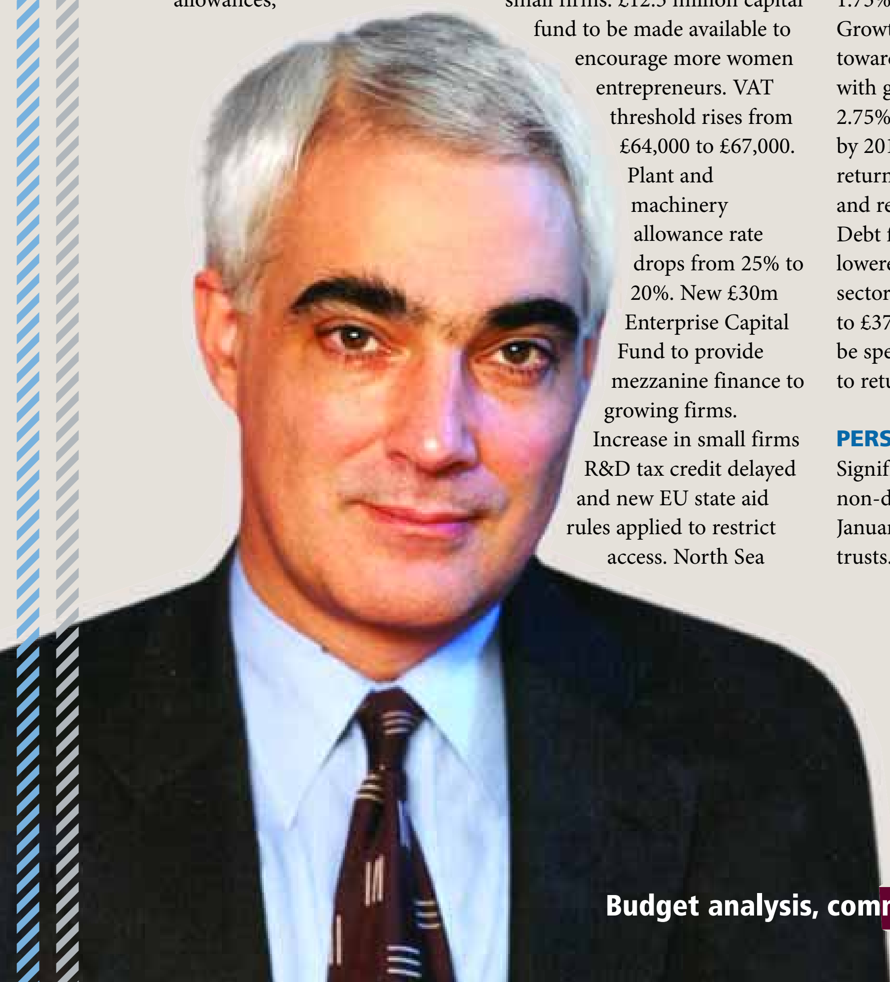
SCOTT-MONCRIEFF
EDINBURGH AND GLASGOW

Budget Briefing

March 2008

In with the old, out with the new

Darling forcasts growth as the rest of the world battens down the hatches.



BUSINESS

From next month, the main corporation tax rate falls from 30pc to 28pc. Small company corporation tax rate rises from 20% to 21%. New capital gains tax rate, 18%, will come in April, including the entrepreneurs' relief, 10% on £1m lifetime allowances, announced in January. Tax crackdown on family businesses delayed until 2009. Annual investment allowance £50,000. £60 million more for Small Firms Loan Guarantee Scheme, which will be extended to all small companies. New target of 30% of government contracts for small firms. £12.5 million capital fund to be made available to encourage more women entrepreneurs. VAT threshold rises from £64,000 to £67,000. Plant and machinery allowance rate drops from 25% to 20%. New £30m Enterprise Capital Fund to provide mezzanine finance to growing firms. Increase in small firms R&D tax credit delayed and new EU state aid rules applied to restrict access. North Sea fiscal regime to be reformed to help incentivise investment and support production. Hotels, industrial and agricultural buildings annual allowance falls from 4% to 3%.

ECONOMY

UK growth will be between 1.75% and 2.25% in 2008. Growth expected to shift towards companies and exports with growth rising to 2.25% to 2.75% in 2009 and 2.5% to 3% by 2010. Inflation will rise before returning to target, 2%, in 2009 and remain on target thereafter. Debt forecast for 2007-08 lowered to 37.1% of GDP. Public sector investment forecast to rise to £37 billion in 2010. £60m to be spent on encouraging people to return to work.

