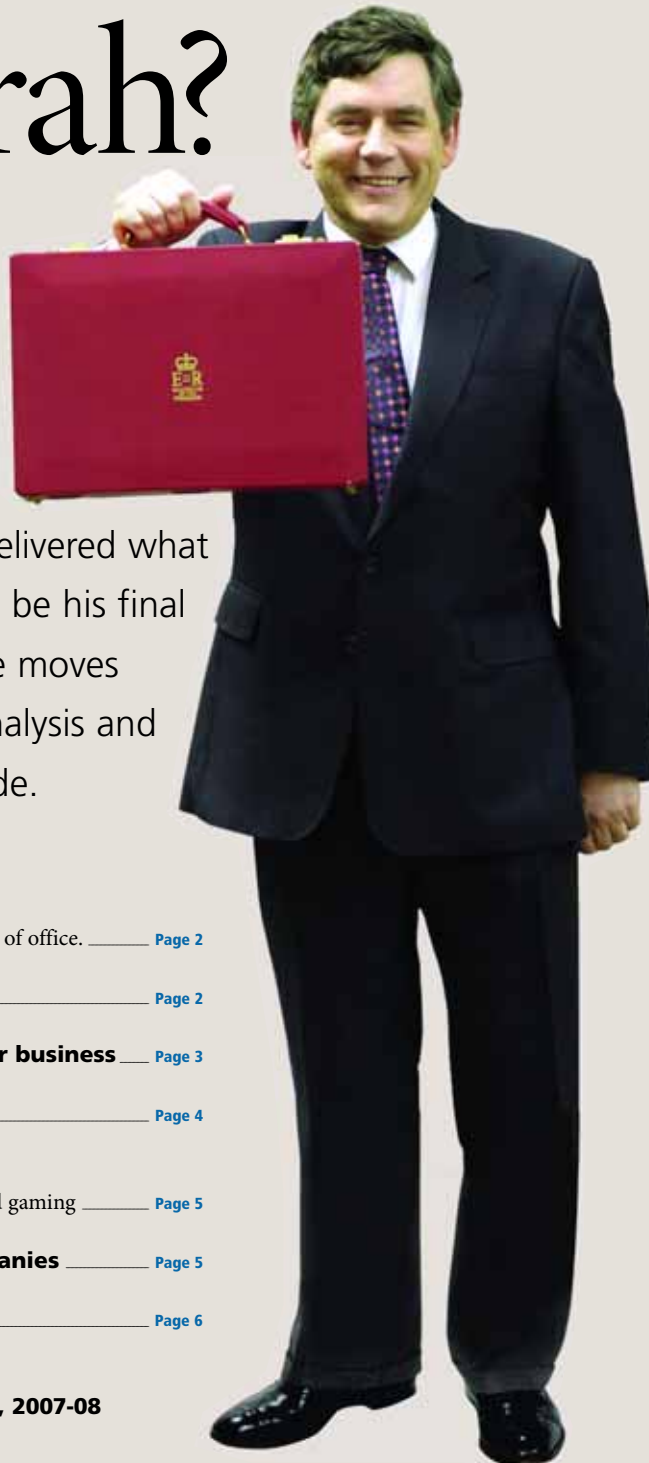




Budget Briefing

March 2007

His last hoorah?



Gordon Brown delivered what many believe will be his final Budget before he moves next door. Full analysis and commentary inside.

Leaving a legacy

An influence beyond his term of office. _____ Page 2

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Tax Diary and Tax Rates, 2007-08

At a glance ...

BUSINESS

Corporation tax cut from 30p to 28p from April 2008. Tax rate on small companies to be raised in three stages from 20p this year to 22p in 2009.

INHERITANCE/CAPITAL GAINS

Tax exemption for capital gains will rise from £8,800 to £9,200, and £18,400 for married couples. IHT threshold to rise from £285,000 to £350,000 in 2010.

