below the basic rate limit and 32.5% above that.

Main allowances and reliefs

Personal

Age under 65	£5,035	£4,895
Age 65 - 74 ¶	£7,280	£7,090
Age 75 and over ¶¶	£7,420	£7,220

Married Couple's ¶

Age less than 75 and born before 6/4/35	£6,065 *	£5,905 *
Age 75 and over	£6,135 *	£5,975 *
Minimum allowance	£2,350 *	£2,280 *

Income limit - age allowances	£20,100	£19,500
Blind Person	£1,660	£1,610
Golden handshake exemption	£30,000	£30,000
Enterprise Investment Scheme	£400,000 **	£200,000 **
Venture Capital Trusts	£200,000 ***	£200,000 ***
Rent a Room exemption threshold	£4,250	£4,250
Maintenance payments §	£2,350 *	£2,280 *
ISAs – maximum investment	£7,000	£7,000

* Relief restricted to 10% ** Relief restricted to 20% *** Relief up to 40%
 § Only applies where either party born before 6/4/35
 ¶ Reduced by £1 for every £2 income in excess of income limit until minimum allowance reached. Only applies where one party born before 6/4/35

Capital Gains Tax

Individuals: Gains charged at 10% where the gains added to the total income are within the starting rate band, 20% if within the basic rate band and 40% where they exceed that band.

	2006/07	2005/06
Annual exemption: Individuals	£8,800	£8,500
Most trusts	£4,400	£4,250
Chattels exemption	£6,000	£6,000

Companies: Gains charged to corporation tax.

Company car benefits

Car benefit scale charges

Tax is charged on a percentage of the price of the car and this percentage will vary according to the level of the car's carbon dioxide (CO₂) emissions measured in grams per kilometre (g/km). The starting point for calculating the value of the car will normally be the list price, together with any accessories. A minimum charge of 15% of the car's price will apply to cars emitting CO₂ at or below 140g/km (2005/06: 140g/km). The percentage charge will build up in 1% steps for every additional full 5g/km over that level, up to a maximum charge of 35% of the car's price. There are special rates for cars run on diesel.

Provision of fuel

Flat rate benefit of £14,400 x CO₂ emission percentage. No fuel benefit if the employee is required to pay for (and actually pays) all private fuel or if fuel is only provided for business journeys.

National Insurance Contributions 2006/07

Lower earnings limit, primary Class 1	£84 per week
Upper earnings limit, primary Class 1	£645 per week
Primary threshold	£97 per week
Secondary threshold	£97 per week
Employees' primary Class 1 rate	11% of £97.01 to £645 per week 1% above £645
Employees' contracted-out rebate	1.6 per cent
Married women's reduced rate	4.85% of £97.01 to £645 per week 1% above £645
Employers' secondary Class 1 rate	12.8% above £97 per week
Employers' contracted-out rebate, salary related schemes	3.5 per cent
Employers' contracted-out rebate, money-purchase schemes	1.0 per cent
Class 2 rate	£2.10 per week
Class 2 small earnings exception	£4,465 per year
Special Class 2 rate for share fishermen	£2.75 per week
Special Class 2 rate for volunteer development workers	£4.20 per week
Class 3 rate	£7.55 per week
Class 4 lower profits limit	£5,035 per year
Class 4 upper profits limit	£33,540 per year
Class 4 rate	8% of £5,035 to £33,540 per year 1% above £33,540

Inland Revenue approved mileage rates – 2006/2007

Cars: First 10,000 miles 40p
 Over 10,000 miles 25p
 Motorcycles: 24p
 Bicycles: 20p

VAT scale charges - 2006/07

Cylinder capacity (cc)	Petrol		Diesel	
	Scale charge	VAT due	Scale charge	VAT due
Quarterly returns				
Up to 1400	£273	£40.66	£260	£38.72
1401 - 2000	£346	£51.53	£260	£38.72
over 2000	£508	£75.66	£331	£49.30
Monthly returns				
Up to 1400	£91	£13.55	£86	£12.81
1401 - 2000	£115	£17.13	£86	£12.81
over 2000	£169	£25.17	£110	£16.38

MAIN TAX RATES, ALLOWANCES AND RELIEFS 2006/2007 (contd.)

Corporation Tax rates and fractions

	2006/07	2005/06
Starting rate: 0%	N/A	£0 - £10,000
Marginal relief	N/A	£10,001 - £50,000
Small companies' rate: 19%	£0 - £300,000	£50,001 - £300,000
Marginal relief	£300,001 - £1,500,000	£300,001 - £1,500,000
Main rate: 30%	£1,500,001 or more	£1,500,001 or more
Marginal relief fraction	11/400	11/400
Non-corporate distribution rate	N/A	19%

Pensions and Annuities

From 6th April 2006 there are no restrictions on the number or type of approved personal pension schemes. From 6th April tax is charged on the value of the pension contributions made that exceed the annual allowance or relevant earnings. Tax is also charged if the value of the pension at retirement exceeds the individual's lifetime allowance.