PERSONAL

Significant backtrack on the non-doms proposals set-out in January, particularly on offshore trusts. £30,000 charge for non-doms from April, but no further change in this parliament or the next. From April, ISA investment limits increased to £7,200 with the amount that can be held in cash rising to £3,600.

ENVIRONMENT

Target to reduce carbon emissions by at least 60% by 2050 may be extended to 80%. Legislation to be introduced in 2009 to impose a charge on single-use carrier bags if progress is not made on a voluntary basis. £26 million fund available next year to help homes cut their carbon footprint and energy consumption.

TRANSPORT

From 2009, new bands of road tax for most polluting vehicles. 2p rise in fuel duty delayed until October. Fuel duty to rise by 0.5p per litre in real terms from 2010. Funding set aside to develop the technology for road pricing.

"The core purpose of this Budget is stability now and in future, fairness and opportunity founded on stability and strength".

The Chancellor

Budget analysis, commentary and new tax rates 2008-2009 inside

Becoming greener

Alistair Darling's first Budget message was clear – the UK has to make significant efforts to become greener.

VEHICLES with excessive CO_2 emissions will attract additional tax in a number of ways. Pressure is being applied to supermarkets to control the use of plastic carrier bags, with the threat of future legislation if necessary. There will be new incentives for businesses and households to reduce their overall carbon footprint and support for various energy saving and resource efficiency schemes.

In overall economic terms, the net effect of the various measures produces an increase in revenues for the Exchequer rising steadily over the next three years, raising almost an extra £2 billion by 2010/11, with alcohol duties and vehicle taxes leading the way. Some commentators have already suggested that the overall budget does not quite balance, but, with predicted inflationary pressures, the Exchequer's income will increase automatically, particularly from VAT and payroll taxes.

Many of the measures that will come into effect this April were announced in the Pre-Budget Statement last year and in earlier Finance Acts. However, the Chancellor did not address some controversial areas that have been subject to previous consultation, particularly income splitting in small family companies and the treatment of controlled foreign companies and foreign dividends; announcements are likely in Budget 2009. It had been predicted that this Budget could not contain a great deal of excitement since economically the Chancellor had little room to manoeuvre. Politically some other areas may have been deliberately delayed for re-introduction after the next election.

Small business owners and others had been strongly represented following the proposed capital gains tax changes announced in the Pre-Budget Statement. The original proposals have been watered down considerably with the introduction of Entrepreneurs' Relief.

As previously announced, there is a lifetime limit of £1 million, but there are to be transitional provisions to deal with certain circumstances, for example, gains 'frozen' before 5 April 2008 will also benefit from Entrepreneurs' Relief. This is a welcome clarification. However, some will still miss out, for example certain employee share option holders, who fail to meet the qualifying criteria.

"The Chancellor had little room to manoeuvre."

Also, where a shareholder exchanges private company shares for publicly-quoted shares they may not secure Entrepreneurs' Relief when the public company shares are sold. To address this, it will be possible for individuals to claim Entrepreneurs' Relief at the time they exchange their shares, but they may have to fund their tax liability from the sale proceeds of some of their public company shares.

Businesses will no doubt conclude from the various complex changes to capital allowances that these measures are revenue positive for the Exchequer and not designed to encourage capital investment. The £50,000 investment allowance is of course welcome, but will only really benefit SMEs.

The taxation of individuals is simplified with a reduction in the basic income tax rate from 22% to 20%. However, with the abolition of the 10% tax band, some individuals on lower incomes may suffer disproportionately higher income tax. But, despite the cut in basic rate tax to 20%, charities and community amateur sports clubs making gift aid repayment claims will be entitled to a transitional relief for qualifying donations, made in the tax years 2008/2009 to 2010/2011, at an effective rate of 22%. ■

paul.renz@scott-moncrieff.com

SCOTT-MONCRIEFF

Residence and domicile

The Government backtracks on proposals set out in draft legislation this January, particularly on offshore trusts.

