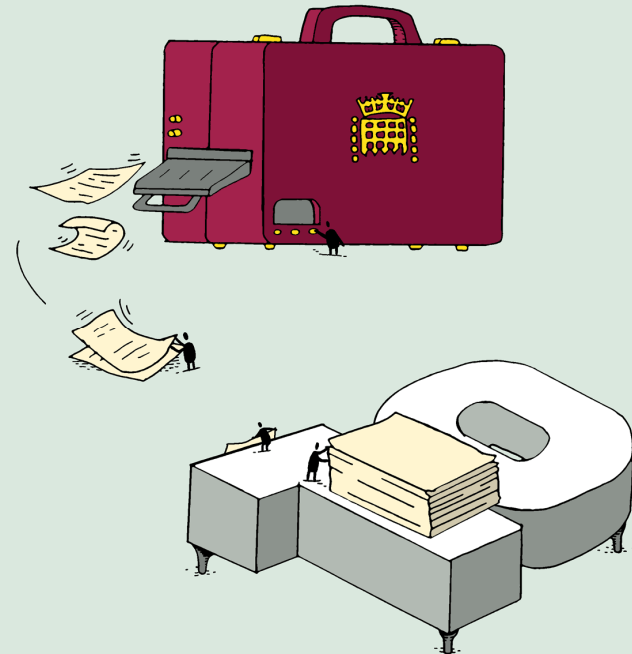


Budget 2008

Warren Taylor
Director of Taxation

Tenon

Chandlers Ford



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Introduction

- Focus on impact on business
- Changes in Tax rates
- The New Capital gains regime
- “modernisation” of Capital Allowances
- Encouragement for R&D
- Investor Reliefs
- The new tax penalty regime

Changes in business tax rates

	FA2006	FA2007	FA2008	FA2009
Lower rate	19%	20%	21%	22%
Marginal Rate	32.75%	32.5%	29.75%	29.5%
Full Rate	30%	30%	28%	28%

- > Stated aim to “remove distortion in the tax system”
- > Principally tax benefits of incorporation

Continued benefits of company structure

Profits	2007/08		2008/09	
	Sole Trader	Company*	Sole Trader	Company*
£10,000	£1,279	£955	£1,398	£959
£25,000	£5,779	£3,955	£5,598	£4,109
£70,000	£22,250	£18,125	£21,812	£18,083

*Assumes basic rate salary and balance in dividend

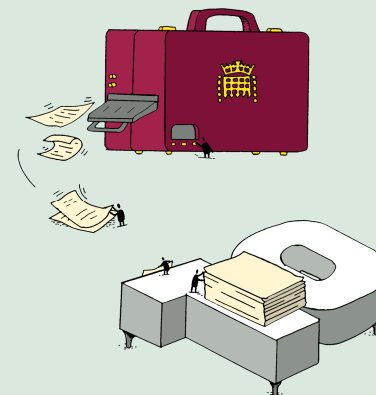
CGT - Headline Changes

18%!!!!

Indexation Allowance – ABOLISHED

Taper Relief – ABOLISHED

Designed to be a major simplification



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CGT – The effect of the changes

Second home bought March 1982 £75,000 - Its current market value is £300,000

	<i>Pre 05.04.2008</i>		<i>Post 05.04.2008</i>	
	£	£	£	£
Proceeds		300,000		300,000
Cost	75,000		75,000	
IA from March 82	<u>78,525</u>	<u>(153,525)</u>	<u>n/a</u>	<u>(75,000)</u>
Gross gain		146,475		<u>225,000</u>
Taper relief 40%		<u>58,590</u>		<u>n/a</u>
Taxable gain		<u>87,885</u>		<u>225,000</u>
Tax payable 40%/18%		<u>35,154</u>		<u>40,500</u>
Additional tax				£5,346 (15% increase)

CGT – Business v non-business assets

Abolition of Taper Relief

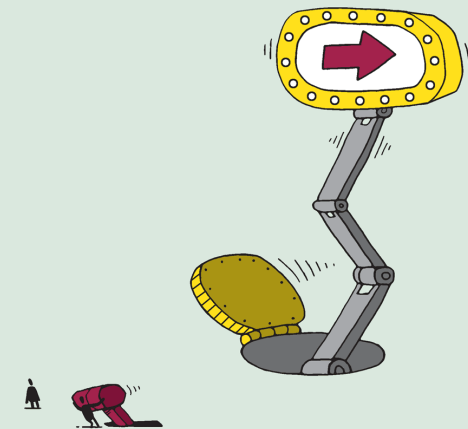
Winners – 2nd homes/listed investments

Losers – Investors in AIM shares
business owners

BUT

Entrepreneurs relief

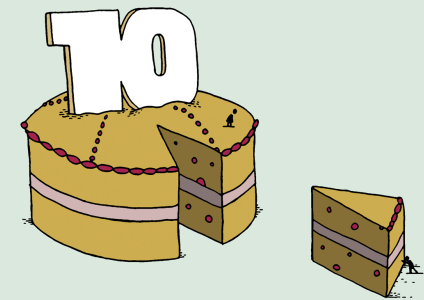
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CGT – Entrepreneurs Relief

