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THE BUDGET 2004

UK200Group

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MAIN BUDGET PROPOSALS

- New pensions regime to be introduced but not until April 2006
- Minimum corporation tax rate of 19% on distributed profits
- Inland Revenue and Customs & Excise to merge
- Announcement of the proposed new regime for company vans
- More detail on the proposed changes for childcare costs
- Confirmation of the tax regime for pre-owned assets
- Marketed tax schemes to be registered with the Inland Revenue
- Enhanced capital allowances for small businesses

PREVIOUS ANNOUNCEMENTS

Some of the changes detailed in this booklet have been the subject of earlier announcements. Here is a reminder of some of the more important ones:

- Increases in personal allowances
- Increases in national insurance thresholds
- Increases in rates of tax applicable to trusts
- Increases in small and medium-sized company thresholds
- Improvements to the research and development tax credit regime
- Changes to the rules on transfer pricing and management expenses
- Improvements to Venture Capital Trusts and the Enterprise Investment Scheme

Gordon Brown's eighth Budget turned out to be a very technical one with many measures and proposals outlined. In particular the government revealed its plans for small company dividends.

Following an announcement in the December 2003 Pre-Budget Report there had been much speculation that the government was planning to introduce a national insurance charge on small company dividends. Thankfully this has not happened. Instead a minimum 19% corporation tax rate will apply to distributed profits from 1 April 2004. As with many of the provisions announced in the Budget the detail is decidedly sketchy and we need to wait for the Finance Bill to be able to put more flesh on the bones.

This booklet focuses on the issues likely to affect you, your family and your business. To help you decipher what was said we have included comment and suggested action points throughout the booklet.

If you have any questions then please do not hesitate to contact us for advice or to discuss any action you may need to take.

The Budget proposals may be subject to amendment in the Finance Bill which will receive Royal Assent during the summer. You are therefore advised to contact us before taking any action as a result of the contents of this booklet.

CONTENTS

Tax rates

Yet again there has been no change to income tax rates. Therefore for 2004/05 the starting rate remains at 10%, the basic rate at 22% and the higher rate at 40%. The system continues to be further complicated by the rules for savings and dividend income. Further details of tax rates and bands can be found on page 15.

Tax rates - trustees

From 6 April 2004 the rate of tax on the income and capital gains of trusts will increase from 34% to 40% (and the corresponding dividend trust rate from 25% to 32.5%).

Comment

This will bring the rate of tax suffered by UK trusts into line with the rates applied to higher rate taxpaying individuals.

People who receive income from trusts will still be able to reclaim any excess tax paid by the trustees on their behalf and those liable at higher tax rates will still get credit for tax paid by the trustees.

Allowances

For 2004/05 the personal allowance for the under 65s is increased in line with inflation to £4,745. Personal allowances for those aged 65 and over are increased in line with earnings. The allowances are summarised on page 15.

Jointly owned property

Currently income from property jointly owned by a married couple is treated for tax purposes as belonging to them in equal shares unless an election is made for the income to be split according to the actual proportions of ownership and entitlement to income.

From 6 April 2004 married couples will be taxed on dividends from jointly owned shares in 'close' companies according to their actual ownership of the shares. Close companies are broadly those owned by the directors or five or fewer people. For example if a spouse is entitled to 95% of the income from jointly owned shares they will pay tax on 95% of the dividends from those shares.

Comment

This measure is designed to close a perceived loophole in the rules and will not apply to income from any other jointly owned assets.

Pre-owned assets

The December 2003 Pre-Budget Report included a reference to the scenario where the owner of an asset makes a gift of it to remove it from their estate for inheritance tax (IHT) purposes. However if the former owner continues to enjoy the benefits of ownership then the gift is generally ineffective for IHT purposes since the 'gift with reservation' rules apply. The government is concerned that the rules can be avoided and many have set up 'home loan' or 'double trust' schemes for the family home precisely to achieve this.

