

The budget statement 2007

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Chartered Accountants



The Budget Statement 2007

21 March 2007



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The Budget Statement 2007

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Introduction

This Report, which was written immediately after the Chancellor of the Exchequer delivered his Budget Speech, is intended to provide an overview of the announcements most likely to affect you or your business.

Throughout this guide we have included tips and ideas for effective tax and financial planning, but it is important to remember that this planning should be an ongoing, year-round process, not something that is left until the last minute.

We can help you to reassess your plans regularly, and adapt them as your personal and business circumstances change. With our help, you can plan for a rewarding and financially secure future.

How to make the most of our services

- Please read the Report as soon as possible.
- Keep a copy of the 2007/08 tax calendar. It details many of the key dates and deadlines for the coming year.
- Contact us as soon as possible to discuss any action you may be considering, and to review your longer term plans. We always welcome the opportunity to help.

Please note: *While most taxation changes take effect from the start of the financial year, or tax year, some may not take effect until 2008, or later. Where relevant, details of these changes have been included in this Report.*

'HMRC' refers to HM Revenue & Customs throughout the report.

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Budget Highlights

- **Income tax cut from 22% to 20%**
- **Corporation tax reduced from 30% to 28%**
- **Increase in R&D tax credit**
- **New Annual Investment Allowance of £50,000**
- **Inheritance tax threshold rising to £350,000 in 2010**

Brown pledged to 'expand prosperity and fairness' for Britain's families

Delivering his eleventh – and what is widely expected to be his last – Budget speech to the House of Commons, Chancellor Gordon Brown pledged to 'expand prosperity and fairness' for Britain's families.

Celebrating what he described as the longest period of economic stability and sustained growth in the UK's history, the Chancellor made few changes to his previous economic growth forecasts, predicting growth of 2.5% to 3% for 2008 and 2009, and asserting that his fiscal rules had been met with a surplus of £11bn.

While much of the speech was devoted to education and the environment, the Chancellor found room for some significant announcements on tax, ending his speech with the surprise declaration that the basic rate of income tax will drop from 22% to 20% from April 2008; although this will be accompanied by a scrapping of the 10% starting rate. The threshold for the top rate of income tax will also rise to £43,000 in 2009.

In addition to this, the headline rate of corporation tax will fall from 30% to 28% in 2008. However, the rate for small companies will be increased in three stages, reaching 22% in 2009.

Other measures include an increase in the tax-free cash ISA allowance from £3,000 to £3,600, and a rise in R&D tax credits, from April 2008. Vehicle Excise Duty on large 'gas guzzling' vehicles will almost double to £400 by April 2008, while drivers of the cleanest cars will see a corresponding cut. A 2p increase in fuel duty will be postponed until October.

Economic forecasts for 2007/08

- Government Spending £587 billion
- NHS Spending £104 billion
- Social Protection Spending £161 billion
- Public Sector Year End Net Debt £540 billion
- Government Receipts £553 billion
- Net Borrowing £34 billion
- Inflation (Consumer Prices Index) 2%

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Business Tax and Investment Incentives

Corporation tax

Corporation tax rates and bands are as follows:

Financial year to	31 March 2008		31 March 2007	
Taxable profits	£	%	£	%
First	300,000	20%	300,000	19%
Next	1,200,000	32.5%	1,200,000	32.75%
Over	1,500,000	30%	1,500,000	30%

Small company's marginal relief fraction

£300,000 - £1,500,000	$\frac{1}{40}$	$\frac{11}{400}$
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The rate of corporation tax will decrease from 30% to 28% from 2008/09. The small companies' rate of corporation tax will increase from 20% to 21% in 2008/09 and to 22% in 2009/10.

Capital allowances

The 50% rate of first-year allowances for capital expenditure by small businesses on plant and machinery will be extended for a further 12 months from 1 April 2007 for companies and from 6 April 2007 for businesses subject to income tax.

The following changes to the capital allowances regime are to be introduced from 2008/09:

- An annual investment allowance for the first £50,000 of expenditure on plant and machinery in the general pool will be introduced. The detailed design and scope of this allowance will be the subject of consultation.
- The rate of writing-down allowances (WDAs) for plant and machinery in the general pool will be reduced from 25% to 20%.
- The rate of WDAs on long-life asset expenditure will increase from 6% to 10%.
- WDAs on industrial and agricultural buildings will be gradually phased out, with final withdrawal of both regimes by 2010/11. To prepare the way for final abolition, most balancing adjustments, and the recalculation of WDAs on sale, will effectively be withdrawn from 21 March 2007.
- The rate of WDAs on certain fixtures integral to a building will be set at 10%. The detailed design and scope of the integral fixtures provisions will be the subject of consultation.
- A payable tax credit for losses resulting from capital expenditure on certain designated 'green technologies' will be introduced. The detailed design and scope of the tax credit will be the subject of consultation.