INCOME TAX

Basic rate of income tax to fall from 22p to 20p from April 2008. Lower 10% rate to be abolished. Top rate income tax threshold to rise to £43,000 from April 2009.

ECONOMIC OUTLOOK

Inflation on target for 2008 and 2009, according to forecasts. In the last 12 months investment has grown by 6%, business investment by 7% and inward investment by 10%. In 2008 Britain's growth is forecast to be between 2.5% and 3%.

SCOTLAND

Extra £1.835bn to spend, spread over the next three years. North Sea Oil revenues set to fall to zero within a few years, according to the Chancellor.

ENVIRONMENT

All new carbon neutral homes up to £500,000 exempt from stamp duty until 2012. Landfill tax to rise by £8 each year from next April.

TRANSPORT

Fuel duty up 2p per litre from October this year. Road tax on highest-polluting vehicles up to £300 and to £400 from April next year. Duty cut by £35 for least-polluting vehicles.

Leaving a legacy

In his eleventh, and probably last Budget, Gordon Brown left a legacy of measures going forward to have influence beyond his term of office.

THERE was much summarising of economic performance, emphasising low inflation and interest rates and high levels of employment and growth. Economic statistics from 1997 were reported, comparing performance with other G7 countries and, specifically, the USA and Japan.

The background to this year's Budget was emphasised as one of strong economic performance with a determination to maintain economic stability.

There were three key themes to the Budget proposals:

- long-term investment and environmentally sustainable growth;
- encouragement of work and reward for saving; and
- support and strengthening of families.

While there have been reduced revenues from North Sea Oil, even greater savings from efficiencies and monies from asset sales are to be targeted towards front line services of defence, intelligence, education and health.

Increased investment was announced in science and technology innovation with support for research and development in the areas of fuel efficiency and low carbon emissions. A number of "green" initiatives were announced effective in the UK and abroad.

The Chancellor announced a raft of environmental proposals including:

- grants for home insulation and heating for pensioners;
- stamp duty land tax exemptions on carbon neutral new homes costing up to £500,000;
- VAT reductions on energy efficiency in the home;
- increases in landfill tax, the aggregates levy and the climate change levy;
- increases in vehicle excise duties for 4x4s and other high carbon emission vehicles.

Measures were also announced to reduce tax and increase allowances and levels of working tax credits to increase effective minimum wage rates for those returning to full-time employment. Increases were also announced to child allowances, with new initiatives on shared equity housing schemes.

Overall, the Budget was designed to be tax neutral so that reductions in taxation are



broadly recovered by other measures. For example:

- increases in the small companies' rate of corporation tax are to be matched by a reduction in the main rate of corporation tax;
- there have been reductions announced in the basic rate of income tax. But the alignment of income tax and national insurance thresholds has the effect of increasing the overall national insurance cost;
- the capital allowance regime has been simplified and while allowances will be increased on long-life assets, the majority of allowances on plant and machinery will be reduced. In addition, industrial buildings allowances and agricultural building allowances are to be phased out.

And there were the usual significant stings in the tail, hidden in the volume of press releases issued by HMRC. For example, the Finance Bill 2007 will include legislation to allow HMRC to align their definition of recognised stock exchanges with those of the FSA. This could mean that investments in AIM listed companies could receive less favourable IHT and CGT treatment. ■

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HMRC powers

PROVISIONS will be introduced to provide consistent powers within the Police and Criminal Evidence Act for all criminal investigations carried out by HMRC.

