



## Spring Budget 2008 overview

Having made many of his big announcements in the Pre-Budget Report in October 2007, the Chancellor's first Budget speech included very few surprises. The main changes and proposals include the following:

### Measures for small businesses

Commitments made by the Government include:

- a temporary (one year) increase of 20% in the amount of finance available through the Small Firms Loan Guarantee scheme, and relaxation of the restrictions on firm age to allow access to the scheme for a wider range of firms
- additional Enterprise Capital Funds of £30 million to stimulate the delivery of mezzanine finance to smaller enterprises.
- commitment of £12.5 million for a capital fund focussed primarily on investing in women-led businesses
- an increase in the **Enterprise Investment Scheme's investor limit from £400,000 to £500,000** in any one tax year (subject to EU State Aid Approval) and the launch of a new consultation on how best to simplify operation of this Scheme (responses must be submitted 20 June 2008 and the results will be announced this autumn)
- an increase in the value of share options an individual can hold under the **Enterprise Management Incentive Scheme from £100,000 to £120,000** for options granted on or after 6 April 2008

### Tax compliance

Following on from consultations earlier this year and last year, the Chancellor announced significant changes to the tax compliance and penalty regimes. New legislation will be included in the Finance Bill 2008 which will

1. simplify the rules for non-compliance, creating a **single penalty regime** across all the taxes
2. modernise record keeping requirements
3. introduce new inspection and information powers for HMRC
4. revise the time limits for making tax assessments and claims. In particular, this will include **wide information gathering powers** in relation to a tax payer's correct tax position and **reductions in the time limits for assessments** (for example, there will be a new four year time limit for the making of corporation tax assessments instead of the familiar six year limit). These measures are due to take effect on and after 1 April 2009 subject to transitional provisions

## Capital Gains Tax (CGT)

As expected, there were **no concessions to the package of CGT reforms** announced in the 2007 Pre-Budget Report. These are set to come into effect on 6 April 2008 with the introduction of the new 18% flat rate of CGT and the abolition of taper relief and indexation and two related allowances. They will be accompanied by the new "entrepreneurs' relief" which will give some individuals and trustees a 10% effective rate of CGT on the first £1 million of qualifying gains provided that certain conditions are satisfied. Draft legislation on these proposals has been published recently and will be included in the Finance Bill 2008.

## Residence and Domicile

Despite significant pressure, the **Government will be implementing the reforms announced in the 2007 Pre-Budget Report relating the tax treatment of non-domiciles although some changes have been made to the proposals in the light of responses to the consultation exercise.** These changes are intended to enable the individuals concerned to claim double tax relief in respect of the £30,000 charge where they suffer foreign tax on the same income in their jurisdiction of residence. They also offer some protection to non-domiciled beneficiaries of off-shore trusts (who, from 6 April 2008, will be charged to UK tax on income and gains in the offshore trust but only on a remittance basis)

## Inheritance tax

The nil rate band reforms announced in the Pre-Budget Report remain unchanged. One technical problem relating to successive life interests under the 2006 Budget changes has been ameliorated by extending the transitional period by six months to 6 October 2008.

## Tax on dividends received by individuals

As announced in the 2007 Budget, from 6 April 2008, **UK resident individuals and eligible non-residents in receipt of dividends in respect of portfolio shareholdings (i.e. less than 10%) in non-UK resident companies will be entitled to a non-payable tax credit** (similar to the credit available in respect of UK dividends which may be used to reduce the effective rate of tax on the individual's total income). The original proposals required that the individual must receive less than £5,000 a year in non-UK dividends but this condition will not be introduced. (It is intended that the Finance Bill 2009 will extend this tax credit to individuals holding a greater than 10% stake – provided that certain conditions are satisfied.)

## Income shifting

**Anti-avoidance rules targeting income shifting are now expected to be introduced through the Finance Act 2009** and will not come into effect from 6 April 2008 as the Government originally planned. This Government believes that a further consultation is required (following on from the consultation launched at the time of the 2007 Pre-Budget Report) on draft legislation to prevent income shifting (i.e. where individuals shift part of their income from dividends or partnership profits to another person who is subject to a lower rate of tax).

## Misuse of double tax treaties

Legislation is to be introduced to confine tax credits where foreign partnerships operate through a UK branch or where UK residents are members of foreign partnerships.

## Gratuitous disposals of trading stock

The pre-1998 position under which the open market value, rather than cost, was brought into charge to tax (otherwise known as the rule in *Sharkey -v- Wernher*) is being re-imposed, but subject to whatever adjustment is required under the associated traders' Transfer Pricing Code taking priority.

## Tax simplification

The Government has been pursuing a programme of tax simplification (although this may be a bit difficult to believe!) and, in this context, the Chancellor announced:

- a new consultation on ideas to simplify the operation of the VAT partial exemption regime and the capital goods scheme. And, with effect from 1 June 2008, measures intended to simplify the rules for the option to tax otherwise VAT exempt supplies of land and property
- a joint review by HMRC and HM Treasury on ways to simplify the corporation tax calculations and returns of smaller companies
- the simplification of the associated companies rules as they apply to the small companies rate of corporation tax (where the directors or shareholders are separately members of business partnerships)
- the abolition of the £5 stamp duty charge, whether fixed duty or ad valorem for instruments executed on or after 13 March 2008

## Charities

The Budget included a number of measures which have emerged from the consultation on Gift Aid. In particular, it was announced that, although the basic rate of tax is to be reduced to 20%, **Gift Aid will be paid at the 22% rate** for qualifying donations made in a transitional period from 6 April 2008 until 5 April 2011. In addition, there will be major reforms (many starting on Budget Day) to the auditing process and compliance rules which apply in relation to the Gift Aid scheme as well as a redesign of Gift Aid guidance and a programme aimed at bringing smaller charities into Gift Aid.