Remittance basis

IT is confirmed that individuals claiming the remittance basis will lose their personal allowance and CGT annual exemption. Those who have been resident for more than 7 out of 9 tax years need to pay a £30,000 annual levy. Changes now announced include:

- automatic remittance basis for an individual with unremitted income and gains for a year totalling less than £2,000 (originally £1,000);
- children under 18 do not have to pay the £30,000 levy;
- if the £30,000 is paid directly to HMRC from an offshore account it will not be a taxable remittance;
- there is an attempt to re-characterise the levy as tax to assist relief under double tax treaties;
- a non-domiciliary choosing to be taxed on the arising basis from 6 April 2008 will get relief for foreign capital losses. If opting in and out of the remittance basis they will be able to make an irrevocable election to get relief for foreign capital losses when taxed on the arising basis.

Remittances

There has been good news in certain areas:

Chattels: the draft legislation in January imposed a tax charge from 6 April 2008 on chattels purchased with offshore investment income and remitted to the UK. Budget statements clarify that:

- there is no tax charge on such assets in the UK on 6 April 2008, or those owned before Budget Day and subsequently brought to the UK;
- there is an exception for personal effects e.g. clothes, jewellery, assets costing less than £1,000 and art brought into the UK for public display;

Offshore mortgages: payments of interest on existing mortgages secured on UK residential property will not now be treated as remittances from 6 April 2008 (subject to certain conditions);

Alienation: there is a narrowing of the definition of 'related' to immediate family (basically spouse/civil partner/cohabitees and their children and grandchildren under 18), but no further details on this provision.

On a less positive note, the Budget confirmed that source ceased income will be taxable if remitted after 5 April 2008.

Offshore structures

- UK resident, non-domiciled settlors are back to not being charged automatically in respect of trust gains.
- Capital payments made to beneficiaries (which may include the settlor) will match to trust gains made after 5 April 2008.
- Such capital payments will now only be charged to tax if remitted to the UK.
- Non-UK resident trustees can make an irrevocable election to rebase all trust assets, including those held in underlying companies, at 6 April 2008.
- There is an indication that the requirement for settlors to disclose existing offshore trusts may have been abandoned.
- There are no significant changes from the draft legislation for individual shareholders of offshore companies. In particular they do not seem to get rebasing of assets.

Residence

From 6 April 2008, if an individual is still in the UK at midnight that will be a day of residence. The exemption for transiting through the UK has been widened. ■

morag.page@scott-moncrieff.com

R&D and Vaccine Research Relief tax credits

IT was announced in Budget 2007 that the rate of relief would increase. It has been confirmed in Budget 2008 that small and medium companies (SMEs) will see their rate of tax credit increased from 150% to 175%. For large companies there is a 5% increase to 130%. However, relief for SMEs' R&D claims or the Vaccine Research Relief scheme is now limited to €7.5 million per project. The Government is also introducing legislation to prevent claims by companies which are not going concerns. ■

Individual loss relief restriction

MEASURES will be introduced from 12 March 2008 to restrict individuals claiming loss relief arising from any trade where they are not actively involved for at least 10 hours per week. The 2007 Finance Act brought in a similar restriction for partnerships. The restricted annual limit is set at £25,000 and is expected to affect a variety of individuals, particularly farming businesses, although there is an exclusion for qualifying film expenditure and losses arising from Lloyd's underwriting. ■

Landfill tax

THE standard rate of landfill tax will increase from £24 to £32 per tonne from 1 April 2008. And again on 1 April 2009 to £40. ■

Insurance premium tax

FOLLOWING a consultation exercise, the requirement for insurers established outside the UK to appoint a UK tax representative will be withdrawn. This will take effect from Royal Assent. ■

Inheritance tax

THE period for taking advantage of the transitional serial interest concession for pre-22 March 2006 interest in possession (IIP) trusts announced in Finance Act 2006 (FA 2006) is extended by six months from 5 April 2008 to 5 October 2008. The FA 2006 changed the IHT rules for IIP trusts, bringing their tax treatment into line with discretionary trusts under the relevant property regime with its ten yearly and exit charges. A transitional period allowed existing IIP trusts to substitute a transitional serial interest.

The relevant date for taking action on Accumulation and Maintenance Trusts remains 5 April 2008. ■

Tax-efficient investments

ENTERPRISE management incentives: For EMI options granted after 5 April 2008, the employer company must have fewer than 250 employees, pro-rated for part-time employees on a just and reasonable basis, and the individual limit on grants of qualifying options will be increased to £120,000 from £100,000.

Venture capital schemes: For shares issued or money raised after 5 April 2008, shipbuilding and coal and steel production is excluded from the Enterprise Investment Scheme (EIS), the Corporate Venturing Scheme (CVS) and the Venture Capital Trust Scheme (VCT).