For qualifying expenditure incurred on and after 11 April 2007, Business Premises Renovation Allowance (BPRA) will provide 100% initial allowance for capital expenditure on the renovation or conversion of certain business properties that have been vacant for a year or longer in designated disadvantaged areas of the UK.

The new Construction Industry Scheme

After a delay of a year, the new Construction Industry Scheme (CIS) will be introduced on 6 April 2007. All the old cards and vouchers disappear, but monthly returns will be required and there will be considerably stricter compliance rules. The new scheme will have a standard deduction rate of 20%; however unregistered sub-contractors will be subject to the higher deduction rate of 30%.

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Business Tax and Investment Incentives (continued)

Research and development (R&D) tax credits

From 2008/09, and subject to state aid approval, the enhanced deduction available to small and medium enterprises (SMEs) in respect of qualifying R&D expenditure will increase from 150% to 175%. The value of the payable credit will remain broadly at its current level (24% of qualifying expenditure). The enhanced deduction available to large companies will increase from 125% to 130%.

The SME R&D relief scheme will be extended in the Finance Bill to companies with fewer than 500 employees which have an annual turnover not exceeding 100 million euros and/or which have an annual balance sheet total not exceeding 86 million euros. This is subject to EC state aid approval.

Managed service companies (MSCs)

Legislation will be introduced which will deem income received by individuals providing their services through MSCs, not already treated as employment income, to be employment income. The consequence of this is that on all payments received by individuals in respect of services provided through such companies the MSCs will have to operate PAYE (where such payments are received on or after 6 April 2007) and Class 1 NICs (from a date to be specified shortly after Royal Assent).

Film tax relief

Companies incurring expenditure on the production of films other than for the cinema will be allowed to opt out of the film tax relief rules and into general tax treatment. A company will be able to make an election that it is not a film production company in respect of any future films and of all films that started principal photography in the previous two years. An election can be made on or after the date of Royal Assent.

Venture capital schemes

The qualifying company rules for Enterprise Investment Scheme (EIS), Corporate Venturing Scheme (CVS) and the Venture Capital Trust (VCT) scheme will be amended so that a company (or group of companies) must have fewer than 50 full time employees at the date the relevant shares or securities are issued and must have raised no more than £2 million under any or all of the schemes in the 12 months ending on the date of the relevant investment. These changes will not apply in relation to investments made out of funds raised by VCTs before 6 April 2007, nor to EIS or CVS shares issued before the date of Royal Assent. A change will also be made to extend the meaning of a 'qualifying 90% subsidiary' and this will be effective from 6 April 2007.

Anti-avoidance

A number of measures will be introduced to tackle anti-avoidance. These will affect:

- The buying of corporate capital losses and gains.
- The buying of trading losses from Lloyd's corporate members who are leaving the market.
- The sale of lessor companies.
- Life insurance companies.
- Sale and repurchase agreements.
- Partnerships and sideways loss relief.
- Employee benefit trusts.
- The salary costs of an employee seconded to a charity or educational institution.

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Green Taxes

As environmental issues have become ever more important in the political arena, the concept of 'green taxes' has emerged. Increasingly, concerns about climate change have begun to inform tax policy.

In the December Pre-Budget Report, 'green' tax measures included raising the rate of duty on road fuels and on air travel, and from 1 May 2007 the VAT fuel scale for company cars will reflect the car's carbon dioxide emissions.

The Landlord's Energy Saving Allowance, previously available only to individuals, will also apply to corporate landlords who let residential properties and will be available up to 2015. Floor insulation will be added to the energy saving items which qualify for the allowance. The maximum deduction of £1,500 will be available per property, rather than per building.

Although the expanded allowance will apply to both corporate and individual landlords, the changes for individuals take effect for expenditure on or after 6 April 2007, while the extension to corporate landlords will apply only to expenditure incurred on or after state aid approval is received.

The Finance Bill 2007 will include legislation exempting from income tax any sums received on or after 6 April 2007 by a householder from the sale of surplus power from microgeneration technology installed in their home, so long as that sale is not in the course of a trade.

