



Wilton Group

UK Budget 2008

(A Brief Summary)

BUSINESS TAX

Corporation Tax Main Rate

As of 1 April 2008 the main rate of corporation tax will fall from 30% to 28%

From financial year 2008 the main rate of corporation tax will change to 28% where a company's profits are above £1,500,000

Corporation Tax Small Companies' Rate

The small companies' rate of corporation tax is to be progressively increased from 20% to 21% by Finance Year as of 1 April 2008.

From 1 April 2009, the small companies' rate will increase to 22% from 21% with; the new current marginal relief fraction is 7/400 (2008) which will change to 1/40 (2009).

This change was flagged up in the 2007 budget. HMRC has stated that this is a deterrent against tax motivated incorporation, but it may be seen as a balance to keep a tax neutral benefit.

Capital Allowances

Plant and machinery allowances

From 2008/09 the main rate of allowances will be reduced from 25% to 20% p.a. on a reducing balance basis.

The rate of allowances for fixtures such as cabling and air conditioning which are integral to a building will be reduced from 25% to 10%.

Allowances for long life plant and machinery will be increased from 6% to 10%.

The reduction to 20% will as stated above set off (for some clients) the reduction in the main corporation tax rate.

First year allowances/annual investment allowance

First year capital allowances (FYA) for small business spending on plant and machinery will be replaced in 2008/09 by a new Annual Investment Allowance (AIA), which will be limited to the first £50,000 of expenditure. Any further sums spent over the AIA limit will be dealt with in the normal capital allowance regime, where the expenditure will attract writing down allowance at the appropriate rate.

Green technologies

From 2008/09 a cash tax credit will be introduced for losses resulting from capital expenditure on certain designated 'green technologies'. The credit will be equal to 19% of the loss attributable to 100% First Year allowances incurred from 1 April 2008. This subject to a maximum of £250,000 or the company's total PAYE and NIC liability in the same period.

The period for the 100% capital allowances on new cars with a carbon dioxide emission of less than 120 gram per kilometer has been extended to 31 March 2013.

Research and Development (R&D) Tax Relief Schemes

The 2007 Budget announced the welcome increase to the rates of relief. These increases have now been confirmed. In addition, following ongoing negotiations with the European Commission, the Government again introduced an extension of the Small Medium Enterprises relief to companies with up to 500 employees.

Small Medium Enterprises directly undertaking qualifying R&D activities are currently eligible for an enhanced deduction of 150% of the qualifying R&D expenditure or the company can claim a cash credit if it is in a loss position and has paid sufficient PAYE. The enhanced deduction as previously flagged in the 2007 Budget will rise to 175% in year 2008/2009.

Capital Gains

In his Pre Budget report the UK Chancellor announced that he was abolishing Business Asset Taper Relief (BATR) and bringing in a flat rate of Capital Gains tax of 18% for all personal taxpayers. This is to apply from 6 April 2008. As a concession to the pressure made by various business and accountancy bodies an Entrepreneurs Relief (ER) has been proposed: -

ER provides relief for individuals (and for trustees of certain types of settlements) who dispose of an interest in their business. There is a lifetime allowance of £1 million, with everyone having a 'clean sheet' on 6 April 2008 so that the lifetime allowance is not impacted by disposals made prior to that date.

When ER applies, gains within the lifetime allowance will be taxed at an effective rate of 10% rather than at the normal 18% rate. Gains in excess of the lifetime allowance will be charged at 18%.

It has not been indicated as to whether the lifetime allowance will increase with inflation.

UK Resident Non Domiciles

The Chancellor confirmed that the proposals announced in the Pre-Budget Report will go ahead with the introduction of a £30,000 charge on some non-UK domiciled individuals wishing to be taxed on the remittance basis, with effect from 6 April 2008. Changes to the test of individual residence will also be made. However, the Government has responded to representations and the legislation to be introduced addresses many of the concerns raised.