The measures, which were available previously to HM Customs & Excise before its merger with the Inland Revenue, will include:

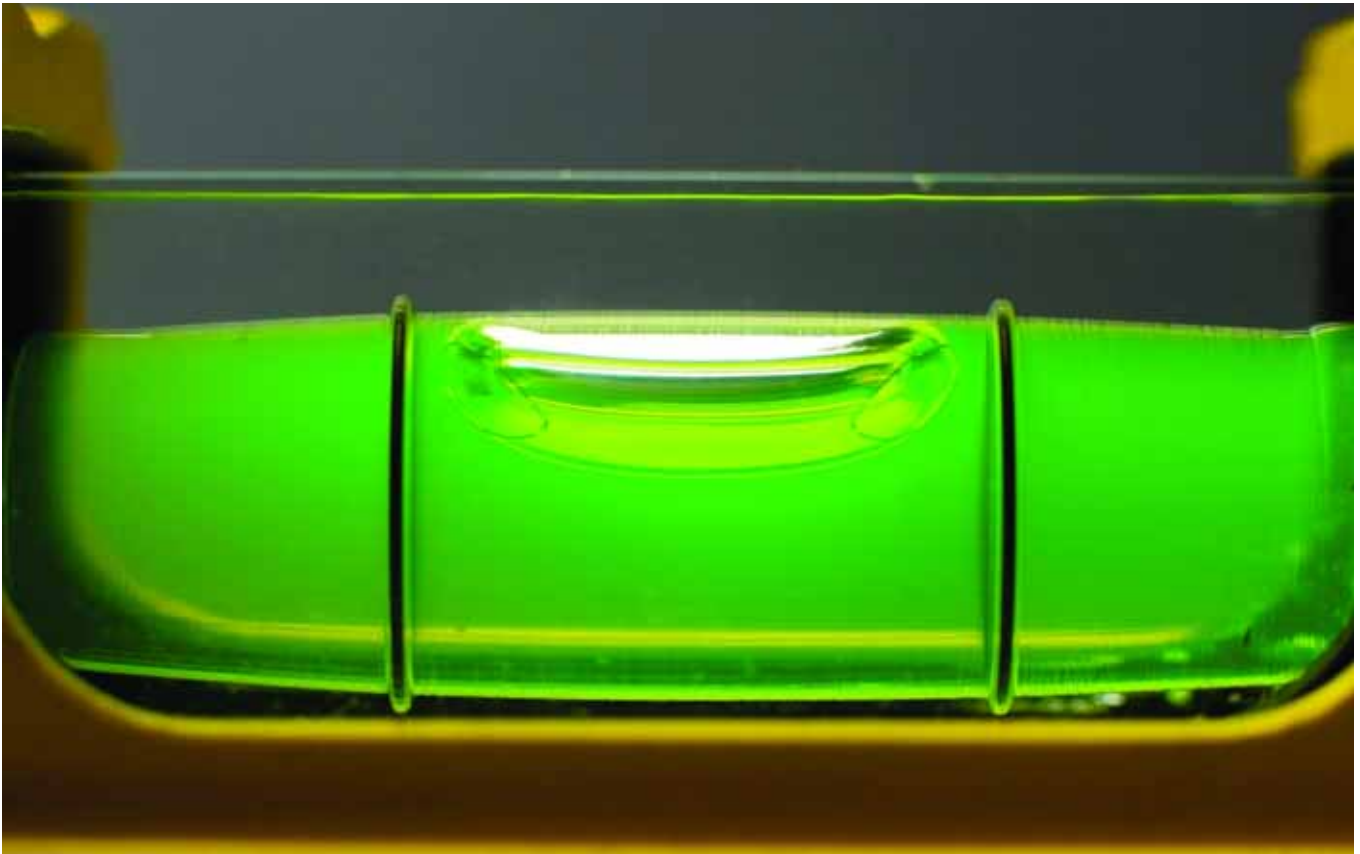
- applying for search warrants;
- Court orders to obtain evidence from people other than the suspect;
- arrest, search and questioning.

A more regimented and transparent penalty regime for all taxes arising from incorrect returns is to be introduced for return periods commencing after 31 March 2008.

As electronic payment of VAT and corporation tax is phased in, the effective date of payment for liabilities settled by cheque is being amended to the date the cheque clears the HMRC account.

The window of time HMRC has to enquire into a return is to be amended to 12 months from delivery of the return rather than from the statutory filing deadline with effect from 2007/08 for individuals and periods ending after 31 March 2007 for companies.

