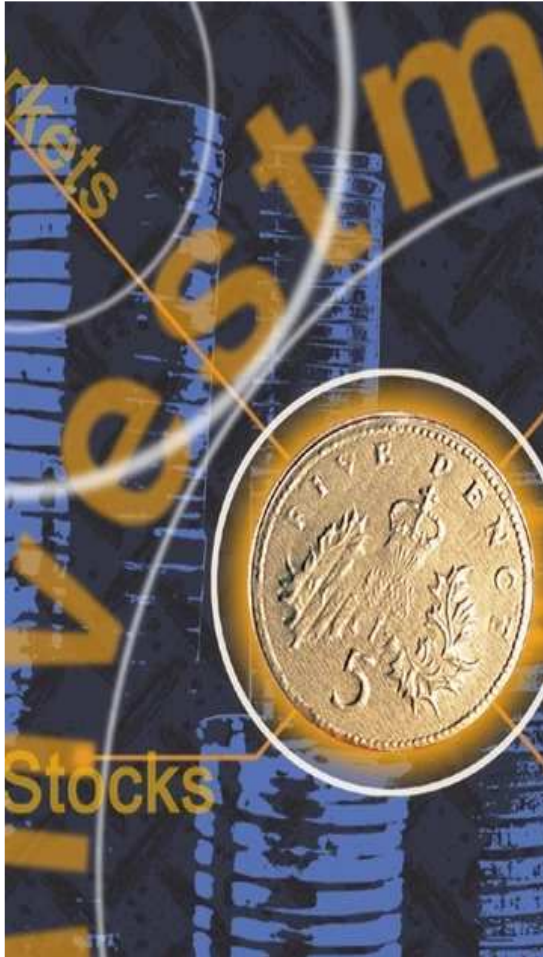


# BARR ETTE

CHARTERED ACCOUNTANTS & CHARTERED TAX ADVISORS

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Alastair Darling, the new Chancellor of Exchequer, announced his first budget on 12 March 2008. This newsletter aims to give an overall summary of the key changes that may affect you, your family and your business.

Key announcements and highlights in the 2008/09 budget:

- From 6 April 2008, the basic rate of income tax is reduced from 22% to 20%.
- The starting rate of 10% income tax is abolished, except for savings income.
- From 1 April 2008, the corporation tax rate for small companies increases from 20% to 21%.
- The main corporation tax rate falls to 28%.
- From 6 April 2008, a new single flat rate of capital gains tax at 18% applies. Taper relief and indexation allowance will be withdrawn accordingly.
- The capital allowances regime undergoes a major reform in April 2008.
- ISA investment allowances increase from £7,000 to £7,200.
- Widows, widowers and surviving civil partners alive on 9 October 2007 are entitled to the unused proportion of their deceased spouse inheritance tax nil rate band.
- There will be an annual charge of £30,000 on non-domiciled individuals who have been residents for over seven years if they continue to claim exemption from UK tax on unremitted foreign incomes and gains.

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# Personal tax

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## **Tax rates**

As announced in the 2007 Budget, the current 10% starting rate will be abolished for earned income but will continue to be made available for savings income.

## **Allowances**

Personal allowance for those under 65 years old have risen in line with inflation to £5,435. The allowances for those aged 65-74 years old and over 75 years old have increased significantly to £9,030 and £9,150 respectively.

## **Working Tax Credit (WTC) and Child Tax Credit (CTC)**

The income threshold for WTC increases from £5,220 to £6,420. The maximum amount per child under the CTC has increased to £2,085 whereas the family element of the CTC remains frozen at £545.

## **Foreign dividends**

From 6 April 2008, individuals owning less than 10% shareholding in a foreign company will be entitled to a non-payable tax credit equal to one-ninth of the dividend received. The Finance Act 2009 extends this rule to individuals owning more than 10% shareholding in the foreign company, providing that the non-resident company is required to pay a tax similar to corporation tax.

## **Individual Savings Accounts (ISAs)**

The total annual limit is increased from £7,000 to £7,200 from 6 April 2008, and the yearly ISA limit in cash is increased from £3,000 to £3,600. Maxi and Mini-ISAs will cease to exist.

## **Residence and domicile**

From 6 April 2008, UK residents who are non-domiciled and/or not ordinarily resident and wish to be continued to be taxed on the "remittance basis" on their worldwide income and gains, would be subject to the annual tax charge of £30,000. Those will unremitted foreign income and gains smaller than £2,000 would however be exempt from this charge. This new rule applies to those who have been UK residents in at least seven out of the last ten years. Individuals may choose each year whether they are taxed on the remittance basis or on their worldwide income. For those who choose the remittance basis, however, personal allowance and annual exemption for capital gains tax purpose will not be available.

## **Venture Capital Schemes**

The Enterprise Investment Scheme (EIS) income tax relief that an investor can claim at 20% in any one year will be increased from £400,000 to £500,000, subject to approval obtained from the European Commission. From 6 April 2008, companies engaged in the trade of shipbuilding, coal and steel production will no longer qualify for the EIS, the Corporate Venturing Scheme or the Venture Capital Trust Scheme.