However rather than amend the IHT rules they have decided on an alternative approach. They propose that with effect from April 2005, income tax will be charged each year on the value of the benefit of using an asset formerly owned by the user. Logically there will be a deduction for any rent actually paid and a de minimis threshold of £2,500. Other exclusions cover situations where:

- the asset still counts as part of the taxpayer's estate for IHT purposes or

- the asset was sold at an arm's length price, paid in cash.

Taxpayers who have already entered into a scheme now caught by the new rules will be able to elect for transitional relief.

Pensions

The maximum earnings for which tax allowable pension contributions can be made is increased from £99,000 to £102,000 from 6 April 2004.

Action points

Under the current pensions regime, individuals can contribute £3,600 (gross) per year with no link to earnings. This makes it possible for non-earning spouses and children to make substantial contributions to pension schemes.

Higher levels of contribution require a link to earnings. However earnings in one year can be used as the basis of contributions for that year and the next five. This rule allows a company to pay remuneration in one year and dividends in the following five. This in turn enables a director/shareholder to make personal pension contributions every year and the company and individual to save national insurance. Make the most of this over the next two years because the new pensions rules to be introduced in April 2006 will not allow this.

Proposals for radical simplification of the taxation of pensions were originally announced in December 2002 and initially intended to take effect from April 2004. Following representations from the pensions industry, the start date has now been delayed until April 2006. The plan is to scrap the existing eight tax regimes for pensions and replace them with a single set of rules that would include:

- a single, lifetime limit on the amount of pension saving that can benefit from tax relief initially to be set at £1.5 million (not £1.4 million as previously proposed) and rising to £1.8 million by 2010
- any excess over the lifetime limit to be subject to a 25% 'recovery' charge
- allowing funds in excess of the lifetime limit to be withdrawn entirely as a lump sum subject to a higher recovery charge of 55%
- an annual allowance of £215,000 (not £200,000 as previously proposed) rising to £255,000 by 2010
- tax relief being given on the higher of 100% of relevant earnings or £3,600
- an increase in the age at which pensions can be drawn to 55 by 2010.

Comment

Some doubt was cast over the numbers potentially affected by the lifetime limit cap with the government suggesting a figure of 5,000 and independent experts putting the figure closer to half a million. National Audit Office research commissioned by the government suggested that 5,000 may be a little on the low side but is not wildly out and consequently the new regime has been given the green light but the start delayed until April 2006.

Where an individual has pension rights valued in excess of £1.5 million when the new rules are introduced, this value can be protected together with any growth up to the RPI. Alternatively individuals who plan to cease contributions to all pension schemes by April 2006 can register for 'enhanced' protection thereby avoiding the recovery charge altogether.

Consider boosting contributions over the next two years if you are a high earner or already have a valuable pension fund.

Self assessment tax returns

A new four page short tax return (STR) for people with relatively simple tax affairs has been piloted with 50,000 taxpayers in four areas. In April 2004, the Inland Revenue plans to introduce the form to more taxpayers over a wider area and to roll it out nationwide in April 2005. Only certain people will be eligible to use the STR. For example, some employees (other than company directors) with P11D benefits, the self employed where turnover is less than £15,000 and pensioners in receipt of a pension. In addition they may have modest amounts of investment income.

Venture Capital Trusts (VCTs)

VCTs invest in the shares of unquoted trading companies. An investor in the shares of a VCT is currently exempt from tax on dividends (although the tax credits are not repayable) and on any capital gains arising from disposal of the shares. Income tax relief at 20% is available on subscriptions for VCT shares, up to £100,000 per tax year, if the shares are held for at least three years. Capital gains (up to £100,000 per tax year) can be deferred into VCT investments. There has been a sharp reduction in funds invested in VCTs as a result of the global downturn in equity markets. Consequently changes are being made to the VCT rules as follows:

- there will be an additional temporary improvement to income tax relief for a period of two years from 6 April 2004 (from 20% to 40%)

- from 6 April 2004, the upper limit for eligibility for income tax relief will be increased from £100,000 to £200,000 in any single tax year

- from 6 April 2004, the ability to defer capital gains by investing in VCT shares will be withdrawn.

Other minor changes have been made to introduce greater flexibility.