	2006/07	2005/06
Annual allowance	£215,000	N/A
Lifetime allowance	£1,500,000	N/A
Earnings cap	N/A	£105,600

Main capital allowances

Plant and machinery	
• first year allowance - small businesses	50%
• first year allowance - medium sized businesses	40%
• writing down allowance (some long life assets 6%)	25% reducing balance
Motor cars (£3,000 pa maximum for each car)	25% reducing balance
Industrial buildings writing down allowance	4% straight line
Enterprise zone buildings	
• initial allowance	100%
• writing down allowance	25% straight line

Inheritance Tax

	2006/07	2005/06
First £285,000 (2005/06 - £275,000)	Nil	Nil
Tax on excess	40%	40%
Annual exemption - donor	£3,000	£3,000
Small gifts to any one person	£250	£250
Gifts made in consideration of marriage:		
• Parent	£5,000	£5,000
• Grandparent	£2,500	£2,500
• Between the parties to the marriage	£2,500	£2,500
• Other	£1,000	£1,000

Relief on gifts made within 7 years of death:

Years before death	0 - 3	3 - 4	4 - 5	5 - 6	6 - 7
Death charge percentage	100%	80%	60%	40%	20%

Value Added Tax

	From 1/4/2006	1/4/2005
Rates:		
• Standard	17.5%	17.5%
• Reduced	5%	5%
• Zero	0%	0%
VAT fraction	7/47	7/47
Registration limit	£61,000	£60,000
Deregistration limit	£59,000	£58,000
Cash accounting scheme - max turnover	£660,000	£660,000
Annual accounting scheme - max turnover	£1,350,000	£660,000
Flat rate scheme - max turnover	£150,000	£150,000

Stamp Duty and Stamp Duty Land Tax

Stocks and shares 0.5%

Land and buildings

Rate	Residential in disadvantaged areas	Residential outside disadvantaged areas	Non-residential
Zero	£0 - £150K	£0 - £125K	£0 - £150K
1%	£150,001 - £250K	£125,001 - £250K	£150,001 - £250K
3%	£250,001 - £500K	£250,001 - £500K	£250,001 - £500K
4%	More than £500K	More than £500K	More than £500K

BUDGET 2006 – A SUMMARY OF THE TAXATION PROVISIONS

Set out below is a summary of the main contents of the Chancellor's Budget speech presented to the House of Commons on Wednesday 22nd March 2006. We have concentrated on the taxation aspects of the Budget that are most likely to affect individuals and smaller enterprises. Should you have any queries relating to the contents of this summary or require advice concerning any aspect of the Budget, please do not hesitate to contact us.

Introduction

This was the Gordon Brown's tenth, and in all probability his last, Budget speech, with the Chancellor reminding us that "the Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all".

The Chancellor reported that inflation was on target at 2 per cent and he forecast that growth would be 2 to 2.5 per cent in 2007-2008. He also reported that he had met the "golden rule" on borrowing and the economy was on course for a £15 billion surplus for the economic cycle ending in 2010-2011.

The "headline-grabbing" figures in this year's Budget were:

- The proposed sale of £30 billion of assets by 2010 including the Tote and the government's stake in British Energy.
- The closing of a loophole on the avoidance of Inheritance Tax by the creation of trusts.
- A big rise in education spending to £440 million next year.
- An increase in the road fund duty on petrol-guzzling cars.

All in all, this Budget was regarded by many as being fairly neutral, with the Chancellor continuing with his steady-as-she-goes approach to the economy.

Personal

Tax rates

The starting rate limit and basic rate limits for income tax have been increased in line with indexation to £2,150 and £33,300 respectively.

Allowances and reliefs

Personal allowances

As announced in the Pre-Budget Report, the personal allowance for those aged under 65 will increase to £5,035. For those aged 65 and over the personal allowance will increase to £7,280 for those aged 65-74, and for those aged 75 or over to £7,420. Other allowances will be increased by indexation.

Reliefs

- Venture capital trusts
The maximum permitted annual investment for tax relief will remain at £200,000.
- Enterprise investment schemes
The maximum permitted annual investment for tax relief has been doubled from £200,000 to £400,000.

Isas

The limits as to how much can be invested each year in an individual savings account (Isa) will remain at £7,000 for share maxi-Isas and £3,000 for cash mini-Isas and these limits will now remain until 2010.

National Insurance Contributions

National Insurance (NIC) rates and thresholds for 2006/07 were announced in the 2005 Pre-Budget Report. The starting point for employers', employees' and self-employed NICs in 2006/07 will increase in line with inflation to £97 per week. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from April 2006 from £630 to £645 per week (£33,540 a year). For the self-employed the rate of Class 2 contributions will remain at £2.10 a week.

Capital gains tax

The annual exemption amount is set at £8,800 for the tax year 2006/07 for individuals and £4,400 for most other trusts. For individuals, the amount chargeable to capital gains tax is added to the income liable to income tax and is treated as the top part of that total. Capital gains tax is charged at the following rates: below the starting rate limit at 10 per cent, between the starting rate limit and basic rate limit at 20 per cent, and above the basic rate limit at 40 per cent.