- One off lifetime allowance - £1m
- Every individual
- Qualifying business disposals
- 10% effective rate on first £1m, 18% thereafter
- Election required



“keeping your share”

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What Gains qualify?

- Shares in an individual's 'Personal Trading Company'
 - The individual must
 - Own at least 5% of the shares of the company, and
 - Exercise at least 5% of the voting rights, and
 - Be an employee, Director or office holder of the company
- The above must have been satisfied for at least one year prior to sale
- Unless the business has ceased and the disposal takes place within 3 years of cessation

What is a trading company?

- The definition of a trading company will have the same meaning as it did for taper relief
- So all of the issues we have previously had to deal with in respect of cash in the balance sheet, investment properties etc will also be relevant to the entrepreneurs' relief
- Test over full period of ownership

Shareholder issues

- People who currently hold less than 5% of the shares in a trading company will not be able to take advantage of the entrepreneurs' relief
- So many AIM shareholders etc will find that their position is materially worse from 6 April this year.

CGT – Entrepreneurs Relief

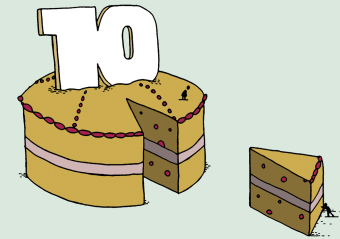
Entrepreneurs' relief operates by applying a fraction of $\frac{4}{9}$ th to the gain. That gain is then taxed at 18%. This gives an effective rate of 10%.

Example

> Proceeds	£600,000
> Base cost	(£50,000)
> Expenses	<u>(£50,000)</u>
> Chargeable gain before relief	£500,000
> Entrepreneurs' relief ($\frac{4}{9}$)	<u>(£222,222)</u>
> Chargeable gain	<u>£277,778</u>
> Tax payable 18%	<u>£50,000</u>

(assumes annual exemption used elsewhere)

CGT – Entrepreneurs relief



Practical issues

Family company share structure to consider?

Could there be a number of non-exec directors appointed?

Transfers to spouse

5% - impact on share option holders and AIM listed shareholdings

Complex rules for “paper for paper” exchanges

Capital Allowances Changes

Introduction

- Why the change?
- Compare current and future allowances
- Annual Investment Allowance
- Integral assets
- Industrial Buildings Allowances
- Impact on timing of additions
- New rules on cars
- Energy Efficient Allowances
- Planning

Why the changes?

- Reduced headline corporation tax rate (30% to 28%) balanced by reduction in capital allowances
- To “address anomalies and loopholes in the current system” according to the consultative document
- To increase “environmental incentives”
- Some changes simply alter the timing, some are outright withdrawal of relief

Proposed Changes

- Introduction of a £50,000 Annual Investment Allowance for all businesses.
- Changes to the rates of writing-down allowances for plant and machinery.
- Phasing out of Industrial Building and Agricultural Buildings Allowances (IBAs and ABAs) by 2011.
- Wholesale revision to the basis of capital allowances on company cars. The new system to be based on CO₂ emissions.

Proposed Changes

- Also extension of allowances on “integral assets” to include:- cold water systems and general lighting, external solar shading and active facades that were previously excluded.
- Pre 1 or 6 April 2008 expenditure will qualify for allowances at 20%

Rate Changes

	Current rate (2007/08)	Proposed new rates
Annual Investment Allowance	Not Applicable	£50,000 per annum
First Year Allowances (FYAs)	40% (or 50% if a "small" company)	Not Applicable
Writing Down Allowances	25%	20%
Fixed assets forming a part of a building	25% or 50%	10%*
Long life assets	6%	10%

**The 10% reduced rate will apply to assets that are "integral features".*

Capital Allowances and IBA changes

Impact:

- Mr B owns an industrial building costing £2m
- He uses plant and machinery within his business with Tax Written Down Value of £3m

