

providing the facts



# A summary of the Budget 2008

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## Income tax and allowances

### Income tax rates

Taxable income 2008/09			
	Non-savings income	Dividends	Interest
Up to £36,000	20%	10%	20%*
Over £36,000	40%	32.5%	40%*

\*Reduced to starting rate of 10% on excess of £2,320 over taxable non-savings income.

### Income tax personal allowances

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

\* 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

### Taxation of foreign dividends

From 6 April 2008, individuals who receive dividends from non-UK resident companies will be entitled, subject to certain criteria, to the same non-payable tax credit as enjoyed by those receiving dividends from UK companies. The tax credit is currently one ninth of the dividend distributed and satisfies any lower or basic rate income tax liability for the shareholder.

The proposals state that to qualify for the tax credit, a person must own a less than 10% shareholding in the distributing non-UK company and in total must receive less than £5,000 of dividends a year from non-UK companies.

## Capital gains tax (CGT)

### Annual exemption

The annual exemption for individuals and personal representatives has been increased to £9,600 for 2008/09. The exemption therefore increases to £4,800 for trustees. Gains will be taxable at the new rate of 18%.

### New entrepreneur's relief

This relief may be available for gains made by individuals on the disposal of:

- all or part of a trading business the individual carries on alone or in partnership
- assets of the individual's or partnership's trading business following cessation of the business
- shares in (and securities of) the individual's personal trading company (or holding company of a trading group)
- assets owned by the individual and used by his/her personal trading company (or group) or trading partnership.

The relief will be available on qualifying disposals made after 5<sup>th</sup> April 2008 up to a lifetime limit of £1 million.

Gains which qualify for relief will be charged to CGT at a rate of 10%. Those which do not will be taxed at the new general CGT rate of 18%.

Trustees will also be able to claim the relief where a qualifying beneficiary has a qualifying interest in the business in question. Such claims will reduce the beneficiary's lifetime limit.

## Corporation tax

The small companies' rate increases to 21% in 2008/09 and applies to companies with taxable profits between £0 and £300,000.

From 1<sup>st</sup> April 2008, the main rate of corporation tax will be reduced from 30% to 28%.

## Inheritance tax (IHT)

### Nil Rate Band

The nil-rate band for inheritance tax will increase, as previously announced, to £312,000 in 2008/09, £325,000 in 2009/10 and £350,000 in 2010/11.

### Transitional serial interest trusts

Legislation will be introduced to clarify the IHT rules for trusts in place on or before 21 March 2006 on interest in possession (IIP) terms which come to an end on or after 22 March 2006 and are replaced with new IIP trusts for the same beneficiary. Also, the transitional period will be extended by six months to 5 October 2008.

## Stamp duty land tax

The rates and thresholds for stamp duty land tax remain unchanged.

## Value added tax

The rate of VAT remains at 17.5% but the annual registration limit has been increased to £67,000 for 2008/09.

## Enterprise Investment Schemes

The limit on the amount invested on which an investor can claim EIS income tax relief in any one year will increase from £400,000 to £500,000 with effect from 6 April 2008, subject to approval by the European Commission.

## Life assurance

It was announced that the Government does not see the need for any change to the taxation of life insurance bonds as a result of reforms to capital gains tax. We will be commenting further on the impact of this decision.

## Pensions tax simplification

We are pleased to see that the reforms to pensions tax simplification are those previously announced, and there is no further tinkering with the already complex legislation. We hope this now concludes the amendments to the primary legislation, which was introduced from 6 April 2006, and that there will be no further amendments.

As expected, the Finance Bill will:

- put in place amending IHT legislation;
- cut administration surrounding the lifetime allowance test for scheme pensions and dependant's scheme pensions (Benefit Crystallisation Event 3),
- simplify the rules on protected pre A-Day tax free cash rights,
- ease the administration of certain trivial commutation payments and to help tackle the issue of 'small stranded pots'.

As expected, the Annual Allowance rises by £10,000 from £225,000 to £235,000 and the Lifetime Allowance rises by £50,000 from £1.6 million to £1.65 million. We are pleased that rumours that the Annual Allowance may be cut proved unfounded.

On a separate note, the notional earnings cap for 2008/2009 (for those schemes which still limit contributions or benefits by reference to the cap in their rules) is £117,600.

## Individual Savings Accounts

For 2008/09, the ISA limits have increased to £7,200 for the stocks and shares component and £3,600 for cash, subject to an overall annual subscription limit of £7,200 to both ISAs.

## Offshore funds

Legislation will be introduced to allow certain offshore funds to be classed as reporting funds. This means that an offshore fund will no longer have to make a distribution to retain the CGT treatment for investors. Instead, the fund will be able to report income to investors who will then be subject to tax on the reported income.