Subject to approval of this change by the European Commission, the maximum EIS investment qualifying for income tax relief is increased to £500,000 for 2008/2009 from £400,000. ■

VAT

The Chancellor announced various and substantial changes.

VAT registration

From 1 April 2008, the taxable turnover threshold for VAT registration will increase from £64,000 to £67,000, while the deregistration threshold will increase from £62,000 to £65,000.

Correction of VAT errors

From 1 July 2008 the limit for disclosing errors to HMRC on VAT return forms has increased from £2,000 to the greater of either £10,000 or 1% of turnover, with an upper limit of £50,000. Similar increases will apply to other indirect taxes.

Staff hire concession removed

HMRC currently allows a concession whereby, in certain circumstances, employment businesses need only charge VAT on their profit margin. The concession will be withdrawn from 1 April 2009. This will have a significant impact on the way employment businesses account for VAT. It will also have a knock-on effect for businesses hiring staff such as welfare institutions and charitable organisations, who will incur increased VAT on these services following this charge.

Time limit for VAT claims

Following HMRC's recent defeat in the cases of Fleming and Conde Nast concerning the '3 year cap', claims for output VAT overpaid before 4 December 1996 and input VAT underclaimed before 1 May 1997 can now be submitted. Claims can be made for VAT periods going back to 1 April 1973.

HMRC has announced that all VAT claims for the above periods must be received by 31 March 2009, after which time the entitlement to make a claim will be lost.

Fuel scale charges

From 1 May fuel scale charges for businesses that recover input tax on fuel used for private motoring have been amended to account for changes in fuel prices. Full details can be found on our website.

Property: option to tax

A COMPLETE re-write of the option to tax legislation will be introduced from 1 June 2008. A new guidance notice, which will have the force of law, will also be published by HMRC. The new legislation will introduce a number of important changes to the option to tax, including:

- rules concerning the revocation of options;
- options made by VAT groups; and
- a new type of option covering multiple properties.

The changes are intended to simplify the highly complex option to tax rules and to deal with a number of common problem areas. They will be of particular interest to businesses in the property sector, but will potentially have an impact for any business with property interests.

Fund management

Following HMRC's defeat in the JP Morgan Fleming Claverhouse case last year, the exemption for fund management services is to be extended to include the management of:

- UK listed closed-ended investment entities which invest in securities; and
- non-UK established funds recognised under the Financial Services & Markets Act 2000.

This will extend the exemption to include management of investment trust companies, which was the subject of the JP Morgan case, and venture capital trusts. The new rules will apply to fund management services supplied on or after 1 October 2008.

Managers of these funds should note that, by making exempt supplies, a restriction on the recovery of input VAT will be suffered under the partial exemption rules.

Although the changes will be introduced on 1 October 2008, HMRC has previously announced that the exemption for the management of investment trust companies can apply retrospectively. The same is likely to be true for the management of other funds covered by these changes. Managers should therefore consider submitting claims for VAT overpaid on these services. Similarly, qualifying investment funds should also consider submitting claims to investment managers for overpaid VAT. Any claims should be submitted as soon as possible, due to the three year time limit for claims. ■

scott.craig@scott-moncrieff.com

Capital allowances

A number of measures were announced in 2007 which only take effect from 1 April 2008 (for companies) and 6 April 2008 (for individuals).

THE main rate of writing down allowances is to go down from 25% to 20% per annum. First year allowances, currently available to small enterprises at the rate of 50% and medium-sized enterprises at 40%, are to be replaced. All businesses will be able to claim a new annual investment allowance of 100% on the first £50,000 of expenditure.

There is a phased withdrawal of industrial and agricultural buildings allowances (formerly 4% per annum) although there will be no balancing adjustments on a sale of the asset. There is an increase in the allowances available on long life assets from 6% to 10%. At the same time, there is a separate classification of fixtures integral to a building which will qualify for the 10% allowance. Some of these costs would have previously attracted plant and machinery allowances at 50%, 40% or 25%, but others would have been part of the building, only eligible for either no allowances or 4% industrial buildings allowance.

There will also be a new list of energy efficient and water saving expenditure which will qualify for 100% allowances, whereas capital allowances for fire safety alterations to buildings has been withdrawn.

"Energy efficient and water saving expenditure will qualify for 100% allowances."