Comment

The doubling of the annual investment limit is unlikely to affect the majority of investors since the average VCT investor subscribes for only £25,000 of shares. However a minority are constrained by the current limit and will therefore benefit from the increase.

Enterprise Investment Scheme (EIS)

The EIS allows new equity investment in qualifying unquoted trading companies (including AIM). Income tax relief at 20% is available on investments up to £150,000 per tax year and CGT exemption is given for shares held for at least three years. Furthermore unlimited capital gains may be deferred by reinvestment in EIS shares.

From 6 April 2004 the annual investment limit for eligibility for 20% income tax relief is increased to £200,000.

Child Trust Fund (CTF)

The government announced the introduction of a new CTF in the 2003 Budget. Children born since September 2002 are eligible for a CTF account if Child Benefit has been awarded for them and they are living in the UK.

The government will provide an initial endowment of £250 (£500 for low income families) and a further payment when the child reaches the age of seven. Other features of the fund will include:

- allowing additional contributions to be made by others (family and friends) of up to £1,200 a year
- being accessible at age 18
- different sorts of accounts available, including cash deposit accounts, unit trusts, and life products
- children not being taxable on the income and gains they make on the investments in their CTF account, but there will be no tax relief for contributions made to a CTF account.

■ Charitable giving

A loophole in the Gift Aid scheme has allowed certain charities to obtain relief for day admissions. That loophole will be blocked but not immediately.

In an effort to stimulate interest in payroll giving, the government is to pay grants to SMEs which establish schemes for their employees.

■ Life assurance policies

Gains from some life assurance policies are taxed as income under special rules. If when a policy comes to an end there is a deficit rather than a gain, 'deficiency relief' may be available. Avoidance schemes that create deficiency relief, typically for high net worth individuals, have been stopped by limiting the deficiency relief to the total of any earlier gains which formed part of the same individual's income. The measure affects all new contracts entered into on or after 3 March 2004 and certain earlier contracts.

■ National Insurance Contributions (NICs)

In 2003/04 NIC rates for employers, employees and the self-employed were all increased. For 2004/05 the thresholds have been increased but the percentage rates remain as in 2003/04.

The detailed rates are set out on page 16 of this booklet.

Action point

Although employees' NICs only become payable once earnings exceed £91 per week, it is still the case that earnings between £79 and £91 per week in 2004/05 protect an entitlement to basic state retirement benefits without incurring a liability to NIC. Consider whether you are making full use of this rule.

■ Company cars: fuel scale charge

Where fuel is provided for private use with a company car, the tax charge on the benefit is computed as £14,400 x the percentage figure used to compute the company car benefit. There is no change in the base figure for 2004/05 but, because the percentage applied at a given level of emissions has increased, the actual charge will rise. For example the charge on a vehicle with an emissions rate of 200gms per km will increase from £3,456 to £3,744.

Action point

Given the current level of the charge, review the position where private fuel is provided to check that sufficient private miles are being driven to warrant the charge. It may be cheaper to pay for private fuel personally.

Company vans

Following consultation, it has been decided to amend the tax benefit where an employee is able to use their employer's van for private journeys. The charge of £500 remains in place for 2004/05. From 6 April 2005 the charge will only apply where the employee has unrestricted private use of the van. If the employer specifically prohibits any private use, other than home to work travel, there will be no charge at all. It is intended to increase the charge for unrestricted private use significantly from April 2007 to £3,000 irrespective of the age of the vehicle. A separate charge of £500 on private fuel provided by the employer (currently included in the scale charge) will also be introduced in April 2007.

Comment

Employers need to reconsider their policies on the use of company vans and, if possible, introduce the restriction on private use to ensure that the tax charge (and the corresponding Class 1A NIC charge) is removed in 2005.

Exemption for emergency vehicles

Employees, in the fire, police and ambulance services who are provided with specially equipped emergency vehicles, currently pay tax on the private use of the vehicles even when they are required to take them home because of the need to respond to emergency calls. This charge will no longer apply from 6 April 2004.