Inheritance tax

The value of estates above the inheritance tax (IHT) threshold is taxed at 40 per cent. For the tax year 2006/07 the inheritance tax threshold has been increased above RPI to £285,000 (2005/06: £275,000).

The inheritance tax threshold will increase to £300,000 in 2007.

There was a great deal of lobbying prior to the Budget for the Chancellor to take more drastic action to reduce the inheritance tax burden, which is seen by many as an unfair form of taxation. The main argument against the present IHT thresholds is that an individual's house is taken into account in valuing his or her estate for IHT purposes. With the dramatic increases in house prices over recent years, many more individuals are now caught in the IHT net.

This lobbying would appear to have fallen on deaf ears, and indeed the Chancellor has taken steps to recoup more IHT by outlawing trusts set up to enable beneficiaries to avoid IHT. These trusts, commonly referred to as "accumulation and maintenance trusts", have now been made subject to a triple tax which will effectively make them redundant. Not only was this measure hidden in the small print of the Budget but, even worse, the measure will be retrospective (ie all trusts will be affected, no matter when they were created), with the result that those who have set up trusts will now have to unravel the work done, incurring further legal and other professional fees.

Our advice:

If you have already set up an accumulation or maintenance trust, you should seek legal advice as to the validity of the trust now that the rules have been changed. If the trust is no longer valid, seek advice as to whether and how it should be amended.

Pensioners

Pensioners were hit by the Budget in that the government will not repeat its payment of the £200 council tax rebate which it made last year. In addition, the winter fuel payment has been frozen meaning that altogether the average pensioner will be £265 worse off this year.

On the plus side, the state pension for single pensioners and married couples will rise to £84.25 and £134.75 a week respectively. In addition, the Chancellor announced free national bus travel for pensioners and additional assistance in insulating their homes.

Miscellaneous taxes

- Vehicle excise duty for small, environmentally friendly cars has been reduced to zero whilst those vehicles that emit the greatest pollution will pay as much as £210 per annum.
- Duty on a pint of beer will be increased by 1p a pint and on wine by 4p a bottle. The duty on whisky, champagne, other sparkling wines and cider has been frozen.
- Tax on a packet of 20 cigarettes will increase by 9p, on a packet of five cigars by 3p and there have also been increases on hand-rolled and pipe tobacco.

Pensions

Whilst the new personal pension regime was announced some time ago and will take place on 6th April ('A-Day'), it is worth pointing out that from that date there are no restrictions on the number or type of approved personal pension schemes. From 6th April tax is charged on the value of the pension contributions made that exceed the annual allowance (£215,000 for this year) or relevant earnings. Tax is also charged if the value of the pension at retirement exceeds the individual's lifetime allowance (£1,500,00 this year).

Our advice:

With A-Day looming you may need to seek advice concerning your pension(s). If so, please contact us.

Business

Corporation tax

The corporation tax starting rate is 0 per cent. The small companies' rate is 19 per cent for taxable profits between £0 and £300,000. Marginal relief eases the transition for companies with profits between £300,001 and £1,500,000. The fraction used in the calculation of this marginal relief is 11/400.

Capital allowances

The Chancellor announced some welcome new for small businesses. This was the increase in first year allowances for small businesses on the purchase of most plant and machinery, to 50%.

Our advice:

This increase will only be for one year so if you are thinking of purchasing plant or machinery, now might be the time. Please consult us as to whether you will be eligible for the allowances as it is important that your business falls into the "small" category.

Company cars

Car benefit charges

There have been no changes in relation to the treatment of company car benefits. The starting point for the measurement of carbon dioxide emissions which is expressed in grams per kilometre remains at 140g/km.

Provision of fuel

The flat rate benefit of £14,400 remains the same as last year. H M Revenue and Customs has announced new rates for the VAT scale charges on the provision of fuel for private mileage and these new rates must be used from the start of the first accounting period beginning on or after 1st May 2006.

Stamp taxes

The rate of stamp duty on the transfer of shares remains unchanged at 0.5%. The threshold at which stamp duty land tax becomes payable in relation to residential property outside disadvantaged areas is increased from £120,000 to £125,000. All other thresholds remain the same.

The increased threshold will affect those who purchase homes and many would argue that the increase is not enough, especially in view of the increase in house prices over the years. Indeed, it is difficult to find houses with a selling price of under £125,000 in some regions, which means that few will escape paying some stamp duty.

Value added tax

The VAT rates remain the same as last year.

Registration and de-registration thresholds

From 1st April 2006, the registration threshold for VAT is increased from £58,000 to £59,000 and the de-registration threshold from £60,000 to £61,000.

Special VAT schemes

The maximum turnover level for the cash accounting scheme remains at £660,000 but the threshold for the annual accounting scheme has been more than doubled from £660,000 to £1,350,000. The increase in the threshold should encourage more businesses to use this scheme.

There have been no changes made to the thresholds of the flat rate scheme.

Our advice:

If you run a small business and are frustrated by the amount of time involved in complying with VAT legislation and record keeping, the cash accounting scheme may be of interest to you. Contact us for further advice.

If you would like to discuss the contents of the Budget in more detail, or have any queries relating to your personal or business taxation, please do not hesitate to contact us.