There were further green measures announced in this Budget:

Stamp Duty Land Tax: Relief for new zero carbon homes

The Chancellor announced a relief from Stamp Duty Land Tax (SDLT) for new zero carbon homes. The measure will have effect from 1 October 2007 and will be time limited for five years, expiring on 30 September 2012.

New homes which are certified carbon neutral will qualify, and there will be no SDLT liability for homes with a purchase price of up to £500,000. Where the purchase price exceeds £500,000 the SDLT liability will be reduced by £15,000.

Relief will not be available on second and subsequent sales, nor on existing homes. New homes are defined as those dwellings first occupied for residential purposes at the time of the transaction giving rise to the SDLT charge.

Landfill tax

The standard rate of landfill tax will increase from £21 per tonne to £24 per tonne from 1 April 2007, then to £32 per tonne from 1 April 2008. The lower rate will increase from £2 per tonne to £2.50 per tonne with effect from 1 April 2008.

From 1 April 2007 the maximum credit that landfill site operators may claim against their annual landfill tax liability, for contributions made to bodies with objects concerned with the environment, enrolled under the LCF, will be changed from 6.7% to 6.6%.

Travel taxes

As reported elsewhere in this Report, Vehicle Excise Duty rates in bands C to G rise, with duty for cars in band G rising to £300 with effect from 22 March 2007. Duty for band G will rise to £400 in 2008.

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Capital Taxes

Capital gains tax (CGT)

The CGT annual exempt amount is increased in line with statutory indexation to £9,200 for the tax year 2007/08 for individuals, personal representatives of deceased persons and trustees of certain settlements for the disabled. The annual exempt amount for most other trustees is increased to £4,600. Every husband, wife, civil partner and child has his or her own £9,200 annual exempt amount.

The amount chargeable to CGT is added to the individual's income liable to income tax and treated as the top part of that total. For 2007/08, CGT up to the starting rate limit will be charged at 10%, between the starting rate and basic rate limits at 20%, and above the basic rate limit at 40%.

A targeted anti-avoidance rule (TAAR) will be introduced in Finance Bill 2007 to counter schemes to create and use artificial capital losses to avoid tax. The measure will ensure that allowable capital losses are restricted to those arising from genuine commercial transactions. The changes will take effect in relation to capital losses arising on disposals on or after 6 December 2006, except in relation to corporation tax where an equivalent rule already has effect.

Inheritance tax (IHT)

As announced at Budgets 2005 and 2006, the IHT nil-rate band will increase to £300,000 in 2007/08, £312,000 in 2008/09 and £325,000 in 2009/10. It has now been announced that the IHT allowance will increase to £350,000 in 2010/11. The value of estates over and above the nil-rate band is taxed at 40%. The estimated number of taxpaying estates in 2007/08 will be about 35,000 – this is around 6 in 100 deaths.

Budget 2007 also introduces a change to the pre-owned assets rules to ensure that, in certain situations, people can elect back into the IHT regime after the normal self assessment deadline, rather than incurring the pre-owned assets charge.

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Duties

Gaming duties

From 1 April 2007 the 2.5% starting rate of gaming duty is abolished, the 12.5% rate increases to 15%, and a new rate of 50% is introduced on gross yield from gaming in excess of £10 million per accounting period.

The Remote Gaming Duty will be set at 15% of gross profits from gaming (receipts minus winnings) in line with the rate of General Betting Duty. It will apply to anyone who provides remote gaming under licence from the Gambling Commission.

Tobacco, alcohol and fuel duties

From 6pm on 21 March 2007, tobacco duty rates will rise in line with inflation. Duty on beer, still and sparkling wine, and cider will increase in line with inflation from 26 March 2007. Spirits duty is frozen. Main fuel duty rates will increase by 2p per litre from 1 October 2007.

Stamp taxes and duty

The rates and thresholds for stamp duty land tax (SDLT) remain unchanged. As noted in the Green Taxes section, the Chancellor announced a new relief for new zero carbon homes.

Anti-avoidance measures

The temporary anti-avoidance measures introduced to tackle schemes designed to avoid SDLT are to be made permanent. The effective date of a transaction caught by these measures may be earlier than the date of completion if the contract is 'substantially performed'.

