

The budget statement 2006

LubbockFine
Chartered Accountants



The Budget Statement 2006

22 March 2006



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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 2006/07 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 2007, or later. Where relevant, details of these changes have been included in this Report.*

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Budget Highlights

- Additional first year allowances for small businesses
- Extension of R&D tax credit
- Enhancement of venture capital schemes

Brown hails Britain's 'new economic stability'

Chancellor Gordon Brown delivered his tenth consecutive Budget to the House of Commons, amid growing speculation that it could be his last before he embarks on a political leadership campaign.

In a Budget focused largely on education, sport and the environment, the Chancellor presented a picture of economic stability for the UK, reporting that both inflation and economic growth are on target, at 2% and 2 - 2.5% respectively.

The Chancellor announced a number of measures aimed at encouraging innovation and enterprise. These include an extension of R&D tax credits so that companies with 500 employees can claim higher credit, and a major enhancement of the Enterprise Investment Scheme relief. The Chancellor also announced plans to increase employer involvement in education, in a bid to match skills with the needs of businesses.

For the most part tax thresholds are increased in line with inflation. The Chancellor announced a nominal rise in the stamp duty land tax threshold to £125,000, and the inheritance tax threshold will also see a further increase to £325,000 by 2009/10.

One of the more radical announcements related to Vehicle Excise Duty, with the Chancellor revealing that the duty will rise to £210 for the most polluting vehicles, and will be phased out entirely for those producing the lowest emissions.

Other measures announced include the legislation for Real Estate Investment Trusts (REITs), and training to boost the careers of working women.

Economic forecasts for 2006/07

- Growth (Gross Domestic Product) 2 - 2.5%
- Health Spending £96 billion
- Government Spending £552 billion
- Public Sector Year End Net Debt £493 billion
- Social Protection Spending £151 billion
- Net Borrowing £37 billion
- Government Receipts £516 billion
- Inflation 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 2007		31 March 2006	
	£	%	£	%
Taxable profits				
First	10,000	19%	10,000	0%
Next	40,000	19%	40,000	23.75%
Next	250,000	19%	250,000	19%
Next	1,200,000	32.75%	1,200,000	32.75%
Over	1,500,000	30%	1,500,000	30%
Non-corporate Distribution Rate		n/a		19%

Small company's marginal relief fraction

£10,000 - £50,000	n/a	$\frac{19}{400}$
£300,000 - £1,500,000	$\frac{11}{400}$	$\frac{11}{400}$

Capital allowances for small businesses

The rate of first year allowance for capital expenditure by small businesses on plant and machinery is increased from 40% to 50% for the period of one year from 1 April 2006 for companies and from 6 April 2006 for businesses subject to income tax.

Research and development (R&D) tax credits

Two changes are proposed to the existing rules relating to R&D tax relief and vaccines research relief:

- the period for claiming an enhanced deduction for R&D expenditure is to be aligned to the time limit for R&D tax credits and becomes the first anniversary of the filing date for the company's corporation tax return. Transitional rules will apply to enhanced deduction claims for accounting periods ended before 31 March 2006. These claims will need to be made by the earlier of the current time limit for claims (six years after the end of accounting period in which the claim is made) and 31 March 2008;
- the definition of R&D qualifying expenditure is to be extended to include payments made to clinical trial volunteers. This will apply to expenditure by large companies from 1 April 2006 and for SMEs from when state aid approval has been received by the Government from the European Commission (EC).

The Government also intends to provide additional support to firms with between 250 and 500 employees through the R&D tax credits system. Details of the proposals will be published later in the year following state aid discussions with the EC.

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Business Tax and Investment Incentives (continued)

Venture capital schemes

The Chancellor has announced significant changes to the Enterprise Investment Scheme (EIS), the Corporate Venturing Scheme (CVS) and the Venture Capital Trust Scheme (VCT). For EIS investors, the annual investment limit for income tax purposes is doubled to £400,000. Investors in VCTs will now only benefit from income tax relief at 30% (currently 40%). Another change is the reduction in the maximum size of companies able to raise money under the EIS, VCT and CVS schemes; this is reduced to £7 million before the investment and £8 million afterwards ('the gross assets test'). This is a major reduction from the previous limits of £15 million before and £16 million afterwards.