On VAT fraud, the joint and several liability rules that were introduced to combat missing trader fraud will be extended from 1 May 2007 to include a wider range of electronic goods. ■



A 'balanced budget' for business

The Chancellor announced a 2% reduction in the main corporate tax rate to 28% from April 2008, while the small companies' rate rises from 19% to 20% from 1 April 2007, with further 1% rises in April 2008 and 2009.

HOWEVER, very large corporates in ringfenced industries, like oil and gas, will continue to pay at 30% or the 19% lower rate.

For businesses involved at the cutting edge of science and technology looking for R&D tax credits, there are increases from April 2008, up 25% to 175% for small and medium-sized businesses, which will include companies with less than 500 employees, and 5% to 130% for large. But, innovative start-ups need cash not tax credits – cashing in your credit for cash because you have losses leaves you no better off than today.

“look carefully at timing your capital expenditure over the next two years.”

By 2010/11, agricultural and industrial buildings allowances will disappear. Not a huge loss you would think, but don't forget IBAs include major investment infrastructure like tunnels, bridges, highway concessions and hotels, so is this pushing up the tax bill for inward investment? With immediate effect, the complicated rules on the sale of agricultural and industrial buildings are swept away, to be replaced by a simplified regime until their abolition in 2010/11.

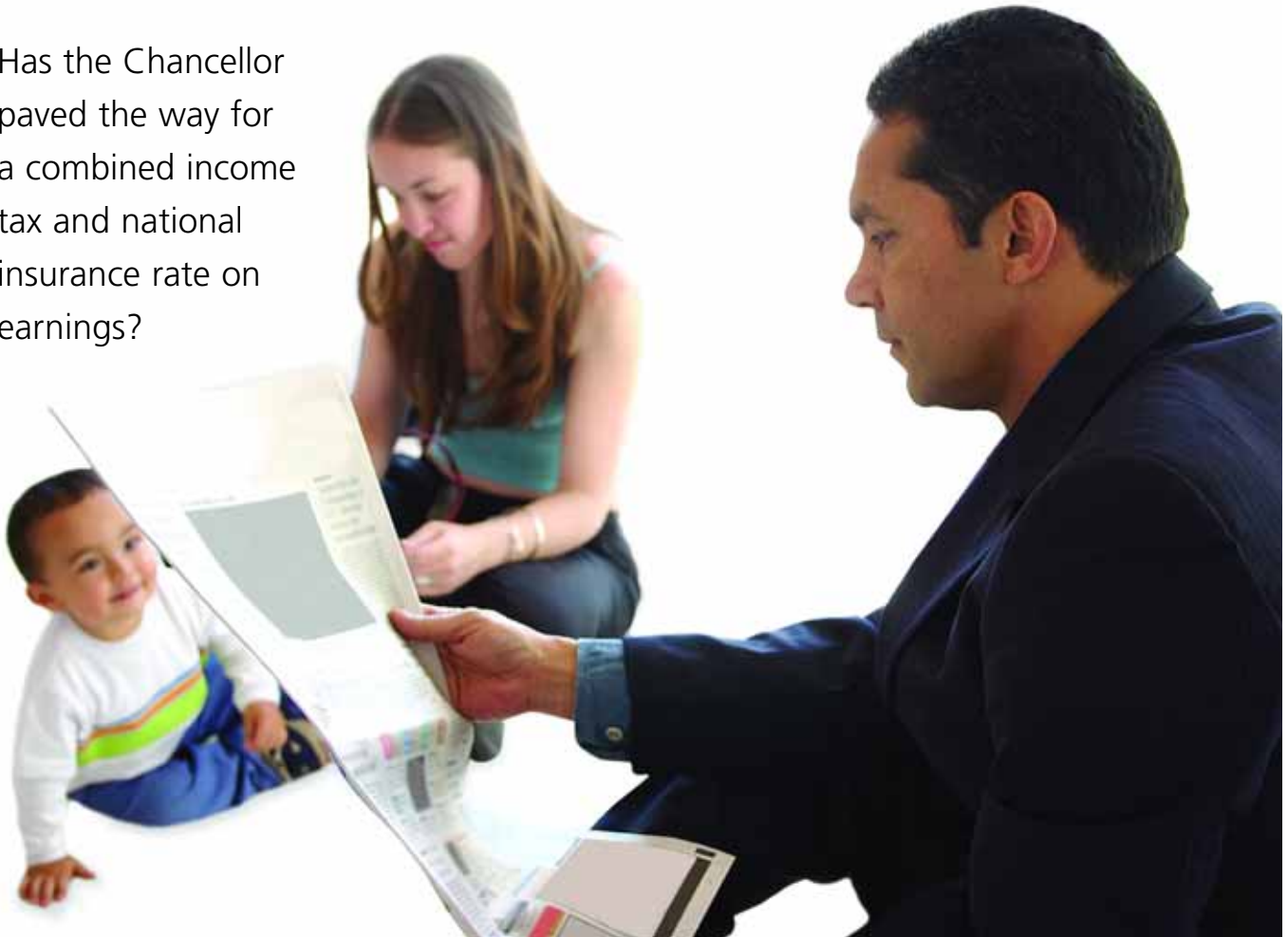
Simplification was Mr Brown's goal, which means either a 10% long-life or integral