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Income Tax and Personal Savings

Tax rates

	2007/08	2006/07
Starting rate band to	£2,230	£2,150
Tax rate	10%	10%
Basic rate band - next	£32,370	£31,150
Non-savings rate	22%	22%
Savings rate	20%	20%
Dividend ordinary rate	10%	10%
Higher rate - taxable income over	£34,600	£33,300
Higher tax rate	40%	40%
Dividend upper rate	32.5%	32.5%

Personal allowances (ages are as at the end of the tax year))

		2007/08	2006/07
Allowances that reduce taxable income		£	£
Personal allowance (PA)	under 65	5,225	5,035
	65 to 74	7,550	7,280
	75 and over	7,690	7,420
Allowances that reduce tax			
Married couple's allowance (MCA) Age of elder partner	73 to 74*	628.50	606.50
	75 and over*	636.50	613.50
	minimum	244.00	235.00

* Higher allowances for those aged 65 or more are scaled back when income exceeds £20,900 (2006/07, £20,100).
MCA is only available where at least one partner was born before 6 April 1935.

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Income Tax and Personal Savings (continued)

Individual Savings Accounts (ISAs)

The Chancellor has already announced that the tax advantages of ISAs are to become permanent, with a guaranteed overall annual investment limit of at least £7,000. With effect from 6 April 2008, there will be various reforms to the ISA regime, including removal of the Mini/Maxi distinction. After this date an individual will be able to subscribe to either a cash ISA, a stocks and shares ISA or both.

From 6 April 2008 the subscription limits to the ISA will be increased, which will mean that an individual can subscribe up to £3,600 per tax year to a cash ISA and up to £7,200 per tax year into a stocks and shares ISA subject to an overall limit of £7,200.

The regulations will allow transfers from cash subscribed in previous tax years into stocks and shares without affecting current year investment limits.

Changes to the personal tax system

The Chancellor announced the following changes:

- removing the starting rate and cutting the basic rate of income tax from 22% to 20% in April 2008, creating a simpler structure of two rates: a 20% basic rate and a 40% higher rate;
- increasing the upper earnings limit for national insurance by £75 a week above indexation in April 2008 and, from April 2009, fully aligning it with the higher rate threshold - the point at which taxpayers start to pay the higher rate of income tax, further simplifying the system;
- raising the aligned higher rate threshold and upper earnings limit by £800 a year above indexation in April 2009;
- increasing the higher personal allowances for those aged 65 or over by £1,180 above indexation in April 2008, which is expected by the Chancellor to remove 580,000 pensioners from paying tax. By April 2011, the Chancellor expects that no pensioner aged 75 or over will pay any tax until their income reaches £10,000;
- increasing the child element of the Child Tax Credit by £150 a year above earnings indexation in April 2008, raising the child element to £2,080 a year;
- increasing the threshold for Working Tax Credit by £1,200 to £6,420 in April 2008;
- raising the withdrawal rate on tax credits by 2% to 39%; and
- increasing the weekly rate of Child Benefit for the eldest child to £20 in April 2010.

Pension tax amendments

Legislation will be introduced in Finance Bill 2007 to amend the pension tax rules with effect from 6 April 2006. Minor benefits provided by former employers for retired former employees will be excluded from taxation. Broadly, the additional exclusions will relate to continued provision of accommodation and related removal expenses, welfare counselling, recreational benefits, annual parties and similar functions, equipment for disabled former employees, which, with necessary differences to reflect the situation of retired people, mirror exemptions conferred on employees. Exclusions will also relate to the writing of wills and benefits which were first provided before 6 April 1998.

The Finance Bill will also introduce measures removing an individual's entitlement to tax relief on any pension contributions that are used to pay premiums under personal term assurance policies. Contributions to policies in existence under conditions specified in the legislation will continue to attract relief unless the policy is varied outside its original terms so as to increase the sum assured or lengthen the term. The measures will not affect the relief available for contributions paid by employers.

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Income Tax and Personal Savings (continued)

Homes abroad owned through a company

Legislation will be introduced to ensure that individuals who have bought or will buy a home abroad through a company will not face a benefit in kind tax charge for any private use of the property. The measure will be subject to certain qualifying conditions being satisfied and will have retrospective effect.

Self assessment tax return filing dates

For 2007/08 tax returns and those for subsequent years, there will be two separate filing dates. For paper returns, there will be a new date of 31 October (for tax year 2007/08 that will be 31 October 2008). For returns filed online, the date will remain at 31 January (for tax year 2007/08 that will be 31 January 2009). For taxpayers filing paper returns who want HMRC to calculate their tax liability for them, the cut off date will move from 30 September to 31 October to align with the new paper return filing deadline. A calculation of tax liability is automatically provided when a return is filed online.