However, the Chancellor has increased the minimum holding period for VCT investments from three to five years. All of the above changes take effect from 6 April 2006 except that the new gross assets test will not apply in relation to sums raised by VCTs prior to 6 April 2006 nor to EIS or CVS shares subscribed for before 22 March 2006.

The meaning of 'investment' under the VCT legislation has been changed in that with effect from 6 April 2007, a VCT must have 70% by value of its investments represented by qualifying holdings and no more than 15% of that total investment in any single company. This will mean that any money held by a VCT after 6 April 2007 will be treated as an investment.

Film tax relief

The Chancellor has chosen this year to reform film tax relief rather than extend the previous relief which will continue to apply to those films which commenced principal photography on or before 31 March 2006, provided the film is completed before 1 January 2007. The existing relief will also continue to apply to films acquired before 1 October 2007.

The new relief will apply from 1 April 2006 to UK film producing companies (FPCs) incurring expenditure on the production of British films. Each film will be treated as a separate trade for tax purposes. The new rules will provide a deduction on a maximum of 80% of total UK qualifying expenditure (which must in turn be at least 25% of total production expenditure). An additional deduction of 100% will be due for films with total qualifying production expenditure (QPE) of £20 million or less, 80% otherwise. Where this results in a loss, this can be surrendered for a tax credit, payable at 25% for films with up to £20 million of QPE and 20% for all other qualifying films.

Group relief

Following the European Court of Justice decision in the case of Marks and Spencer plc v Halsey in December 2005, the Government is to legislate to bring the group relief legislation into line with EC law. The new relief will apply from 1 April 2006 where a UK parent company has a foreign subsidiary (including an indirectly held subsidiary) which has incurred a foreign tax loss that is unrelievable in the home state (or elsewhere) and where that subsidiary is either resident in the EEA or has incurred the losses in a permanent establishment in the EEA. The foreign losses will be relievable against UK profits only where all possibilities of relief have been exhausted and future relief is unavailable in the country where incurred or in any other country.

The foreign tax loss will need to be recomputed under UK tax principles. The UK claimant company will need to be able to demonstrate that the losses meet all the relevant conditions of the legislation.

Anti-avoidance rules have already been pre-announced to apply from 20 February 2006 to prevent loss relief where arrangements are made either to prevent foreign losses being made unrelievable outside the UK, where they otherwise would have been relievable or where foreign losses are generated that would not have existed but for the availability of relief in the UK and where the main purpose or one of the main purposes of those arrangements was to obtain UK tax relief.

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Business Tax and Investment Incentives (continued)

Corporate capital losses

As announced in the 2005 Pre-Budget Report, anti-avoidance legislation effective from 5 December 2005 is being introduced to prevent schemes or arrangements aimed at gaining a tax advantage from capital losses. This legislation is aimed at preventing:

- the contrived creation of corporate capital losses
- the buying of capital gains and losses; and
- the conversion of income streams into capital gains and the creation of a capital gain matched by an income deduction, where the gains are then wholly or partly covered by capital losses.

Charities

The existing legislation only exempted charities from tax if the trade was carried on as a primary purpose of the charity or it was carried on by the charity's beneficiaries. In many cases however, the trade of a charity became mixed with a non-exempt trade so that the tax exemption would become 'tainted' and leave the charity potentially exposed to tax on the trade as a whole. This problem has now been overcome by introducing a new measure which allows a trade to be split and the profits apportioned between the exempt and taxable activities. Up until now HM Revenue & Customs has usually agreed to split the activities into separate trades but this approach was not strictly supported by case law and always left charities potentially exposed. The new measure which takes effect for chargeable periods commencing on or after 22 March 2006 will remove the previous uncertainty.