fixtures asset pool or a 20% pool for all other plant and machinery from 1 April 2008. This may look like simplification, but it is smoke and mirrors. Long-life assets are written off quicker, but the vast majority of assets now take a further two years before 90% of their value is written off.

To compensate, the first £50,000 of plant and machinery investment from 1 April 2008 will attract a 100% annual investment allowance, balanced with an extension of 50% first year allowances for small business to 1 April 2008 or 40% for larger businesses. So look carefully at timing your capital expenditure over the next two years. Accelerate or defer to maximise allowances. ■
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Personal tax changes

Has the Chancellor paved the way for a combined income tax and national insurance rate on earnings?



FROM 2008/09, a reduced basic rate income tax of 20%, from 22%, will be introduced for earned income, including pensions. The 10% rate will be abolished on the same income, but remains available for savings income. Age-related personal allowances for those over 65 will increase progressively by more than inflation to 2011/12.

The limit on which national insurance is payable will also increase from 2008/09, impacting on the self-employed and wage-earners alike.

The Chancellor announced a large increase in the basic rate and national insurance earnings limit to £43,000 from April 2009. Earnings above that level will be taxed at an effective 41% rate. However, earnings up to that level will be taxed at the reduced basic rate of 20% and also national insurance at 11%, an effective rate of 31%. Currently, national insurance drops from 11% to 1% at £33,539,

whereas aligning the thresholds at £43,000, will mean that taxpayers will suffer 11% national insurance on an additional £9,461.

This is, of course, a significant alignment of national insurance and income tax and perhaps paves the way for a combined income tax and national insurance rate on earnings.

“The Chancellor announced a large increase in the basic rate and national insurance earnings limit”

January. For paper returns an earlier filing date of 31 October will apply.

Various consequential amendments are also to be made including linking the period during which HMRC can open an enquiry to the

actual filing date, rather than 31 January as currently.

Residence and domicile

Once again, it was confirmed that the review of the residence and domicile rules as they affect the taxation of individuals remains ongoing. Whilst the potential outcome of the review is unknown it should be noted that some individuals will be required to provide more detailed information on their background when completing their 2006/07 Tax Return than was the case previously.