100% allowances on very low emission new cars have been extended from 2008 to 2013, although emission levels have been tightened.

There is a special new proposal for companies with 100% allowances available on energy saving or environmentally friendly plant to surrender these for payment as a tax credit when they cannot immediately make use of them because they are making losses and not paying tax.

Taxpayers with small balances on their capital allowance pools of no more than £1,000 will be permitted to write these balances off in one year.

New measures will be introduced to prevent certain companies who sell trades from claiming large balancing allowances when the market value of plant and machinery is less than the tax written down value. ■

david.boyd@scott-moncrieff.com

Business tax matters

Investment funds

Offshore investment funds which annually claim 'distributor status' with HMRC are required to distribute at least 85% of their income each year if they want to retain the favourable CGT status for unit holders. New rules will relax this requirement. Instead of distributing 85% of their income they can instead report the distributable income to unit holders, who will then be required to include it on their UK tax returns. The distribution test is also relaxed. This will leave additional funds in the offshore fund for reinvestment.

Investment manager exemption

Investment managers and non-residents trading in the UK through such managers benefit from exemption from UK tax on the profits of the underlying transaction in certain circumstances. The rules are to be simplified to add certainty to the investment managers' tax status; it will be easier to identify the appropriate transactions and to remove and simplify some of the definitions associated with this legislation.

Associated companies

From Royal Assent, the rules for deciding how many associated companies you have for the purposes of the small company corporation tax rate band limits are relaxed. If you are a company shareholder and also a member of a business partnership you will not be associated with any companies owned by your fellow business partners.

Trading stock

It has long been accepted practice that goods taken from trading stock by owners should be taken at market value for tax computation purposes. This is now confirmed in statute and also covers other similar circumstances. ■

paul.renz@scott-moncrieff.com

Tax Calendar

April

5 End of tax year
Last day to make retirement annuity payments to carry back to previous tax year. Last day to maximise ISA contributions.

6 Electronic filing of end of year returns
Employer now able to voluntarily file end of year returns and tax payments online.
Compulsory (depending on size) 5 April 2005 onwards.

14 Income tax for companies and CT61 due for quarter to 31 March

19 PAYE/NIC for 4th quarter due
Last day to pay PAYE/NIC before interest is charged.

19 Construction Industry monthly return due

May

3 P46 (CAR) due for quarter to 5 April
Quarterly filing date for notification of change of car.

19 Deadline for PAYE forms P35/P14/P38/P38A returns
Statutory date is 19 May. There is however an extra statutory concession that provides that automatic penalties will not apply where employers end of year returns are with the IR within seven days following the statutory filing dates.
Significance: Automatic penalty of £100 for every 50 employees (or part of 50) for each month or part of month the return is late.

19 Construction Industry monthly return due

31 Deadline for giving P60s to employees
Details pay and tax to the year ended the 5 April. The employer must include detail of any employee working for them on the 5 April by the deadline or face penalties.
If the employer fails to provide this form or the amount of tax involved is significant a penalty of up to £300 per form is imposed. A further penalty of up to £60 per form per day can be imposed where the failure continues.

June

19 Construction Industry monthly return due

30 End of CT61 quarter

July

6 Deadline for P9D, P11D and Form P11D (b)
The date by which the form detailing employee benefits such as company cars, cheap loans or medical insurance should be filed with revenue by employer.
Failure to file by due date can give rise to a penalty of up to £300 per form with a further penalty of up to £60 per form per day that the failure continues. A maximum penalty of £3,000 per form can be imposed where the form is incorrect or incomplete.
Form P11D (b) due for submission.

6 Share Scheme returns to the Inland Revenue
The date by which returns should be made to Inland Revenue setting out details of shares or options or changes therein granted to employees by reason of their employment in the previous tax year.

14 Income tax for companies and CT61 due for quarter to 30 June

19 PAYE/NIC for 1st quarter due

19 Payments of Class 1A NIC as shown on form P11D(b)
Penalty £100 for each month (or part month) for every 50 (or up to 50) employees.

19 Construction Industry monthly return due

31 Self Assessment payment on account
Second payment of self assessment income tax is due by 31 July. Interest on late payment. Plus second automatic late filing penalty £100.
Last day to pay any balance of self assessment tax due or a further 5% surcharge will be levied.