## Capital allowances

The new capital allowances regime is due to come in to force on 1 April 2008 (for corporation tax) and 6 April 2008 (for income tax). Amongst other things, this will involve a reduction in the main rate of writing down allowances for plant and machinery from 25% to 20%, an increase in allowances for long life assets from 6% to 10% and a new classification of "features integral to a building" which will be eligible for allowances at a 10% rate. The Budget proposals include an extension to the enhanced allowances available for certain "green technologies" and other more favourable rules for investing in energy saving or environmentally beneficial plant and machinery. Legislation is also being introduced to prevent capital allowances being sold indirectly through business or trade sales.

## Other environmental tax reforms

These include:

### Landfill tax

Various measures including

1. an increase in the standard rate of tax by £8 per tonne to £40 per tonne for disposals made on or after 1 April 2009

2. a phasing out of the exemption for waste from cleaning up contaminated land disposed of by landfill (applications for exemption certificates will not be accepted by HMRC on or after 1 December 2008 and anyone with a valid certificate will have until 31 March 2012 to dispose of the waste in order to benefit from the exemption)
3. a reduction in the credit that can be claimed by landfill site operators for contributions to environmental bodies enrolled under the Landfill Communities Fund from 6.6% to 6% – with effect from 1 April 2008
4. Entrust is being replaced as the regulator of such bodies by HMRC

### **Aggregates Levy**

An **increase in the rate of the aggregates levy** from £1.95 per tonne to £2.00 per tonne for any aggregate commercially exploited on or after 1 April 2009.

### **Climate Change Levy Rates**

The Finance Bill 2008 will include legislation which **will increase the rate of climate change levy** for 2009-2010 broadly in line with inflation.

### **VAT**

The Chancellor confirmed that the staff hire concession in respect of VAT on supplies of temporary staff by employment businesses will be withdrawn with effect from 1 April 2009. However, we consider that there are good arguments that, post-1 April 2009, VAT should still only be charged on the margin in respect of such supplies notwithstanding the withdrawal of this concession. HMRC have promised to respond to our queries on this on 1st April 2008.

## Income tax, Capital Gains tax and Inheritance tax (main rates and allowances for 2008/2009)

£ per year (unless stated)	2007-08	Change	2008-09
Income tax personal and age-related allowances			
Personal allowance (age under 65)	£5,225	+£210	£5,435
Personal allowance (age 65-74)	£7,550	+£1,480	£9,030
Personal allowance (age 75 and over)	£7,690	+£1,490	£9,180
Married couple's allowance* (aged less than 75 and born before 6th April 1935)	£6,285	+£250	£6,535
Married couple's allowance* (age 75 and over)	£6,365	+£260	£6,625
Married couple's allowance* - minimum amount	£2,440	+£100	£2,540
Income limit for age-related allowances	£20,900	+£900	£21,800
Blind person's allowance	£1,730	+£70	£1,800
<b>Capital gains tax annual exempt amount</b>			
Individuals etc.	£9,200	+£400	£9,600
Most trustees	£4,600	+£200	£4,800
Individual inheritance tax allowance	£300,000	+£12,000	£312,000
<b>Pension schemes allowances</b>			
Annual Allowance	£225,000	+£10,000	£235,000
Lifetime Allowance	£1,600,000	+£50,000	£1,650,000

\* Married couple's allowance is given at the rate of 10 per cent.

## Income tax - taxable bands

2007-08	£ per year	2008-09	£ per year
Starting rate: 10%	£0-£2,230		
Basic rate: 22%	£2,231-£34,600	Basic rate: 20%	£0-£36,000
Higher rate: 40%	Over £34,600	Higher rate: 40%*	Over £36,000

## Corporation tax on profits

£ per year (unless stated)	2007-08	2008-09
£0-£300,000	20%	21%
£300,001 - £1,500,000	Marginal relief	Marginal relief
£1,500,001 or more	30%	28%

## VAT

Taxable turnover threshold which determines whether a person must be registered for VAT is increased from £64,000 to £67,000. The taxable turnover threshold for deregistration is increased from £62,000 to £65,000. These new thresholds apply with effect from 1 April 2008.

## Stamp Duties

The rate of stamp duty/SDRT on the transfer of shares and securities is unchanged at 0.5% for 2008-2009. The rates of SDLT also remain, broadly, unchanged although various administrative changes were confirmed and two artificial avoidance devices involving the misuse of sharia financing and group relief have been shut down.

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\* There will be a new 10% starting rate for savings income only, with a limit of £2320. If an individual's taxable non-savings income is above this limit then the 10% savings rate will not be applicable. There are no changes to the 10% dividend ordinary rate or the 32.5% dividend upper rate.

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