Overseas homes

Where an individual has rent-free use of a property owned by a company then, in certain circumstances, a tax liability can arise under the benefit in kind provisions. Legislation will be included in Finance Bill 2008 which will ensure that, provided certain conditions are met, the charge will not apply in relation to overseas property owned via a company. ■ morag.page@scott-moncrieff.com



Indirect taxes

VAT

VAT registration: The taxable turnover threshold for VAT registration will increase from £61,000 to £64,000. The VAT deregistration threshold will increase from £59,000 to £62,000. The new thresholds are effective from 1 April 2007.

VAT fuel scale charges: For VAT periods beginning on or after 1 May 2007, the VAT scale charge for private use of road fuel will be determined by carbon dioxide emissions rather than engine size.

Transfer of a business as a going concern (TOGC):

Where a business is sold as a TOGC, the VAT legislation currently requires the purchaser to retain the business records. From 1 September 2007, this will change so that the seller will normally be required to retain the business records. This will bring the TOGC rules into line with other taxes.

Land and buildings:

The way in which VAT is calculated on the non-business use of land and buildings is to be

amended. This takes effect from 1 September 2007 and will reduce the cashflow benefit of certain VAT planning arrangements.

Other indirect taxes

Insurance premium tax: from 22 March 2007, the definition of 'premium' for IPT purposes changes to confirm that any payment received for the right to require an insurer to provide cover is included.

Remote gaming duty: A new 15% duty on the gaming profits of remote gaming operators is to be introduced. This is expected to take effect from 1 September 2007 and will bring remote gaming into line with general betting duty.

Gaming duty: The Gross Gaming Yield bandings and duty rates for gaming duty will be changed. This will come into effect for six monthly accounting periods starting on or after 1 April 2007. This will increase the effective rate of duty for the majority of casinos to 15%. A new 50% top rate of duty will also be introduced. ■

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Managed service companies

THE Chancellor announced that legislation will be introduced in Finance Bill 2007, which will deem income received by individuals providing their services through Managed Service Companies (MSCs) as employment income.

MSCs will be required to operate and account for PAYE and NIC on all payments received by individuals for services provided through MSCs.

Where an MSC is liable to pay PAYE/NIC, which cannot be recovered from the company,

HMRC will have the power to transfer the debt to the MSC's director, or the person who provided the company to the individual, or, in certain circumstances, to individuals who market such arrangements.

These provisions will apply to all payments received by individuals on or after 6 April 2007.

To fall outside these provisions, individuals will need to ensure that all payments taken in the form of dividends are made by the end of the 2006/07 tax year. ■

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Pre-owned assets

The Finance Act 2007 will allow HMRC to accept late elections.

INEVITABLY taxpayers have sought to effectively reduce their estates for inheritance tax purposes by giving away assets whilst still retaining a benefit from them. Various schemes were created to achieve this. They were so successful that the Government created the pre-owned assets (POAT) income tax charge.

To avoid paying a POAT charge, individuals can elect for inheritance tax treatment on the assets to apply in due course. The time for electing is the same as the self assessment deadline for making a return for the tax year in which the individual is first liable to POAT. The first year of the charge was 2005/6 so the deadline for the election was 31 January 2007.

Although HMRC published Form IHT 500, no regulations prescribing the manner in which the election should be made were in place on 31 January 2007. HMRC are working on them.

Therefore, Finance Act 2007 will allow HMRC to accept late elections. This will apply to 2005/06 cases and to future deadlines where a POAT first arises.

Interestingly, for those who made an election on 31 January 2007 and have subsequently had a change of heart, since the election could not have been in the "prescribed manner" does this mean they can argue the election was ineffective? No doubt a case on the point will arise. ■

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... and a final round up

Tax relief on premiums for personal term assurance

No tax relief has been available on contributions for personal pension term assurance for policies implemented post 14 December 2006. The same now effectively applies for term assurance implemented through occupational pension schemes for policies received by the insurance company after 29 March 2007.

Taxation of pension funds on death

The Government has already decided that any residual pension fund on the death of a member after age 75, when he or she is taking Alternatively Secured Pension, will be subject to both a penalty and inheritance tax resulting in a tax charge of up to 82% of the fund value on death. It is now also consulting on how to ensure that pension funds on death at any stage will not result in tax beneficial funds being passed down to lower generations.