This Budget has also tried to address the misuse of charitable funds and reliefs both by individuals and companies. The anti-avoidance provisions announced on Budget Day will tackle these abuses in three ways. The first will be to restrict the dealings that a charity can have with its substantial donors who are defined as those giving £25,000 or more in a single twelve month period or £100,000 or more over a six year period. 'Dealings' has a fairly wide meaning and involves the majority of commercial transactions, payment, exchanges, remuneration and investments. A breach of the rules may involve withdrawal of tax relief from the charity.

The second anti-avoidance measure is to introduce a direct link between non-charitable expenditure incurred by a charity and a loss of tax relief on a pound for pound basis. Lastly the present legislation restricts the benefits which individuals and close companies can receive as a result of making a gift to a charity. A new anti-avoidance provision will apply the same restrictions to gifts made by non-close companies. These anti-avoidance measures take effect on or after 22 March 2006 except for the third measure which will affect donations to charities made on or after 1 April 2006.

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Business Tax and Investment Incentives (continued)

Taxation of leased plant and machinery

Legislation is to be introduced, applicable from 1 April 2006, to align the tax treatment of plant and machinery which is leased or acquired with other forms of finance. The legislation will apply to leases to be known as 'long funding leases'. It will not apply to leases of less than five years' duration and to leases of between five and seven years, where certain conditions are met.

The new tax treatment applying to long funding leases will be:

- the lessor will be taxed on the proportion of the rental income that reflects the financing charges and will not be able to claim capital allowances;
- the lessee will be able to claim capital allowances and receive a deduction for that part of the rentals relating to the finance element.

The proposed legislation will include provisions for certain transitional arrangements, companies within tonnage tax and for elections by lessors to apply the legislation to leases not exceeding £10 million in value.

Miscellaneous and anti-avoidance

The Treasury has been watching the activity of leasing companies for some time and has been aware that these companies are commonly set up within a wider group context so that capital allowances can be used to mitigate other group companies tax liabilities. A new measure has therefore been introduced to crystallise this deferred tax by recovering the full benefit of the capital allowances claimed when the leasing company is sold. The sale will trigger the end of an accounting period and the tax will crystallise. In compensation, the company will be given an equal amount of tax relief in the next accounting period. This applies where changes in economic ownership of lessor companies occur on or after 5 December 2005.

Where a subsidiary company of a UK company became non-resident in the UK for tax purposes before 1 April 2002 as a result of the operation of a double tax treaty, with effect from 22 March 2006 that company will be brought within the controlled foreign company legislation under certain circumstances.

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Company Cars

Car benefit

The threshold CO₂ emissions rate has been frozen at 140 g/km until 5 April 2008. The threshold for 2008/09 will be 135g/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 2006/07 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%

Diesel cars are generally subject to a 3% surcharge - with some exceptions, the taxable benefit for a diesel car is 3% higher than for a petrol car with identical CO₂ emissions. The 3% surcharge was waived for cars which complied with Euro IV emissions standards, and this applies to 5 April 2006. Thereafter, the waiver applies only to Euro IV compliant cars first registered no later than 31 December 2005.

The discounts for lower emissions vehicles are simplified from 6 April 2006, at:

- 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 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.

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 national insurance contributions (employer) for 2006/07 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 2006) 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

Company vans

With a fundamental change due in 2007, no changes were announced for 2006/07. Currently, company van users whose private travel is permitted to go beyond home to work are taxed on £500 benefit (£350 if the van is more than four years old), covering the use of the van and fuel. From April 2007, such users will be taxable on £3,000 for the use of the van, plus a further £500 if the employer provides fuel.

Van and fuel charge	2006/07	2007/08 (inc. fuel)
Van more than four years old		
Tax (22% taxpayer)	£77	£770
Tax (40% taxpayer)	£140	£1,400
Employer's class 1A NICs	£44.80	£448
Van less than four years old		
Tax (22% taxpayer)	£110	£770
Tax (40% taxpayer)	£200	£1,400
Employer's class 1A NICs	£64	£448

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Company Cars (continued)

VAT on scale charge for quarters commencing on or after 1 May 2006

Engine capacity	Petrol	Diesel
Up to 1400cc	£40.66	£38.72
1401 – 2000cc	£51.53	£38.72
Over 2000cc	£75.66	£49.30