August

2 P46 (CAR) due for quarter to 5 July
Quarterly filing date for car change notification.

19 Construction Industry monthly return due

September

19 Construction Industry monthly return due

30 Filing of tax return for IR calculation
Individuals who want HM Revenue & Customs to calculate their tax liability – as they did before self-assessment – must file their tax return for the year ending 5 April by this date.
Also, the deadline for submitting paper returns where there is a tax underpayment of £2,000 or less, which the taxpayer would like collected via his PAYE coding rather than being paid direct on 31 January.

30 End of CT 61 quarter

October

1 Corporation tax due for accounting period ended 31 December

5 Anyone who has a tax liability and has not received a tax return must inform the IR by this date or be liable to a penalty which could equal tax due on 31 January.
Also, deadline for investing in EIS and relating 50% back to previous tax year.

14 Income tax for companies and CT61 due for quarter to 30 September

19 PAYE/NIC for second quarter due.
PSA tax and Class 1B NIC due
Payment of PAYE settlement agreement liabilities. Interest on late paid amounts.

19 Construction Industry monthly return due

November

Pre Budget report
Over the past few years, the Chancellor has given an autumn Pre Budget Report, around late November or early December, with some measures taking immediate effect.

2 Form P46 (CAR) due for quarter to 5 October
Quarterly filing date for change of car notification.

19 Construction Industry monthly return due

December

Party Season £150 tax free per employee for party.
Tax is due on the full amount by the employee via form P11D unless the employer enters into a PAYE.

19 Construction Industry monthly return due

25 Receiving financial gifts. Tips on what to do with a windfall – contact us

30 Deadline for self-assessment online
Three months later than the paper deadline. This deadline aims to encourage more people to file their returns online.
Revenue will calculate your tax liability and underpayments of up to £2000 can be coded out rather than paid direct on 31 Jan.

End of CT61 quarter. Filing deadline for corporation tax return CT600 for accounting period ended 31 December

January

19 Construction Industry monthly return due

31 File tax returns
Final date to settle the balance of tax due for the year to 5 April previous, and the first payment on account of tax for the current tax year, if applicable. Automatic penalty of £100 for late returns.

31 Gift aid donations
Deadline to carry back gift aid contributions to the previous year.

February

2 P46 (CAR)
Quarterly filing date for notification of change of car.

19 Construction Industry monthly return due

28 Self assessment 5% surcharge
Surcharge on tax due 31 Jan but still not paid by 28 Feb.

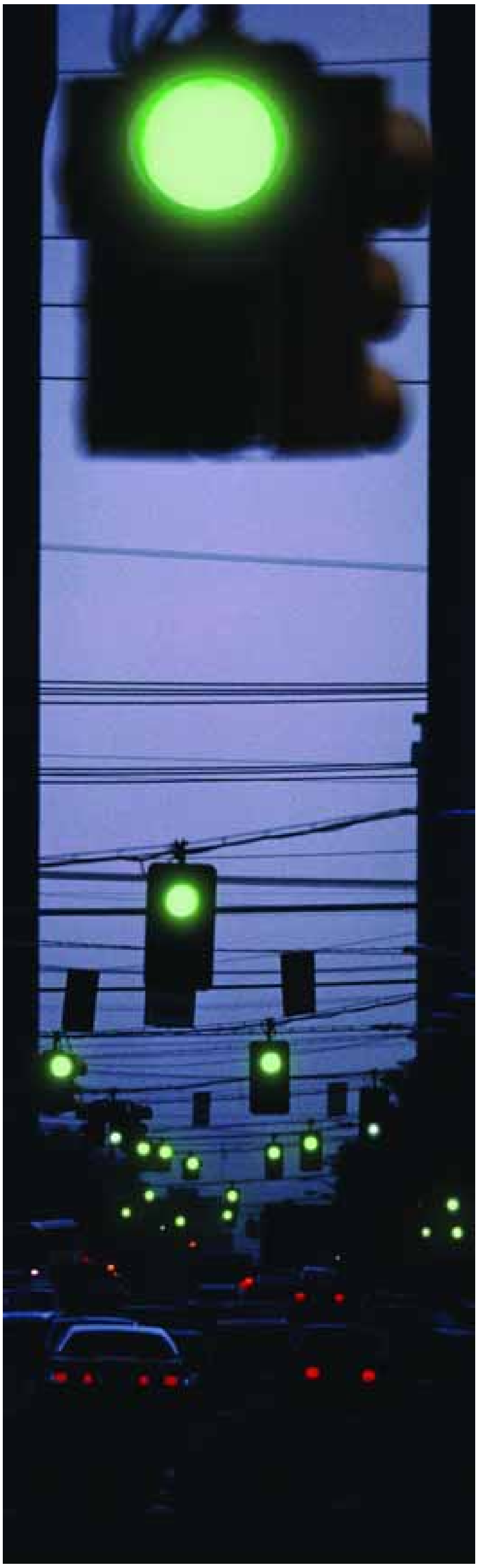
March

Approach of the end of the financial year
Time to get financial affairs in order and put those important dates in your diary.