Tax-efficient investment vehicles

Amongst a number of amendments to the rules, the Budget announces some new restrictions affecting qualifying companies under the Enterprise Investment Scheme (EIS), Corporate Venturing Scheme (CVS) and Venture Capital Trusts (VCTs).

A company, or group of companies, raising money under any of the schemes:

- must have fewer than 50 full-time employees, or their equivalents, at the date on which the relevant shares or securities are issued; and
- must not have raised more than £2 million under any or all of the schemes in the twelve months ending on the date of the relevant investment.

For EIS and CVS, the new restrictions apply to shares issued after Royal Assent, probably in July 2007. For VCTs, the new restrictions apply to any investment made from funds raised on or after 6 April 2007.

Definition of listed companies

Certain tax provisions, e.g. business asset taper relief and business property relief, are subject to whether shares are listed on a recognised stock exchange.

Currently the London Stock Exchange is the only recognised UK exchange so, for example, shares on the Alternative Investment Market would qualify as unlisted.

The Finance Bill 2007 will include legislation to allow HMRC to designate as a recognised stock exchange any so recognised by the FSA. Whilst there is no resulting specific change this does give HMRC power to possibly remove some of the tax benefits associated with certain shares on unrecognised exchanges.

Charities

There are currently strict proportionate limits on the benefits donors who make qualifying Gift Aid payments to charities may receive.

These limits are to be increased for donations in excess of £1,000 to 5% and an overriding limit of £500. This measure, which is to be introduced from 6 April 2007, may benefit Community Amateur Sports Clubs and other charities.

New rules are to be introduced from 1 September 2007 to preserve the tax-free status of charitable lotteries, which would otherwise be lost when the 2005 Gambling Act is repealed.

Continued closure of tax avoidance

More changes attack perceived avoidance schemes including:

- employee benefit trusts, by preventing corporation tax deductions on contributions unless the monies are paid out to employees in a way attracting PAYE and NIC within nine months of the relevant accounting period;
- preventing groups buying in companies with unrealised capital gains or losses;
- preventing companies buying losses from corporate Lloyd's insurance members;
- preventing abuse of the Sale of Lessor Companies legislation introduced in the Finance Act 2006. ■

Tax Calendar



April

- 5 End of tax year**
Last day to make pension contributions for the year.
- 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.

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. Construction industry form CIS36 due**
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 HMRC 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.

- 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

- 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 the 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 6 July. Penalty £100 for each month (or part month) for every 50 (or up to 50) employees.

- 6 PAYE Settlement Agreements**
Deadline for agreeing PSA contract forms P626 with the Revenue.
- 6 Termination Payments**
Deadline for reporting termination payments to HMRC that exceed £30,000 and contain non-cash benefits.
- 6 Share Scheme returns to the HM Revenue & Customs**
The date by which returns should be made to HM Revenue & Customs 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 Payments of Class 1A NIC As shown on form P11D (b)**
- 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.

September

- 30 Filing of tax return for HMRC calculation**
Individuals who want the HM Revenue & Customs to calculate their tax liability – as they did before self-assessment – must file their tax return for the year ending April 5 by this date.
Also, the deadline for submitting 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 HMRC by this date or be liable to a penalty which could equal tax due on Jan 31.
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 due on late paid amounts.

November

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

December

- Party Season**
£150 tax free per attendee for party.
If the limit is breached then the party becomes taxable in full, not just the excess. Tax is due on the full amount by the employee unless the employer enters into a PAYE Settlement Agreement to pay the tax.

- 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 off line 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 January.

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

January

- 31 File tax returns**
The last date by which tax returns for the year ending April 5 must be filed with the Revenue. 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.
- 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.

Budget 2007. Was it good for business, was it good for individuals... was it good for you?

For more perspectives, insights and the consequences, ask one of our team.



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