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	10p	9p	7p
1401 - 2000cc	12p	9p	8p
Over 2000cc	16p	13p	10p

The HM Revenue & Customs 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. HM Revenue & Customs 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
A	100 and below	£0	£0
B	101 - 120	£40	£50
C	121 - 150	£100	£110
D	151 - 165	£125	£135
E	166 - 185	£150	£160
F	186 - 225	£190	£195
G*	226 and above	£210	£215

* Cars registered from 23 March 2006

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Income Tax and Personal Savings

Income tax rates

Rates for 2006/07 are as follows

	2006/07	2005/06
Starting rate band to	£2,150	£2,090
Tax rate	10%	10%
Basic rate band - next	£31,150	£30,310
Non-savings rate	22%	22%
Savings rate	20%	20%
UK dividend rate	10%	10%
Higher rate - income over	£33,300	£32,400
Tax rate excluding UK dividends	40%	40%
UK dividend rate	32.5%	32.5%

Personal allowances

Rates for 2006/07 are as follows (ages are as at the end of the tax year)

		2006/07	2005/06
Allowances that reduce taxable income		£	£
Personal allowance	under 65	5,035	4,895
	65 to 74*	7,280	7,090
	75 and over*	7,420	7,220
Allowances that reduce tax			
Married couple's allowance (MCA) Age of elder partner	72 to 74*	606.50	590.50
	75 and over*	613.50	597.50
	minimum	235.00	228.00

* Higher allowances for those aged 65 or more are scaled back when income exceeds £20,100 (2005/06, £19,500).
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)

Landlord's energy saving allowance

The allowance enables landlords to claim an income tax deduction against rental income for the cost of loft or cavity wall insulation in a dwelling they let. The Chancellor announced that with effect from 6 April 2006 the deduction will also apply to the cost of draught proofing and insulation for hot water systems.

Computers and mobile phones

Employees with the private use of a computer provided by their employers have been exempt from tax on the first £500 of annual benefit in kind. This exemption is to be withdrawn, with effect from 6 April 2006.

In addition, the exemption on the private use of employer-provided mobile phones will be restricted with effect from 6 April 2006, to cover one phone per employee.

Further measures were announced:

- to ensure that no charge to tax will arise if the mobile phone is provided under a salary sacrifice scheme, and
- to exempt from tax and NICs the provision of a mobile phone through the use of vouchers, so long as any phone so loaned would have been exempt if the voucher had not been used.

Eye tests and glasses - VDU users

Employees using VDUs are entitled to have the cost of eye tests and glasses for VDU use paid for by their employers.

To ensure that no tax charge under the benefit in kind or voucher rules arises, the lists of exempt benefits and vouchers will be amended with effect from 6 April 2006 to cover the position whether the cost of the tests and glasses is paid direct to the provider, or by reimbursing the employee for the cost, or by the provision of a voucher.

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Income Tax and Personal Savings (continued)

Pensions – 'A' Day – 6 April 2006

As announced prior to today's Budget statement there are widespread changes which come into effect on 6 April 2006.

From 'A' day there is no limit on the amount that may be contributed to a registered pension scheme. The maximum amount on which an individual can claim tax relief in any tax year is the greater of the individual's UK relevant earnings or £3,600.

If total pension input exceeds the annual allowance of £215,000 there is a tax charge at 40% on the excess.

This limit does not apply in the year that full pension benefits are taken.

Maximum age for tax relief	74
Minimum age for taking benefits	50
Lifetime allowance charge - lump sum paid	55%
- monies retained	25%
On cumulative benefits exceeding	£1,500,000*
Maximum tax-free lump sum	25%*

* subject to transitional protection for excess amount

Under the original rules applying from 6 April 2006, those applying for Enhanced Protection under the new pension rules would have been denied that protection if they had an ongoing term assurance (life cover) policy written under pension rules (sometimes referred to as section 226A and section 621 policies) or belonged to schemes which include stand-alone entitlements to death benefits. Finance Bill 2006 will contain confirmation that the continuing existence of these arrangements will not deny Enhanced Protection.