Consequential changes will also be made to revise the period during which a return can be amended. Currently, the latest possible date is linked to the first anniversary of the filing date. The introduction of differential filing dates for different methods of filing a return would advance this date for those filing by paper. To avoid disadvantaging those who file early, the amendment window date will be linked to the 31 January anniversary date for all paper and online returns. However, the tax enquiry window will be linked to the date the return is received by HMRC. The enquiry window will close one year after delivery of the return. So where a return is received before the filing deadline the enquiry window will close earlier than under current legislation. A similar change will apply to most companies who complete company tax returns for accounting periods ending after 31 March 2008.

Penalties

Legislation will be introduced in Finance Bill 2007 to provide a single new penalty regime for incorrect returns for income tax, corporation tax, PAYE, NIC and VAT where the penalty will be determined by the amount of tax understated, the nature of the behaviour giving rise to the understatement and the extent of disclosure by the taxpayer. It introduces a new concept of suspended penalties.

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Value Added Tax

From		1 April 2007	1 April 2006
Standard rate		17.5%	17.5%
VAT fraction		7/47	7/47
		Turnover	Turnover
Registration	last 12 months or next 30 days over	£64,000	£61,000
Deregistration	next 12 months under	£62,000	£59,000
Cash accounting scheme	up to	£1,350,000	£660,000
Annual accounting scheme	up to	£1,350,000	£1,350,000
Optional flat-rate scheme	up to	£150,000	£150,000

Extension to the VAT Cash Accounting Scheme

Changes to the VAT Cash Accounting Scheme (CAS) take effect from 1 April 2007.

The annual turnover limit below which businesses can start to use the scheme will increase, from £660,000 to £1.35m.

The annual turnover limit above which businesses must leave the scheme will increase, from £825,000 to £1.6m.

Under the scheme, eligible businesses can defer paying VAT until they have received payment from their customers, rather than accounting for and paying VAT when they issue and receive invoices. This is on the condition that users of the scheme can only recover VAT on purchases when they pay their suppliers.

Changes to the medical exemption

The restriction of the VAT exemption applying to medical professionals will take effect from 1 May 2007. Broadly, exemption from VAT will only apply to the provision of medical care by health professionals registered on a statutory professional register where the primary purpose of the service is the protection, maintenance or restoration of the health of the person concerned.

Land and buildings

Any business or other organisation which uses land and buildings or other assets partly for non-business purposes will be affected by new HMRC powers to make regulations about how VAT charges on non-business use are calculated. The effect of these regulations will be to shorten the period over which VAT charges on non-business use of land and buildings are paid. This will take effect on and after 1 September 2007.

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Value Added Tax (continued)

Reduced rate for smoking cessation products

A reduced VAT rate of 5% for 'over the counter' sales of smoking cessation products will be introduced. The reduced rate will apply for one year and will take effect alongside the introduction of the ban on smoking in public places in England. Smoking cessation products that are dispensed on a prescription remain zero rated.

Gambling Act 2005 consequentials

Legislation will be introduced in Finance Bill 2007 to update VAT law on participation fees for playing bingo or other games of chance in the light of the Gambling Act 2005. This measure will maintain the VAT exemption for those exceptions listed in the law. Charges for player-to-player gaming will continue to be subject to VAT. The Gambling Act also allows charges, as opposed to stakes risked in the game, to be made for games of chance against the 'House'. These will also be subject to VAT.

Missing Trader Intra-Community Fraud - joint and several liability

The Government today announced steps to modernise the Joint & Several Liability measure introduced in 2003, to counter potential mutations in Missing Trader Intra-Community VAT Fraud: from 1 May 2007, the goods covered by Joint & Several Liability will be extended to include electronic goods and their related parts and accessories. The implementation of the reverse charge for mobile phones and computer chips will take effect from 1 June 2007.

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Company Cars

Car benefit

The threshold CO₂ emissions rate remains at 140 g/km. The rate of the taxable benefit ranges from 15% to 35% of list price (plus certain accessories) for most petrol or diesel-powered cars.

You can find your taxable percentage of the list price for 2007/08 using the following table:

CO ₂ in g/km	Taxable %		CO ₂ in g/km	Taxable %		CO ₂ in g/km	Taxable %	
	Petrol	Diesel		Petrol	Diesel		Petrol	Diesel
Less than 145	15%	18%	175 to 179	22%	25%	210 to 214	29%	32%
145 to 149	16%	19%	180 to 184	23%	26%	215 to 219	30%	33%
150 to 154	17%	20%	185 to 189	24%	27%	220 to 224	31%	34%
155 to 159	18%	21%	190 to 194	25%	28%	225 to 229	32%	35%
160 to 164	19%	22%	195 to 199	26%	29%	230 to 234	33%	35%
165 to 169	20%	23%	200 to 204	27%	30%	235 to 239	34%	35%
170 to 174	21%	24%	205 to 209	28%	31%	240 and over	35%	35%

The diesel surcharge is waived for Euro IV compliant cars first registered no later than 31 December 2005.