Childcare costs

Currently employees are exempt from both tax and NICs where an employer provides a place in a workplace nursery. In addition childcare vouchers and childcare arranged by the employer are specifically exempt from NICs. Measures have been announced to take effect from April 2005 including:

- a new tax exemption to cover any formal registered childcare or approved home childcare contracted by the employer such as a local nursery, out-of-school club or childminder
- a tax exemption for childcare vouchers
- a rule that where schemes operate they should be open to all employees.

The new exemption will cover the first £50 per week and will apply for both tax and NIC purposes.

Enterprise Management Incentives (EMI)

The EMI scheme is one of a number intended to encourage employers to grant share options to employees. A small amendment is proposed to remove the requirement that where the company is not a stand-alone company, it can only issue EMI options if all of its subsidiaries are at least 75% owned by the company. This should allow more groups to take advantage of EMI options to encourage recruitment.

Corporation tax rates

The corporation tax rates continue to be a 0% starting rate, a 19% small companies rate and a main rate of 30%. However the benefit of the 0% rate may not apply to many small companies (see below). The detailed rates and profits bands to which they apply are set out on page 16. The profits limits continue to be reduced for a company that is part of a group or has associated companies.

Small companies

There is no doubt that the introduction of a 0% starting rate of corporation tax in 2002, together with national insurance increases which took effect in 2003, have done much to encourage many businesses to form companies.

The government is therefore making changes so that a minimum rate of corporation tax of 19% will apply when profits are distributed to non-company shareholders. The minimum rate will apply to distributions made on or after 1 April 2004. Lower rates of corporation tax will continue to apply where profits are left in the company.

Example

Gordon owns all the shares in a trading company Brown Ltd. The annual profits are £25,000 after a small salary has been paid to him. All the profits remaining after corporation tax has been deducted are paid out as a dividend. Gordon has no other income.

Under existing rules the corporation tax payable will be £3,562.50 (£10,000 at 0% + £15,000 at 23.75%). There will be no income tax on the dividend as Gordon's income does not fall into the higher rate band.

Although detail is a little thin on the ground it would appear that under the new rules the corporation tax payable will be £4,750 (£25,000 at 19%). Gordon will therefore receive a lower dividend. There will continue to be no income tax on the dividend as Gordon's income does not fall into the higher rate band.

Comment

The new measure is not as draconian as many feared. It only affects companies which make less than £50,000 of annual profits after salary deductions. And if those companies do not distribute all the profits in order to provide funds to expand the business they will continue to have some benefit from the 0% starting rate. Unfortunately the Inland Revenue press release does not expand upon how much benefit the company will obtain in such circumstances.

Action point

As the minimum rate applies to distributions made on or after 1 April 2004, companies with annual profits below £50,000 may wish to pay a dividend before this date.

Small and medium-sized company thresholds

Increased thresholds have been introduced and are used to determine which businesses are entitled to first year allowances (FYAs) on plant and machinery. The new limits apply for financial years ending on or after 30 January 2004.

The small company turnover threshold is doubled to £5.6 million and the balance sheet total is doubled to £2.8 million. The employee limit remains at 50.

The medium-sized company turnover limit is increased from £11.2 million to £22.8 million and the balance sheet total increased to £11.4 million from £5.6 million. The employee limit remains at 250.

Generally to satisfy either of the definitions, a company must fall within at least two of the thresholds.

FYAs for small businesses

The rate of FYAs for expenditure by small businesses on most plant and machinery will be increased from 40% to 50% for a period of one year. This will apply to expenditure incurred on or after 1 April 2004 for companies and 6 April 2004 for unincorporated businesses.

Action point

Since 1 April 2000, small businesses have been able to claim 100% FYAs on expenditure on ICT – specifically computers, software and internet-enabled mobile phones. This rate comes to an end on 31 March 2004.

Watch any expenditure incurred between 1 April and 5 April 2004 for an unincorporated business – only 40% FYAs will be due.

Capital allowances in Enterprise Areas

The government plans to introduce a 100% capital allowance for the capital costs of renovating business premises in the 2,000 Enterprise Areas. The allowance, which is subject to state aid approval, will apply to premises that have been vacant for a year and will be known as the 'Business Premises Renovation Allowance'. It is planned to take effect in 2005.