It will be recalled that the Chancellor announced, in the 2005 Pre-Budget Report, that the rules for self-directed pension schemes would remove the tax advantages for investments in residential property and certain other assets - such as fine wines, classic cars, art and antiques.

It is also worth noting:

- that the rule preventing recycling of tax-free lump sums will not, under current proposals, be triggered where no more than 30% of the lump sum is recycled, and
- that the threshold under which lump sums of less than £15,000 will not trigger the rule will be linked to the standard lifetime allowance.

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Capital Taxes

Capital gains tax (CGT)

Exemptions and rates of tax

The annual exempt amount has been increased in line with inflation for 2006/07 to £8,800 (2005/06 £8,500) for individuals. The CGT liability is calculated as if the gains in excess of the annual exemption were the top slice of the individual's savings income.

Trusts

The annual exempt amount is increased to £4,400 (2005/06 £4,250) for most trustees. The exemption is divided where there are several trusts created by the same settlor. Capital gains of trusts are taxed at the special trust rate of 40%. Changes are being introduced to bring the main trust-related definitions and tests for tax on income and chargeable gains into line with each other, mostly with effect from 6 April 2006.

Bed and breakfasting

The Government is to introduce measures, applicable to acquisitions on or after 22 March 2006, which will prevent avoidance of CGT by schemes exploiting the 'bed and breakfast' identification rules. The rules were designed to prevent individuals and others disposing of shares and acquiring identical holdings shortly afterwards for the purpose of realising a capital gain free of tax (because it is covered by the annual exempt amount) or a capital loss which can be set against other gains while still, in effect, holding on to the investment. The amendment will close a loophole and prevent advantages being gained by persons who are 'Treaty non-resident'.

Inheritance tax (IHT)

Exemptions and rates of tax

It was confirmed that the IHT threshold would rise to £285,000 for 2006/07 and £300,000 for 2007/08. To continue to provide certainty for families, it was further announced that the threshold will be increased by more than the expected statutory indexation to £312,000 in 2008/09 and £325,000 in 2009/10.

The rate of IHT remains unchanged at 40%, with a reduced rate of 20% for chargeable lifetime transfers. It was estimated that the number of taxpaying estates in 2006/07 will be about 37,000, around six in 100 deaths.

Trust reforms

The IHT exemptions which presently apply to 'accumulation and maintenance' trusts (A&Ms) and/or 'interest in possession' trusts (IIPs) will be available only in certain prescribed circumstances. Otherwise IHT charges will apply in the same way as for all other trusts, preventing them from being used to shelter wealth from IHT. In effect all lifetime transfers into A&M or IIP trusts will be immediately chargeable to IHT and the usual regime of ten-yearly and exit charges will apply, unless the trust is set up for a disabled person. There will be transitional arrangements for existing trusts.

Pension reforms

Measures will be introduced to legislate an existing IHT concessionary practice for pension scheme members who die under the age of 75, and to set out how IHT is to be charged on death on or after age 75 where funds are held in an alternatively secured pension.

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Duties

Vehicle excise duty (VED) and road fuel duty

With effect from 23 March 2006 VED rates for cars with the very lowest carbon emissions (band A) will be reduced to zero. VED rates will also be reduced for bands B and C by £35 and £5; frozen for bands D and E; and increased by £25 for band F. A new higher band (band G) will be introduced for the most polluting new vehicles (emissions above 225g/km and registered from 23 March 2006). The VED rates for cars and light goods vehicles registered before March 2001 will be frozen in the lower band and increased by £5 in the higher band. Road fuel duties will increase from 1 September 2006 by 1.25p per litre except for the duty on liquefied petroleum gas which will increase by 2.25p per litre.

Other duties or levies

From 6pm on 22 March 2006 tobacco duty rates will rise in line with inflation and a similar rate of increase will apply to duties on beer and wine, with effect from midnight on 26 March 2006. There is no increase in duty on spirits, cider and sparkling wine.

The rates of Climate Change Levy will remain unchanged for 2006/07 and will increase in line with inflation for 2007/08. The temporary 50% rate for 2006 for energy used in horticulture will be abolished on and after 1 April 2006.