Capital Allowances

Capital allowance claims 2008

	Pre Budget	Post Budget
Capital allowances (25%/20%)	750,000	600,000
IBA's (4%/3%)	80,000	60,000
	<u>830,000</u>	<u>660,000</u>
Increase on tax at 28%		<u>£47,600</u>

Capital Allowances

Sells Industrial Building for £2m, assuming TWDV of £1.6m

	Pre March 2007	Post March 2007
Balancing charge	400,000	-
Tax charge at 30%	£120,000	-

Annual Investment Allowance (AIA)

- £50,000 AIA from April 2008 onwards.
- For use by both unincorporated and incorporated businesses.
- All plant and machinery up to £50,000, including integral fixtures and fittings, will receive 100% relief in the year of purchase.
- Groups of companies will receive one allowance per group.
- “Use it or lose it” relief.
- Cars will not be eligible for the AIA.
- Energy efficient assets are not within this £50,000

Integral assets/features

- Electrical systems (including lighting systems)
- Cold water systems
- Space or water heating systems, powered systems of ventilation, air cooling or air purification, and any floor or ceiling comprised in such systems
- Lifts, escalators and moving walkways
- External shading and active facades
- 10% Allowance

Industrial Building Allowances and Agricultural Buildings Allowances

- Phasing out over three years
- No balancing charges for sales after 21 March 2007
- Limited relief for purchases post 21 March 2007

Timing of Relief and Changes

- Effective from 1 April for companies and 6 April for unincorporated businesses
- Impact will depend on year end

Example

Small business with 31 December 2008 year end

Expenditure in year:

1 March 2008 Lorry £30,000

1 June 2008 Lathe £45,000

NB: Ignoring any brought forward tax pool

Example Cont...

		Pool	Allowances
Lorry FYA 50%	30,000 (15,000) <hr/>		15,000
		15,000	
Lathe AIA (9 months from 1 April)*	45,000 (37,500) <hr/>		37,500
	7,500		
WDA (3/12x25%) + (9/12x20%)	(1,594) <hr/>		1,594
		5,906 <hr/>	
Carried forward		£20,906 <hr/> <hr/>	
Total allowances			£54,094 <hr/> <hr/>

**Where the period of account is longer or shorter than 12 months then the AIA is pro-rated*

New rules for cars

- Employees benefit in kind has been based on CO₂ emissions since 2002
- Employer's tax relief is to move on to a similar basis
- Delayed until 2009

New rules for cars - current rules

- Maximum £3,000 per annum tax relief for company based on £12,000 expensive car
- Restricted tax relief for leased cars with list price over £12,000
- Currently each car is recorded separately

New rules for cars - new proposals

- Retain 100% tax relief for cars with CO₂ emissions of <110g/km (was 120g/km)
- New general car pool for cars with emission between 111 and 165 g/km
- Separate pool for cars over 165 g/km and reduced allowances
- No lease restriction up to 165 g/km
- www.vcacarfueldata.gov.uk

Energy Efficient Allowances

- 100% allowances for energy efficient assets
- This will be in addition to the AIA
- Assets must be on the approved list see www.eca.gov.uk
- Repayable tax credits on energy efficient capital allowances for loss making companies (19%)

Planning

- When purchasing, building or refurbishing commercial property, need more focus on what qualifies for capital allowances rather than IBA's, previously this was just a timing issue.
- Review past property expenditure
- Ensure AIA is fully utilised. No capacity to carry this forward
- Remember group companies (but not other “associated companies”) will dilute the £50,000 AIA
- It will be possible for one member of the group to claim all the allowances if beneficial
- Consider low emission cars
- Check expenditure against Energy Efficiency website

R&D Tax relief

➤ Changes:

- 125% to 130% for large companies

- 150% to 175% for SME's

➤ SME definition (broadly)

- Less than 500 employees and one of:

- Less than 100m euros turnover

or

- Less than 86m euros balance sheet asset value

- Awaiting effective date of announcement

Investor Reliefs

- EIS maximum annual investment increased from £400k to £500k
- Income tax relief at 20%
- No change to EIS CGT deferral and long term CGT exemption

EMI Share Scheme Changes

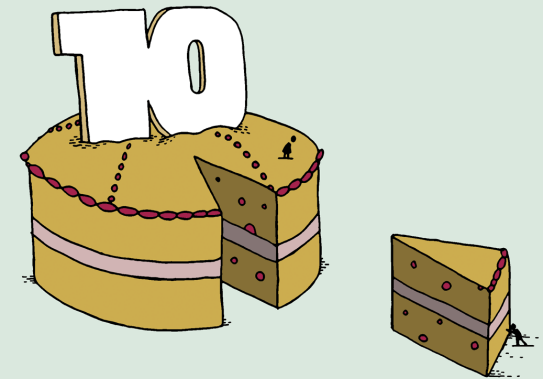
- Limit on value of qualifying options increased from £100k to £120k
- Employee limit to 250 per company
- But- interaction with CGT to consider

The new penalty regime: key principles

Alignment of penalty regimes across all taxes

Match penalties to behaviours consistently

At present does the penalty fit the crime?