Partnership losses

The Inland Revenue has announced that certain partnership losses are to be the subject of its latest attack.

Where a partnership sustains a trading loss, the basic rule is that partners can claim relief for the loss against their other income and capital gains.

The Inland Revenue has decided that this is open to manipulation. Therefore with effect from the date the announcement was made, namely 10 February 2004, relief will be restricted where partners did not spend 'a significant amount of time working in the trade when the losses arose'. In the Revenue's words 'the changes will not therefore affect genuine traders who actively run their own trade'.

Comment

The measure of 'significant' is intended to be a minimum of ten hours per week and will only include time spent by the partner 'playing an active and personal role in the operations of the trade'. Clearly it is going to be difficult to measure the time spent. However anyone trying to start a new partnership whilst continuing to hold down another job is likely to fall foul of the new rules if a trading loss should arise in the new partnership.

Corporation tax reform - the process continues

The process of undertaking a major overhaul of the corporation tax system has been underway now for two years. Consultation continues with a view to:

- bringing companies' capital gains into an income regime

- considering rationalising and simplifying the headings ('schedules') under which a company's income is taxed
- reviewing the differences in tax treatment between trading and investment companies.

The issues of transfer pricing and management expenses have been identified as a priority for change and are detailed below.

Transfer pricing

Transfer pricing rules require the market value of transactions between connected businesses to be recognised for tax purposes. Thin capitalisation is the excessive use of debt finance rather than equity finance between connected companies. Currently these rules only apply to cross-border transactions. From 1 April 2004, the transfer pricing rules will be extended to cover purely domestic transactions as well. The thin capitalisation rules will be abolished and effectively incorporated into the transfer pricing regime.

To avoid a major compliance burden on smaller companies, the new rules will not usually apply to small or medium-sized enterprises, although the Inland Revenue will have the power to apply them to medium-sized enterprises in 'exceptional cases'.

Comment

In other cases the Inland Revenue will expect transactions between related companies to be on a demonstrably arms-length basis. They will expect to see documentation to justify the pricing basis being used although they accept that in small cases, or in cases where there is no obvious tax advantage to be gained because tax rates are similar, it is not reasonable to impose a detailed record keeping requirement.

Expenses of managing investments

Corporation tax relief for the expenses of managing investments is currently limited to investment companies. With effect from 1 April 2004, this restriction will be abolished and relief will be available to any company with 'investment business'.

Relief for this type of expense will be given in line with accounting rules. Specifically there will be a disallowance of any capital expenses.

Comment

The change will remove the need to establish a group management company simply to obtain relief for investment management expenses. In future, companies that carry on both trading and investment activities will qualify for relief.

Research and development (R&D) expenditure

In 2000, an R&D tax credit was introduced for small and medium-sized companies (SMEs). This enables SMEs to claim tax relief on 150% of qualifying R&D costs. The scheme was extended to large companies in 2002 enabling them to claim tax relief on 125% of qualifying R&D costs.

Some companies have faced difficulties in determining whether their expenditure qualified for the relief. The government has therefore:

- published revised guidelines which replace the previous requirements for 'novelty' and 'innovation' with the need to show an 'advance in science and technology'
- proposed a new category of qualifying costs to include software, water, power and fuel.

For large companies the changes take effect from 1 April 2004. For SMEs, changes will take effect as soon as state aid approval has been received.

Comment

The main purpose of the changes is to make eligibility for the credit clearer and to widen (slightly) the range of qualifying costs.

■ Reform of the Construction Industry Scheme (CIS)

A special tax deduction scheme for the Construction Industry has existed since 1972. The current CIS has been in place since 1999 but retains the same basic structure as before, namely reliance on paper vouchers to evidence payments between contractors and subcontractors.

The Chancellor announced in his 2003 Budget that a new CIS would be introduced in April 2005. However the industry expressed concern that this would be too tight a deadline. The result is that implementation has now been deferred until April 2006. The main proposals are to:

- replace Registration Cards and Gross Payment Certificates with a verification service
- introduce an employment status declaration
- replace vouchers with periodic returns.