ISA, EIS, VCT
Although VCT's and EIS's are not April dependent in all circumstances, a number of providers often close schemes on a tax year basis as with Film Partnerships.

19 Construction Industry monthly return due

SCOTT-MONCRIEFF



Showroom tax

Chancellor shows credentials by targetting gas guzzlers and reducing tax on green cars.

TAX BAND (by CO_2 emmisions)	CAR	SHOWROOM TAX (AS OF 2008)	ROAD TAX (AS OF 2008)	ROAD TAX (AS OF 2010)
M Over 255 g/km	Porshche Cayenne S Mercedes E-Class estate S211 Vauxhall Signum 2.8i V6	£950 £950 £950	£400 £400 £400	£455 £455 £455
L 226 - 255 g/km	Renault Espace 2.0 VW Sharan 2.0S Chyrysler Voyager 2.4	£750 £750 £750	£400 £400 £400	£430 £430 £430
K 201 - 225 g/km	Honda Accord Saloon 2.4 Ford Mondeo 2.5 Duratec Lexus IS250 Saloon	£550 £550 £550	£210 £210 £210	£310 £310 £310
J 181 - 200 g/km	Ford Focus 2.0 Duratec VW Passat Estate 1.8 TSI Peugeot 308 1.6	£425 £425 £425	£210 £210 £210	£270 £270 £270
I 171 - 180 g/km	Citroen C3 1.61 16v Ford Fiesta 1.6 Duratec Vauxhall Zafira 1.6i	£300 £300 £300	£170 £170 £170	£210 £210 £210
H 161 - 170 g/km	Vauxhall Corsa MY2007 3 Door Skoda Octavia Hatchback Ford New Focus 1.8 Duratec	£250 £250 £250	£170 £170 £170	£180 £180 £180
G 151 - 160 g/km	Vauxhall Astra MY2007 3 Door Hyundai i30 1.6 Peugeot 207 1.4	£155 £155 £155	£145 £145 £145	£155 £155 £155
F 141 - 150 g/km	Fiat Grande Punto 1.4 16v Renault Clio Campus Sport 1.2 16v Ford Ka 1.3 Duratec	£125 £125 £125	£120 £120 £120	£125 £125 £125
E 131 - 140 g/km	Diahatsu Sirion M301 1.3l Volkswagen Polo 1.2 Citroen C2 1.1i	£115 £115 £115	£120 £120 £120	£115 £115 £115
D 121 - 130 g/km	Toyota Yaris 1.0 VVT-i Honda Jazz 1.2i-DSI s Renault Modus 1.5dCi 106	£0 £0 £0	£120 £120 £120	£95 £95 £95
C 111 - 120 g/km	Daihatsu Charade L251 1.01 Efi SMART fortwo coupe Fiat Grande Punto 1.3 16v Multijet	£0 £0 £0	£35 £35 £35	£35 £35 £35
B 101 - 110 g/km	Toyota Aygo 1.0 Peugeot 107 1.0 Skoda Fabia Estate 1.4TDI PD	£0 £0 £0	£35 £35 £35	£20 £20 £20
A up to 100 g/km	Seat Ibiza 1.4 TDI Ecomotion VW Polo 1.4TDI Bluemotion	£0 £0	£0 £0	£0 £0

Source: Vehicle Certification Agency

Scott-Moncrieff (www.scott-moncrieff.com), one of Scotland's leading independent professional services firms, provides industry-focused audit, tax, business advisory and corporate consulting services for commercial, public, not-for-profit and private clients.

Scott-Moncrieff Chartered Accountants is registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants of Scotland.

Unsubscribe: Should Budget Briefing be of no interest to you in the future, please e-mail **kelly.drew@scott-moncrieff.com** or write to her at Scott-Moncrieff, 17 Melville Street, Edinburgh EH3 7PH and she will arrange to remove you from our Budget Briefing distribution list.