The percentages above are reduced for lower emission vehicles by:

- 2% for bi-fuel lpg and petrol cars manufactured or converted before type approval
- 3% for hybrid electric and petrol cars
- 6% for electric-only cars.

It is also worth noting that while the costs of converting to bi-fuel lpg and petrol after type approval are excluded from the calculation of car benefit, there is no percentage discount for such cars, after 5 April 2006.

In addition, with effect from 2008/09, there will be a reduced taxable percentage rate of 10% for those cars with CO₂ emissions of 120 g/km or less and a 2% discount for cars manufactured to run on E85 fuel.

Car fuel benefit

The multiplier for car fuel benefit has not changed since the current scheme was introduced. It stands at £14,400.

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Company Cars (continued)

Car and fuel benefit calculation

The amount chargeable to income tax (user) and Class 1A NICs (employer) for 2007/08 is calculated by multiplying list price (car benefit) or the fuel multiplier (fuel benefit) by a percentage based on the rate at which the car emits carbon dioxide (CO₂, in g/km) (see table on previous page).

Take a car with a list price of £18,000 when it was first registered (say 31 March 2007) and which emits carbon dioxide at a rate of 180 g/km.

Car Benefit	Petrol	Diesel
List price	£18,000	£18,000
Taxable percentage	23%	26%
Taxable benefit	£4,140	£4,680
Tax (22% taxpayer)	£911	£1,030
Tax (40% taxpayer)	£1,656	£1,872
Employer's Class 1A NIC	£530	£599
Fuel benefit	Petrol	Diesel
Multiplier	£14,400	£14,400
Taxable percentage	23%	26%
Taxable benefit	£3,312	£3,744
Tax (22% taxpayer)	£729	£824
Tax (40% taxpayer)	£1,325	£1,498
Employer's Class 1A NIC	£424	£479

VAT on fuel for private use in cars

Where businesses buy fuel which has some degree of private use, they must account for output VAT on a scale charge. This is based on the CO₂ emissions (rounded down to the next multiple of 5). The VAT chargeable for quarters commencing after 1 May 2007 is as follows:

CO ₂ in g/km	VAT on charge	CO ₂ in g/km	VAT on charge	CO ₂ in g/km	VAT on charge
Up to 140	£27.11	175	£39.91	210	£52.57
145	£29.04	180	£41.70	215	£54.36
150	£30.83	185	£43.49	220	£56.30
155	£32.62	190	£45.28	225	£58.09
160	£34.40	195	£47.21	230	£59.87
165	£36.19	200	£49.00	235	£61.66
170	£38.13	205	£50.79	240 and over	£63.45

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Company Cars (continued)

Mileage rates

Changes to the HM Revenue & Customs business mileage rates are announced from time to time. The current rates are as follows:

Vehicle	First 10,000 miles	Thereafter
Car/van	40p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

Car – fuel only advisory rate

Engine capacity	Petrol	Diesel	Gas
Up to 1400cc	9p	9p	6p
1401 - 2000cc	11p	9p	7p
Over 2000cc	16p	12p	10p

The fuel only advisory rates can be applied as a tax-free maximum rate for employees claiming for petrol used on business journeys and for employees reimbursing their employers with the cost of petrol used for private journeys. HMRC will consider claims for a higher maximum rate, if it can be demonstrated that it is necessary for an employee to use a car with higher than average fuel costs.

Car costs – VED rates

Band	CO ₂ emissions g/km	Petrol & Diesel	Alternative Fuel Cars
A	100 and below	£0	£0
B	101 - 120	£35	£15
C	121 - 150	£115	£95
D	151 - 165	£140	£120
E	166 - 185	£165	£145
F	186 - 225	£205	£190
G*	226 and above	£300	£285

* Cars registered from 23 March 2006

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Company Cars (continued)

Company vans

With effect from 6 April 2007, the taxable benefit for the unrestricted private use of vans will be £3,000.

There is a further £500 taxable benefit if the employer provides fuel for private travel.