■ Tax and accounting

International Accounting Standards (IAS) will apply to certain UK companies from 2005. Legislation will be introduced to:

- ensure that IAS accounts are valid for UK tax purposes
- amend the legislation on loan relationships, derivative contracts, intangibles and R&D to accommodate accounting changes.

■ Community Amateur Sports Clubs (CASCs)

In the December 2003 Pre-Budget Report, the Chancellor announced that from April 2004 CASCs would be given 80% rates relief.

In addition, it has been confirmed that they will be exempt from corporation tax on profits derived from trading, if their trading income is under £30,000, and on profits derived from property if their gross property income is under £20,000. CASCs that do not exceed these thresholds will not have to complete a corporate tax return on an annual basis. The new limits apply from 1 April 2004.

■ Landlord's energy saving allowance

There is generally no tax deduction against revenue for expenditure on new capital assets in computing the taxable profits of a property business. Landlords who pay income tax and who let residential property will be given an allowance up to a maximum of £1,500 when they install loft or cavity wall insulation in the property. The relief applies for expenditure incurred from 6 April 2004.

■ Investment in the film industry

The tax relief for British qualifying films, which is due to expire on 1 July 2005, will be replaced by a new relief for production expenditure incurred.

■ Capital gains tax (CGT) annual exemption

The annual exemption for 2004/05 is £8,200. For most trusts the exempt limit is increased to £4,100.

■ CGT rates of tax - individuals

Capital gains continue to be treated as the top slice of income. For 2004/05, rates continue to be aligned with those applying to savings income. Tapered gains are charged at 10% where gains plus total income do not exceed £2,020; 20% between £2,021 and £31,400; and 40% on any balance.

■ CGT rates of tax - trustees

From 6 April 2004 the rate of CGT for trustees will be increased from 34% to 40%.

■ Gift relief

Where a capital asset, say shares or property, is the subject of a gift then for CGT purposes it is generally treated as a disposal of the asset at its market value so that either a gain or loss arises. However where a gain arises it is possible, so long as certain conditions are satisfied, to defer the gain using the gift relief provisions. The gain is then charged to tax on any subsequent disposal by the recipient.

The conditions to be satisfied are broadly either that the asset in question is a 'business asset' or that the gift is of the type that is immediately chargeable to inheritance tax (generally gifts to discretionary trusts).

The government is concerned that certain avoidance schemes have been used, the effect of which is to defer a gain under the gift relief provisions but in such a way that the deferred gain is ultimately eliminated or reduced.

Provisions were therefore announced in the Pre-Budget Report on 10 December 2003 to deny gift relief in certain circumstances. Two main scenarios are envisaged.

The first involves the gift of an asset to a trust in which the donor has some sort of interest (a 'settlor interested trust'). With effect from 10 December 2003, gift relief is denied altogether on such transfers. The effect is to crystallise the gain on the transfer.

Comment

Since CGT taper relief was introduced in 1998, settlor interested trusts have often been used to improve the taper relief position on the ultimate disposal of assets. Although this does not seem to be the mischief at which the December 2003 announcement is aimed such transactions appear to be caught.

The second is aimed at a more specific scheme where a discretionary trust is used to defer a gain on a property that is then occupied by one of the beneficiaries as their main residence. On disposal of the property by the trustees the whole gain is exempt from CGT under the main residence exemption rules. The government has moved to block this device so that either the gain on set up of the trust can be deferred or main residence relief can subsequently be claimed but not both. This measure also took effect on 10 December 2003 and may also affect the main residence relief available where the property was transferred into the trust before that date.

Reporting requirements for capital gains

As announced in the 2003 Budget, for tax returns from 2003/04 onwards, there will be fewer situations where the capital gains pages of the return need to be filled in. The pages will not need to be completed where the total gains after taper relief do not exceed the annual exemption unless either:

- the proceeds exceed four times that amount or
- there are allowable capital losses in the year.

