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A Summary of the Budget 2005

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Income Tax and Allowances

Personal allowances for the tax year 2005/06 were announced in the December 2004 pre-budget report and are shown below.

Income Tax Rates

Rate %	Taxable Income £	
	2004/05	2005/06
10	up to 2,020	up to 2,090
22	2,021 to 31,400	2,091 to 32,400
40	over 31,400	over 32,400

Income Tax Personal Allowances 2005/06

Income Tax Allowance	2004/05	2005/06
Personal allowance (age under 65)	4,745	4,895
Personal allowance (age 65 to 74)	6,830	7,090
Personal allowance (age 75 and over)	6,950	7,220
Married couple's allowance* (aged less than 75 and born before 6 April 1935)	5,725	5,905
Married couple's allowance* (age 75 and over)	5,795	5,975
Married couple's allowance# - minimum amount	2,210	2,280
Income limit for age-related allowances	18,900	19,500
Blind person's allowance	1,560	1,610

* Tax relief given at the rate of 10%

This is also the maximum relief for maintenance payments where at least one of the parties is born before 6 April 1935

Capital Gains Tax

The annual exemption for individuals and personal representatives has been increased to £8,500 for 2005/06. The exemption therefore increases to £4,250 for trustees (but see 'Reform of Trust Taxation' below.)

Measures have been introduced to prevent exploitation of any Double Tax Agreement, by non-residents, to avoid a charge to CGT.

Inheritance Tax

The nil-rate band for inheritance tax has been increased to £275,000, and will increase to £285,000 in 2006/07 and to £300,000 in 2007/08.

Corporation Tax

The threshold limits for corporation tax remain unchanged.

Stamp Duty

The threshold for the payment of Stamp Duty has been increased from £60,000 to £120,000. All other bands and rates remain unchanged, except that the exemption for non-residential property in designated disadvantaged areas has ended.

Value Added Tax

The rate of VAT remains at 17.5% but the annual registration limit has been increased to £60,000 for 2005/06.

Pensions

The pensions earnings cap for 2005/06 has risen to £105,600.

Civil Partners

The Civil Partnership Act 2004 allows same sex couples to register their partnership from 21 December 2005. The 2005 Finance Bill will treat Registered Civil Partners the same as married couples for all tax purposes.

The key affected areas are:

- IHT – gifts between civil partners will be exempt from IHT without limit
- CGT – only one property owned by a couple will be eligible for main residence relief; transfers of assets between partners will be on a no-gain no-loss basis, so will not attract a CGT charge
- Pensions – references to husband, wife, spouse, ex-spouse, widow, widower, etc. will be extended to include civil partner, former civil partner, and surviving civil partner
- Settlements – anti-avoidance legislation will be extended to treat civil partners in the same way as spouses
- Allowances – the married couple's allowance (where one of the partners was born before 6 April 1935) and the provision that any unused blind person's allowance can be transferred to a spouse, will be extended to civil partners.

Individual Savings Accounts

The current ISA limits of £7,000 for the stocks and shares component and £3,000 for cash will be retained to April 2010.

National Insurance Contributions

The rates for national insurance contributions, effective from 6 April 2005, are:

Lower Earnings Limit - Primary Class 1	£82 per week
Upper Earnings Limit - Primary Class 1	£630 per week
Primary Threshold	£94 per week
Secondary Threshold	£94 per week
Employees' Primary Class 1 Rate	11% of £94.01 to £630 per week 1% above £630 per week
Employees' Contracted-Out Rate	1.6%
Married Woman's Reduced Rate	4.85% of £94.01 to £630 per week 1% above £630
Employers' Secondary Class 1 Rate	12.8% on earnings above £94 per week
Employers' Contracted-Out Rebate, Salary Related Schemes	3.5%
Employers' Contracted-Out Rebate, Money-Purchase Schemes	1.0%
Class 2 Rate	£2.10 per week
Class 2 Small Earnings Exemption	£4,345 per year
Class 3 Rate	£7.35 per week
Class 4 Rate	8% of £4,895 to £32,760 per year, 1% above £32,760
Class 4 Lower Profits Limit	£4,895 per year
Class 4 Upper Profits Limit	£32,760 per year

Reform of Trust Taxation

From 6/4/2005, trusts which would otherwise be taxed at 40% on their income will have the benefit of a 'basic rate band' for the first £500 of their annual income. On this they will pay tax at 20% for income classed as 'savings income' or 22% for other income.

There will also be the promised measure, backdated to 6/4/2004, under which trusts for certain vulnerable people will be taxed as if any income and capital gains were received by the vulnerable person rather than by the trustees, enabling advantage to be taken of lower personal tax rates and unused personal allowances of the beneficiary. It is known that this will apply to trusts for disabled people and orphaned children. Other categories of trust may also be included.

Other proposals for simplification of trust taxation were mooted in the 2004 Budget but it has now been announced that after consultation, the Revenue have decided that more work needs doing on them. These proposals have been dropped from the 2005 Finance Bill but there will be further consultation with a view to introducing them from 6/4/2006.

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