The excise definition of a gaming machine is to be more closely aligned with the Gambling Act 2005 for any licences commencing on or after 1 August 2006.

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Duties (continued)

Stamp taxes and duty

While the rates for stamp duty land tax (SDLT) remain unchanged, the threshold for paying SDLT on residential property is increased from £120,000 to £125,000 from 23 March 2006.

The current alternative finance relief will be extended to all persons, allowing parity of SDLT treatment to companies, clubs, trustees, etc. This measure has effect for all alternative finance purchases on or after Royal Assent to Finance Bill 2006.

A series of SDLT measures is to be introduced from Royal Assent to Finance Bill 2006 so as to simplify and clarify the rules on the following:

- transfers of an interest in a partnership
- 'successive linked leases'
- variations in rent
- rent reviews under agricultural tenancies
- interim rents under business tenancies
- 'backdated' leases
- notifying assignments of leases.

On or after 12 April 2006 certain transactions will be taken out of the scope of SDLT.

These transactions are:

- a gift of property where the donee or beneficiary pays the capital gains tax or inheritance tax arising on the gift
- the payment of landlord's reasonable costs on the grant, variation or termination of a lease
- a covenant by an agricultural tenant to assign entitlement to the Single Farm Payment to the landlord on termination of the tenancy.

A SDLT charge will be introduced on the transfer of property into a unit trust in consideration of the issue of units. This charge will be by reference to the market value of the land and buildings transferred and will have effect from 22 March 2006.

The relief from Stamp Duty for certain company reconstructions and acquisitions that result in no overall change of ownership will be extended so as to be available to acquiring companies world-wide. The relief will also not now be denied where, for practical reasons, there has had to be a slight change in the proportion of shares held by each shareholder.

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Value Added Tax

From		1 April 2006	1 April 2005
Standard rate		17.5%	17.5%
VAT fraction		7/47	7/47

		Turnover	Turnover
Registration	last 12 months or next 30 days over	£61,000	£60,000
Deregistration	next 12 months under	£59,000	£58,000
Cash and annual accounting schemes	up to	£660,000	£660,000
Annual accounting scheme	up to	£1,350,000	£660,000
Optional flat-rate scheme	up to	£150,000	£150,000

Anti-avoidance measures

In order to combat Missing Trader International Fraud, dependant upon EU agreement, the person responsible for accounting for VAT on the sale of certain goods such as mobile phones, computer chips and other similar electronic items, will be changed from the seller to the purchaser.

From Royal Assent to the Finance Bill 2006, HM Revenue & Customs will be able to direct that additional specified records be kept such as mobile phone IMEI numbers. The existing powers of HM Revenue & Customs to inspect and mark goods will also be clarified.

With effect from Royal Assent to the Finance Bill 2006, new rules to specify circumstances where credit vouchers become liable to VAT will be introduced to combat schemes where no VAT is ever levied.

Reduced rate extension

From 1 July 2006 the sale of all contraceptive products, including sales by retailers, vending machines and the internet will be liable to the 5% reduced rate. Products supplied by medical practitioners or health professionals will be unaffected by this measure.

Partial exemption

Businesses that operate special methods rather than the standard method, will be required to declare and demonstrate that the method proposed is fair and reasonable before it will be approved. In addition the rules for the recovery of VAT for partly exempt businesses making overseas supplies will be simplified. These measures will take effect from April 2007.

Option to tax

From Royal Assent to the Finance Bill 2006 the option to tax provisions will be made clearer and easier to use. New appeal rights for refusals will be introduced.

Supplies of goods under finance agreements

The right of finance companies to treat returned goods as "neither a supply of goods nor services" and thus avoid charging VAT on the second sale, is to be removed. This will apply to cars and a wide range of goods where VAT on the first sale can be adjusted. The changes apply to agreements entered into on or after 13 April 2006 where the goods are delivered on or after 1 September 2006.

Church and faith buildings

The refund scheme for certain works will be extended to 2010/11, and will include professional fees and fixtures and fittings such as bells, pews, organs and clocks.