Van and fuel charge	Van	Fuel	Total
Tax (22% taxpayer)	£660	£110	£770
Tax (40% taxpayer)	£1,200	£200	£1,400
Employer's class 1A NICs	£384	£64	£448

Van drivers can avoid the new benefit in kind charge of £3000 per year, if they agree not to use the van for personal journeys. Driving to and from work is acceptable so long as there is a reasonable amount of business use. It is advisable to keep a regular check on the vehicle's mileage to ensure the 'only for business rule' is kept to.

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National Insurance

2007/2008 National Insurance Contributions (NICs)

	Employer	Employee	
Class 1 - not contracted out			
Lower earnings limit		£87	
Weekly earnings bands			
Up to £100	Nil	Nil	
£100.01 - £670	12.8%	11%	
Over £670	12.8%	1%	
Over state retirement age	as above	Nil	
Class 1A	On relevant benefits	12.8%	Nil
Class 2	Self employed	£2.20 per week	
	Limit of net earnings for exception	£4,635 p.a.	
Class 3	Voluntary	£7.80 per week	
Class 4*	Self employed on profits		
	£5,225 - £34,840	8%	
	Excess over £34,840	1%	

* Exemption applies if state retirement age was reached by 6 April 2007

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Other Measures Announced

National Minimum Wage to rise in October

The National Minimum Wage rates will increase in October 2007.

The main rate for adult workers will rise from £5.35 an hour to £5.52 an hour.

The development rate for 18-21 year olds will rise by 15p, from £4.45 to £4.60.

The rate for 16-17 year olds will rise by 10p, from £3.30 to £3.40.

Life insurance policies and commission arrangements

Legislation will be introduced in Finance Bill 2007 to clarify that, where a policy or contract is held for less than a specified period, the amount of premium allowed in calculating gains on these large, short-term, policies and contracts is restricted to the true cost to the policyholder, taking into account the benefit to the policyholder of any commission rebate.

The treatment will confirm that:

- for policies and contracts made on or after 21 March 2007 (and some existing policies and contracts)
- where the premiums paid exceed £100,000 in any given tax year
- and the policy or contract is surrendered, matures or is assigned for money or money's worth before the end of the third tax year after that in which the premium threshold is crossed

the amount of premium to be taken into account is reduced by the amount of any commission passed on to the policyholder or a connected person, or by waived commission which is reinvested.

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Other Measures Announced (continued)

Alternative finance arrangements

Legislation will be introduced in Finance Bill 2007 to provide new rules on the taxation of certain types of investment bonds, known as “sukuk”, which satisfy the Shari’a law prohibition on paying or receiving interest. These products replicate the economic effect of debt securities on which interest is payable, and the measure will ensure that they are taxed on a par with equivalent conventional securities.

The measure will also make a small change to previous legislation on alternative finance, to put the tax treatment of profit share agency arrangements beyond doubt.

The changes will apply to arrangements entered into on or after 6 April 2007 for income tax purposes and 1 April 2007 for corporation tax purposes. For companies, they will also apply to profits or losses arising on or after 1 April 2007 from existing investment bonds within the statutory definition. For income tax payers, they will apply to amounts received or paid on or after 6 April 2007 in relation to arrangements entered into before that date.

The new rules will provide that where the arrangements meet certain conditions, amounts paid by the issuer to the holders of such bonds will be deductible under the tax rules on loan relationships in the hands of the issuer, and taxable as if they were interest where the holder is subject to income tax, or under the loan relationships rules where the holder is subject to corporation tax. A gain on disposal of a bond by a person other than a company will be taxable under capital gains tax rules, except where the bond will be treated under the new rules as a qualifying corporate bond, and will come within the loan relationships rules in the case of a company. Bonds that are convertible into, or exchangeable for, shares will be taxed in the same way as conventional convertible or exchangeable securities.

The legislation will also make it clear that in alternative finance arrangements involving a profit share agency, the agent is treated, for all tax purposes, as entitled to the profits.

Recognition of stock exchanges and definition of “listed” for tax purposes

The listing of shares on a recognised stock exchange is a requirement for receipt of a number of tax reliefs, for example shares held in an ISA must meet this condition. Equally, a number of tax reliefs are available only where the shares are not listed on a recognised stock exchange.

This measure will allow the Commissioners of HMRC to designate as a recognised stock exchange any UK investment exchange that is designated an Recognised Investment Exchange by the FSA. The power to designate overseas exchanges will not be changed by this measure.

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2007/2008 Tax Calendar

March 2007

- 31** End of Corporation Tax financial year.
End of CT61 quarterly period.
Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2006.