Annual £30,000 charge

The annual charge will apply to non-UK domiciled adults who have been resident in the UK for seven out of the past 10 years who claim to be taxed on their foreign income and gains on a remittance basis. The charge will not apply to children until the year in which they attain the age of 18.

In response to concerns as to how the charge would be treated for the purposes of relief under double taxation agreements (DTAs), the charge will now be either a charge to income tax or to capital gains tax. The charge should therefore be treated as tax for the purposes of DTAs and will also be available to cover gift aid donations.

Provided the £30,000 charge is paid direct from an individual's offshore account to HMRC it will not be taxed as a remittance unless and until it is repaid to the individual.

Allowances and the remittance basis

The charge will not apply where the unremitted foreign income is £2,000 or less, an increase on the £1,000 originally included in the draft legislation in January 2008. This has gone some way to compensate for the fact that, under the new regime, individuals claiming the remittance basis, whether or not they come within the annual charge, will lose both their personal allowances and their capital gains tax annual exemption. Having regard to the level of these allowances, the de minimis figure does not compensate for their loss.

Legislation will be introduced in Finance Bill 2008 to close down various methods by which non-doms were able to remit income and gains to the UK tax-free. Most of these changes will take effect from 6 April though some are effective from 12 March 2008.

Residence test and day counting rules

The PBR 2007 introduced a proposal whereby both days of arrival in and departure from the UK would count when considering the resident status of an individual. These proposals were contrary to the approach adopted by the Special Commissioners in the recent tax case of *Gaines-Cooper*. Following representations, the new provisions, effective from 6 April 2008, will only include days that an individual is present in the UK at midnight as a day of presence in the UK.

The exemption for transit passengers will be extended to individuals who need to change terminals when transiting the UK and will allow people to switch between modes of transport, such as arrival by train and departure by air. However, the exemption will not cover passengers who undertake activities that are not to a substantial extent unrelated to their passage through the UK. So executives holding business meetings at the airport will not benefit from this relaxation.

Non-UK resident trusts

The extensive changes to the taxation of non-UK resident trusts created by non-doms, set out in the draft legislation published on 18 January 2008, have been revised. The new proposals will affect all beneficiaries, irrespective of their domicile, of certain offshore trusts which have 'stockpiled gains', these are crystallised gains which are taxable when a beneficiary receives a capital payment or benefit. Currently non-UK domiciled resident individuals are exempt from tax on gains realised in offshore trusts, even if they receive a benefit in the UK. This exemption will no longer apply from 6 April 2008 for non-dom beneficiaries receiving a benefit or capital payment in the UK.

The new legislation will not tax non-dom beneficiaries who receive capital payments before 6 April 2008 and will not catch future payments where these are matched to trust gains that have been realised before 6 April 2008. Non-resident trustees will be able to make an election for the trust assets to be rebased to their market value as at 6 April 2008, so that trust gains that have not been realised by that date will not be taxed on non-dom beneficiaries. This will also apply to assets held by companies underlying the offshore trusts.

The draft legislation originally contained rules that would have charged UK resident settlors to CGT on an arising basis where the trust disposed of UK assets. This proposal has been abolished.

TAX PLANNING ISSUES

International Issues

As stated above the government have been announced changes in respect of non UK domicile persons and the favourable tax position enjoyed by many non domicile persons residing in the UK has been eroded.

The concessions made by the UK government have take away the most contentious issues but it is important to ensure that action is taken prior to 5 April 2008 to ensure that the best position possible for non domiciles continuing to reside in the UK is available.

Capital Gains Tax

The abolition of Business Asset Taper Relief on 5 April 2008 and the introduction of the flat rate charge of 18% is an opportunity to review both business and non business assets as there will be “winners” and “losers” dependant on the asset held. A full review of your assets should be undertaken so that advice can be given on potential disposal.

PERSONAL TAXATION AND NATIONAL INSURANCE

The basic rate of income tax will be reduced to 20% from 2008-9 and the starting rate of 10% will cease to apply to most sources of income.