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National Insurance

2006/2007 National Insurance Contributions (NICs)

	Employer	Employee
Class 1 - not contracted out		
Lower earnings limit		£84
Weekly earnings bands		
Up to £97	Nil	Nil
£97.01 - £645	12.8%	11%
Over £645	12.8%	1%
Men 65 and over and women 60 and over	as above	Nil
Class 1A	On relevant benefits	12.8%
Class 2	Self employed Limit of net earnings for exception	£2.10 per week £4,465 p.a.
Class 3	Voluntary	£7.55 per week
Class 4*	Self employed on profits	
	£5,035 - £33,540	8%
	Excess over £33,540	1%

* Exemption applies if state retirement age was reached by 6 April 2006

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Other Measures Announced

UK Real Estate Investment Trusts

Companies and groups can elect to join the UK Real Estate Investment Trust (REIT) regime with effect from 1 January 2007. The regime exempts qualifying rental income and gains on disposals of investment properties from corporation tax. Any other profits or gains made by the REIT will be subject to corporation tax.

Distributions paid by the REIT out of the tax-exempt property income or gains will be treated as UK property income. They will be paid out to investors with a deduction of basic rate income tax at 22%. Dividends paid out of other profits will continue to be taxed in the usual way.

Companies or groups wanting to become REITs will pay an entry charge of 2% of the market value of their investment properties at the date of conversion. The charge will be collected at the same time as any corporation tax that is due for the first accounting period of the regime. The charge can be spread over four years, in instalments of 0.5%, 0.53%, 0.56% and 0.6% if preferred.

To join the new regime, a company must be UK resident for tax purposes and its shares must be listed on a recognised stock exchange. No one investor must be beneficially entitled to 10% or more of distributions or control 10% or more of the share capital or voting rights.

The conditions that relate to the business are:

- 75% or more of its assets must be investment property
- 75% or more of its income must be rental income, and
- the ratio of interest on loans to fund the tax-exempt business to the rental income of that business must be less than 1.25:1
- at least 90% of the tax-exempt profits must be distributed each year.

Modification and extension of the disclosure regime

The disclosure regime is to be extended from 1 July 2006 to include the whole of income tax, corporation tax and capital gains tax. The existing regulations will be revoked and the new regulations will contain hallmarks that will fall into three groups:

- three generic hallmarks that target new and innovative schemes
- a hallmark that targets mass marketed tax products; and
- hallmarks that target areas of particular risk

Two specific hallmarks will concern:

- schemes intended to create losses to offset income or capital gains tax, and
- certain leasing schemes.

The time limit for disclosure of schemes devised in-house is to be reduced to 30 days from the date that the scheme is implemented. Neither individuals nor businesses that are SME's will have to disclose in-house schemes.

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Other Measures Announced (continued)

Alternative finance arrangements

Finance Act 2005 introduced legislation to deal with finance arrangements that are structured so that they do not involve the payment or receipt of interest – for example, those that are Shari'a compliant. Amounts equating economically to interest are charged to tax on the same basis as interest.

New provisions provide for two additional alternative finance arrangements to be taxed on a level playing field to products involving interest. They are:

- an agency-style contract, which is equivalent to a saving account
- a partnership-style arrangement used to finance the purchase of property or other assets.

The provisions are applicable to arrangements entered into on or after 6 April 2006 for income tax purposes and 1 April 2006 for corporation tax purposes.

In addition, low-cost alternative finance arrangements by employers to employees are to be taxed in the same way as equivalent loans that give rise to interest. This provision is applicable for arrangements entered into on or after 22 March 2006.

Landfill tax

The standard rate of landfill tax will be increased from £18 per tonne to £21 per tonne for standard rated disposals of waste made on or after 1 April 2006. The lower rate of tax, which applies to inactive wastes disposed at landfill, remains at £2 per tonne.

Dormant accounts of Holocaust victims

Compensation payments made by foreign banks and building societies to Holocaust victims or their heirs will be exempt from tax. Payments of interest and capital from the dormant accounts will qualify. The exemption particularly relates to payments made under the Restore UK initiative or the Claims Resolution Tribunal arrangements for dormant accounts in Switzerland.