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# Corporate and business tax

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## Capital allowances

There are significant changes to the capital allowances rules in 2008/09. These can be summarized as follow:

- A new Annual Investment Allowance (AIA) allows 100% write-off of the first £50,000 plant and machinery expenditure against profits.
- Writing down allowance in the main pool would be reduced from 25% to 20%.
- The phased withdrawal of industrial buildings allowances (IBAs), enterprise zone allowances (EZAs) and agricultural buildings allowances (ABAs).
- A new classification within the capital allowance legislation known as the “integral features” that attracts 10% writing down allowance. Along with “long life assets”, integral features will enter into a “special rate pool”. Note that the WDA for long life assets increases from 6% to 10%.
- For loss making companies claiming 100% FYA on green technologies, they may claim a cash payment from the government in the form of first year tax credit.
- Small pools of plant and machinery expenditure (and the new special rate pools) totaling to an amount of £1,000 or less can be written off and claimed in full. This aims to help small businesses who would otherwise have to claim WDAs every year on insignificant unrelieved expenditure.
- Two schemes currently exist to give 100% capital allowances on energy efficient and water saving (environmentally-beneficial) technologies. This is to be

extended by including assets relating to waste water recovery and reuse systems. Four additional sub-technologies are added to the energy technology criteria list: compressed air master controllers, compressed air flow controllers, heat pump dehumidifiers and white LED lighting.

## Associated companies rule

Companies are “associated” if they are under common control and this may affect the profits limits for corporation tax purpose. From 1 April 2008, the definition of common control is to be modified such that the rights and powers of a business power will only be attributed to a shareholder if a tax planning arrangement has been put in place in order to pay less corporation tax than would otherwise be due.

## Research and development expenditure

Small and medium-sized companies undertaking qualifying R&D may claim enhanced tax relief. Subject to clearance by the EC, the relief will increase from 150% to 175% for SMEs and for large companies the increase is from 125% to 130%.

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# Capital gains tax

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In his pre-budget report, the Chancellor surprised everyone with his proposals on major reform to capital gains tax (CGT). Listed below is a summary of the main changes:

- A new single rate of 18% will apply but for many business owners the rate can be reduced to 10%.
- Taper relief and indexation allowance will be withdrawn.
- The introduction of Entrepreneur relief which is similar to retirement relief that was phased out when taper relief was introduced. The entrepreneur relief allows the first £1m qualifying gains to be taxed at 10%.
- Simplification of the share identification rules when shares and securities are being disposed of.

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# VAT

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## **Correction of errors on returns**

Errors amounting to less than £2,000 can currently be claimed in the next return without the need to notify the HMRC separately. For accounting periods commencing on or after 1 July 2008, the de minimis limit is increased to the greater of £10,000 and 1% of turnover, subject to a cap of £50,000.

## **Option to tax land and buildings**

The rules relating to the option to tax land and buildings will be simplified to facilitate its revocation after 20 years and also the practical administration. Revocations will not be permitted until August 2009 at the earliest.

## **Transitional period to claim VAT overpaid or underclaimed**

Legislation will be introduced to allow businesses to claim VAT overpaid or underclaimed prior to the introduction of the three year cap in 1996 and 1997. Such claims will need to be made before 31 March 2009.

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## Inheritance tax

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### **Transferable nil rate**

As announced in the pre-budget report in October 2007, an individual's inheritance tax nil-rate band not used up on his or her death can be transferred to the surviving spouse or civil partner. This measure also applies to all widows, widowers and bereaved civil partners alive on 9 October 2007.

### **Transitional serial interests in life-interest trusts (IIP)**

The transitional period for implementing the 2006 changes to IIP is extended by six months to 5 October 2008. Therefore, taxpayers have an extra six months to reorganize such trusts without incurring charges under the new rules.

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## Other matters

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- Following the landmark case of Arctic Systems, the government announced their intention to legislate from 6 April 2008 preventing individuals who arrange their affairs to gain a tax advantage by shifting part of their income to another individual who is subject to a lower rate of tax ('income shifting'). After a period of consultation with the business community, the government has now decided to introduce the new legislation in Finance Bill 2009 and it will not be backdated to 6 April 2008.
- Transitional relief for gift aid will be made available to UK charities and Community Amateur Sports Club (CASC) during 2008/09 to 2010/11 following the change in the basic rate of income tax from 6 April 2008.
- Further provisions relating to the new penalty regime will be implemented by the HMRC. New legislation will also be introduced to enforce the payment of debts owed to the HMRC.

What does the above mean to you, your family and your business? For instance, would it be beneficial for you to incorporate your business following the changes in income tax rates? If you are a non-domicile UK resident, would you be better off paying UK tax on your worldwide income and gains rather than paying the annual tax charge?

If you would like to discuss the implications of the 2008 Budget to you, your family and your business further, please feel free to contact us.

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