April 2007

- 5** Last day of 2006/07 tax year.
Deadline for 2006/07 ISAs.
Last day to make disposals using the 2006/07 CGT exemption.
Last date for contracting back into the State Second Pension for 2006/07.
- 14** Due date for income tax for the CT61 period to 31 March 2007.
- 19/20** Quarter 4 2006/07 PAYE remittance due.
- 20** Interest will begin to accrue on unpaid PAYE/NI for 2006/07.
- 30** Normal annual adjustment for VAT partial exemption calculations (monthly returns).

May 2007

- 3** Last day for notifying car changes in quarter to 5 April - P46 (Car).
- 19** Last day for filing forms P14, P35, P38, and P38A - 2006/07 PAYE returns - without incurring penalties.
Also last day for filing contractors' returns, including CIS36.
- 31** Last day to issue 2006/07 P60s to employees.

June 2007

- 30** End of CT61 quarterly period.
Last day for UK businesses to reclaim EC VAT chargeable in 2006.
Annual adjustment for VAT partial exemption calculations (March VAT year end).

July 2007

- 6** Deadline for submission of Form 42 (transactions in shares and securities).
File Taxed Award Scheme Returns, file P11Ds, P11D(b)s and P9Ds. Issue copies of P11Ds or P9Ds to employees.
- 14** Due date for income tax for the CT61 period to 30 June 2007.
- 19/20** Quarter 1 2007/08 PAYE remittance due.
Final date for payment of 2006/07 Class 1A NICs.
- 31** Second self assessment payment on account for 2006/07.
Annual adjustment for VAT partial exemption calculations (April VAT year end).
Liability to 2nd £100 penalty arises for 2006 Tax Return still not filed.
5% surcharge on any tax unpaid for 2005/06.

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2007/2008 Tax Calendar (continued)

August 2007

- 2 Last day for notifying car changes in quarter to 5 July - P46 (Car).
- 31 Annual adjustment for VAT partial exemption calculations (May VAT year end).
Deadline for tax credit Annual Declaration (if estimated, final figures required by 31 January 2008).

September 2007

- 30 Deadline for submission of the 2007 Tax Return if you wish HMRC to calculate the tax or, if you are an employee, you wish to have a 2006/07 balancing payment of less than £2,000 collected through your 2008/09 PAYE code.
End of CT61 quarterly period.

October 2007

- 1 Due date for payment of Corporation Tax for period ended 31 December 2006.
- 5 Individuals/trustees must notify HMRC of new sources of income/chargeability in 2006/07 if a Tax Return has not been received.
- 14 Due date for income tax for the CT61 quarter to 30 September 2007.
- 19/21 Quarter 2 2007/08 PAYE remittance due.

November 2007

- 1 Please ensure you are retaining your documents for the 2008 Tax Return.
- 2 Last day for notifying car changes in quarter to 5 October – P46 (Car).

December 2007

- 30 Last date to file your 2007 Tax Return electronically if you are an employee and wish to have a 2006/07 balancing payment of less than £2,000 collected through your 2008/09 PAYE code.
- 31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2007.
End of relevant year for taxable distance supplies to UK for VAT registration purposes.
End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.
End of CT61 quarterly period.
Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2006.

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2007/2008 Tax Calendar (continued)

January 2008

- 1** Due date for payment of Corporation Tax for period ended 31 March 2007.
- 14** Due date for income tax for the CT61 quarter to 31 December 2007.
- 19/22** Quarter 3 2007/08 PAYE remittance due.
- 31** First self assessment payment on account for 2007/08.
Capital gains tax payment for 2006/07.
Balancing payment - 2006/07 income tax/class 4 NICs.
Last day to renew 2007/08 tax credits.
Deadline for amending 2005/06 Tax Return.
Last day to file the 2007 Tax Return.

February 2008

- 1** £100 penalty if 2007 Tax Return not yet filed. Additional penalties may apply for further delay.
Interest starts to accrue on 2006/07 tax not yet paid.
- 2** Last day for notifying car changes in quarter to 5 January - P46 (Car).
- 14** Last date (for practical purposes) to request NIC deferment for 2007/08.
- 28** Last day to pay any balance of 2006/07 tax and Class 4 NIC to avoid an automatic 5% surcharge.

March 2008

- 31** End of Corporation Tax financial year.
End of CT61 quarterly period.
Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2007.

Disclaimer

This Budget Report was prepared immediately after the Chancellor's Budget Statement based on official press releases and supporting documentation. The Budget proposals are subject to amendment before the Finance Bill receives Royal Assent. This Report is for guidance only, and professional advice should be obtained before acting on any information contained herein. No responsibility can be accepted by the publishers or the distributors for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.