The exemption will apply to payments made in the 1996/97 tax year or any later year of assessment. In order to qualify for exemption, the original account holder must be a 'victim of National-Socialist persecution'.

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2006/2007 Tax Calendar

March 2006

- 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 2005

April 2006

- 5** Last day of 2005/06 tax year.
Deadline for paying retirement annuity premiums to be carried back to 2004/05, retirement annuity and personal pension premiums for 2005/06, and for 2005/06 ISAs.
- 6** 'A' Day – new rules and regulations introduced for pensions and pension contribution limits.
- 14** Due date for income tax for the CT61 period to 31 March 2006.
- 19/22** Quarter 4 2005/06 PAYE remittance due.
- 20** Interest will begin to accrue on unpaid PAYE/NI for 2005/06.
- 30** Normal annual adjustment for VAT partial exemption calculations (monthly returns).

May 2006

- 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 - 2005/06 PAYE returns - without incurring penalties.
Also last day for filing contractors' returns, including CIS36.
- 31** Last day to issue 2005/06 P60s to employees

June 2006

- 30** End of CT61 quarterly period.
Last day for UK businesses to reclaim EC VAT chargeable in 2005.
Annual adjustment for VAT partial exemption calculations (March VAT year end).

July 2006

- 6** Last day to file Taxed Award Scheme Returns, file P11Ds, P11Dbs and P9Ds. Issue copies of P11Ds or P9Ds to employees.
Deadline for relevant third parties to give non-employees information on benefits/expenses they have provided to them in 2005/06.
Last day for filing Form 42.
- 14** Due date for income tax for the CT61 period to 30 June 2006.
- 19/22** Quarter 1 2006/07 PAYE remittance due.
Final date for payment of 2005/06 Class 1A NICs.
- 31** Second self assessment payment on account for 2005/06.
Annual adjustment for VAT partial exemption calculations (April VAT year end).
Liability to 2nd £100 penalty arises for 2005 Tax Return still not filed.
5% surcharge on any tax unpaid for 2004/05.

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2006/2007 Tax Calendar (continued)

August 2006

- 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).

September 2006

- 30 Deadline for submission of the 2006 Tax Return if you wish HMRC to calculate the tax or, if you are an employee, you wish to have a 2005/06 balancing payment of less than £2,000 collected through your 2007/08 PAYE code. End of CT61 quarterly period. Business and personal planning need not be left until the end of the tax year – talk to us now about tax and financial strategies for you and your business.

October 2006

- 1 Due date for payment of Corporation Tax for period ended 31 December 2005.
- 5 Individuals/trustees must notify the Revenue of new sources of income/chargeability in 2005/06 if a Tax Return has not been received.
- 14 Due date for income tax for the CT61 quarter to 30 September 2006.
- 19/21 Quarter 2 2006/07 PAYE remittance due.

November 2006

- 1 Please ensure you are retaining your documents for the 2007 Tax Return.
- 2 Last day for notifying car changes in quarter to 5 October – P46 (Car).

December 2006

- 29/30 Last date to file your 2006 Tax Return electronically if you are an employee and wish to have a 2005/06 balancing payment of less than £2,000 collected through your 2007/08 PAYE code. Date dependent on who is filing.
- 31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2006. 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 2005.

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2006/2007 Tax Calendar (continued)

January 2007

- 1** Due date for payment of Corporation Tax for period ended 31 March 2006.
- 14** Due date for income tax for the CT61 quarter to 31 December 2006.
- 19/20** Quarter 3 2006/07 PAYE remittance due.
- 31** First self assessment payment on account for 2006/07.
Capital gains tax payment for 2005/06.
Balancing payment - 2005/06 income tax/class 4 NICs.
Last day to file the 2006 Tax Return.

February 2007

- 1** £100 penalty if 2006 Tax Return not yet filed. Additional penalties may apply for further delay.
- 2** Last day for notifying car changes in quarter to 5 January - P46 (Car).
- 28** Last day to pay any balance of 2005/06 tax to avoid an automatic 5% surcharge.

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.

Disclaimer

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