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What are the new penalties?

There are now four new categories of behaviour

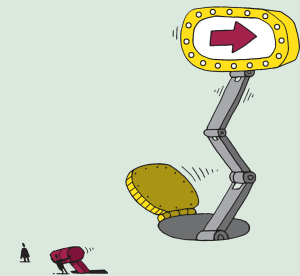
Innocent mistakes

Failure to take reasonable care

Deliberate understatement

Deliberate understatement with concealment

Deliberate suppression of takings would be within category three but the creation of false invoices to suppress profits would be within category four.



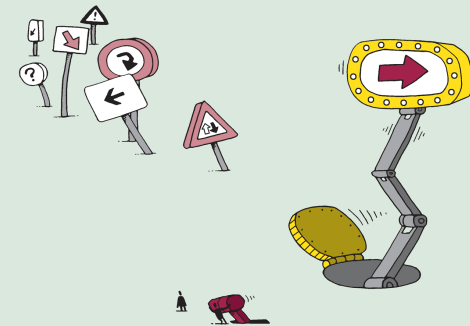
When does the new regime take place?

Appointed day to be specified

But

for returns period commencing after April 2009

Get your house in order now

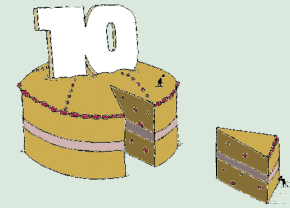


What are the penalty levels?

The basic levels of penalty are as follows:

Innocent mistakes:	0%
Failure to take reasonable care:	30%
Deliberate but not concealed:	70%
Deliberate and concealed:	100%
Reduction and suspension for good “behaviour”!!	

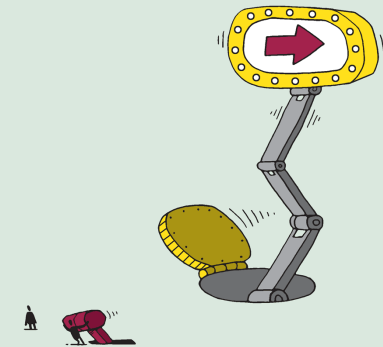
Minimum penalties



	Unprompted disclosure	No unprompted disclosure but co-operation	No disclosure or cooperation
Failure to take reasonable care:	0%	15%	30%
Deliberate but not concealed	20%	35%	70%
Deliberate and concealed	30%	50%	100%

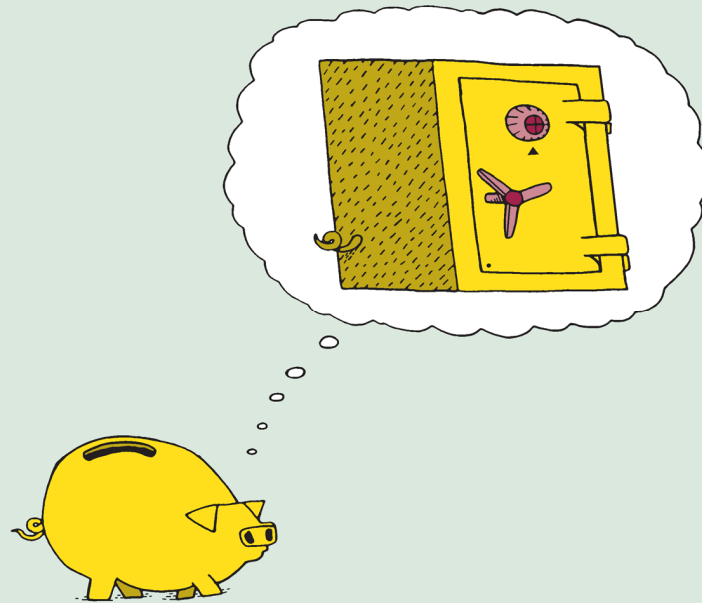
Compliance Checks

- Single set of rules for inspection of records
- Alignment for VAT and PAYE with IT/CGT/CT
- New time limits
 - Mistake: 4 years
 - Discovery: 4 years
 - Failure to take reasonable care: 4-6 years
 - Deliberate understatement: 20 years



“advice you can count on”

Questions?



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