The Upper Earnings Limit (UEL) for employee’s Class 1 NICs for 2008-09 will be increased by £75 pw (£3,900 for the year) above indexation. The Class 4 National Insurance Upper Profits Limit (UPL) for the self employed will also be increased by the same amount.

The following year, the Basic Rate Limit will be increased by a further £800 above indexation, and both the UEL and the UPL will be aligned with the new point at which the higher rate of tax becomes payable after personal allowances have been taken into account.

Whilst the headlines showed a tax cut of 2% on the basic rate ending of the 10% starting rate and the increase in the upper earnings limit for Class 1 NIC will negate the 2% tax reduction.

Income Tax Allowances Table

Income tax allowances	2007-08 (£)	2008-09 (£)
Personal allowance	5,225	5,435
Personal allowance for people aged 65-74 (1)	7,550	9,030
Personal allowance for people aged 75 and over (1)	7,690	9,180
Married couple's allowance (born before 6th April 1935 but aged under 75) (1) (2)	6,285	6,535
Married couple's allowance - aged 75 and over (1) (2)	6,365	6,625
Income limit for age-related allowances	20,900	21,800
Minimum amount of married couple's allowance	2,440	2,540
Blind person's allowance	1,730	1,800

(1) - These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic Personal allowance or minimum amount of Married Couple’s allowance.

(2) - Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

Taxable Bands

The Chancellor announces the taxable bands and the rates of tax at the Budget Report which precedes the start of the tax year to which they relate. Generally speaking, Budget takes place in March.

Taxable Bands table

Taxable Bands Allowances	2007-08 (£)	2008-09 (£)
Starting rate 10%	0 - 2,230	
Basic rate 22%	2,231 - 34,600	0-36,000
Higher rate 40%	over 34,600	over 36,000

National Insurance

National Insurance - Rates and Allowances

£ per week	2007-08	2008-09
Lower earnings limit, primary Class 1	£87	£90
Upper earnings limit, primary Class 1	£670	£770
Primary threshold	£100	£105
Secondary threshold	£100	£105
Employees' primary Class 1 rate between primary threshold and upper earnings limit	11%	11%
Employees' primary Class 1 rate above upper earnings limit	1%	1%
Class 4 lower profits limit	£5, 225 per year	£5, 435 per year
Class 4 upper profits limit	£34, 840 per year	£40,040 per year
Class 4 rate between lower profits limit and upper profits limit	8%	8%
Class 4 rate above upper profits limit	1%	1%

TAXATION

Capital gains tax

The capital gains tax annual exempt amount is increased to £9,600 for the tax year 2008-09.

Every husband, wife, civil partner and child has his or her own £9,600 annual exempt amount.

Inheritance tax

Inheritance tax is charged on the estate of a deceased person. The total value of an estate is calculated and any Potential Exempt Transfers (PET's), for example monetary gifts, made from the estate in the previous 7 years are deducted from the nil rate band, currently set at £300,000. The unused proportion of the nil rate band is then deducted from the total value of the estate at death and the remaining estate is taxed at 40%.

In the past the nil rate bands were attached to each individual's estate and could not be transferred. From 9 October 2007 it is possible to transfer the unused portion of an individual's nil rate band to their spouse on death. Assuming the deceased did not utilise any of their nil rate band the surviving spouse would now have a personal nil rate band of £600,000.

In the interests of fairness the Chancellor announced that widows and widowers of persons deceased before 9 October 2007, would also be entitled to receive the unused portion of their deceased spouses' nil rate band.

Please note, it has been announced that by 2010 the individual nil rate band will increase to £350,000 providing a potential combined nil rate band of £700,000.

Inheritance Tax Rates

Taxable Bands Allowances

Taxable Bands Allowances	2007-08 (£)	2008-09 (£)
Nil	Up to £300,000	Up to £312,000
40%	Over £300,000	Over £312,000

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