Taper relief: definition of business asset

As announced in the 2003 Budget, the definition of a business asset for taper relief purposes has been further relaxed and the changes take effect on 6 April 2004. Currently, the rules determining whether assets other than shares or securities qualify as business assets for taper relief purposes generally require that the owner of the asset uses it for trading purposes. The exception is where an investment property is let to an unquoted trading company. The proposed changes will mean that assets used for trading purposes will qualify as business assets irrespective of whether the owner is involved in carrying on the trade concerned.

Comment

These changes remove the current anomaly whereby an investment property let to an unquoted trading company constitutes a business asset but if let to a partnership (in which the owner is not a partner) it does not.

Inheritance tax (IHT) threshold

The IHT nil rate band is increased in line with inflation to £263,000 with effect from 6 April 2004.

Administration of IHT

Measures will be introduced later in the year to bring more estates within the simpler reporting regime for IHT. Other than in the largest estates, an IHT account will be required only where there is tax to pay.

In addition the IHT penalty rules will be brought more closely in line with those for income tax and CGT.

Trusts

As previously announced and referred to elsewhere in this summary, the rate of tax on the income and capital gains of trusts will increase from 34% to 40% with effect from 6 April 2004.

A further package of measures is under consideration to modernise the tax system for trusts and the likely start date is April 2005. The main proposals are as follows:

- to introduce a basic rate band of £500 for trusts so that around 30,000 trusts with small amounts of taxed income will have no further liability and will no longer have to submit a self assessment return every year
- to bring in new rules so that trusts set up for the most vulnerable, for example, for the disabled, are taxed as if the beneficiary had received the income and gains directly.

Further detail is expected in the 2004 Pre-Budget Report.

VAT thresholds

The VAT registration limits increase, in line with inflation, with effect from 1 April 2004 as follows:

- the threshold for compulsory registration is £58,000
- the threshold for voluntary deregistration is £56,000.

Annual accounting scheme

The annual taxable turnover limits for joining and remaining in the scheme are increasing in line with inflation. With effect from 1 April 2004 the limits will be £660,000 to join the scheme and £825,000 to remain in the scheme.

Comment

There is normally a requirement for businesses to be registered for 12 months prior to joining the scheme. Note that the ability for businesses with taxable turnover of up to £150,000 to join the scheme immediately is not changed.

Cash accounting scheme

The turnover limits for the cash accounting scheme will also increase in line with inflation to £660,000 to join the scheme and £825,000 to stay in the scheme. These limits come into effect on 1 April 2004.

There is also a new measure to allow outstanding VAT to be accounted for on a cash basis for a further six months after leaving the scheme.

VAT anti-avoidance measures

- New disclosure rules are to be introduced for certain businesses using specific avoidance schemes.
- Measures come into effect from 18 March 2004 to block a complex avoidance scheme which uses a Special Purpose Vehicle to avoid VAT on commercial buildings.
- In a few cases there will be two new tests applying from 1 August 2004 for eligibility for VAT grouping.

Alcoholic drinks

The excise duty on spirits, cider and sparkling wine is frozen. The duty on beer and still wine is increased in line with inflation, adding 1p to a pint of beer and to a standard 175ml glass of wine. The new rates come into effect from midnight on 21 March 2004.

The reduced rate scheme for small breweries continues. Improvements are being made to the scheme which come into effect on 1 June 2004. New measures for stamping retail containers of spirits and certain wines are coming into effect from Royal Assent.

Tobacco products

Tobacco duties are increased in line with inflation with effect from 6pm on 17 March 2004.

Vehicle Excise Duty (VED)

VED rates have been frozen for all cars, vans, lorries and motorcycles.

Stamp duty land tax (SDLT)

Currently most transfers of an interest in land into, within or out of a partnership, are excluded from SDLT. Legislation will be introduced effective from Royal Assent to bring certain partnership transactions, where the partnership property includes an interest in UK land, within the scope of SDLT.

Further changes have been made to the SDLT regime to clarify points of uncertainty, counter avoidance and extend some reliefs.

> ***Comment***
>
> *Once again increases in SDLT rates were widely predicted but have not materialised so that the top rate of duty remains at 4%. The detailed rates are set out on page 16.*

Merger

The Chancellor announced that the Inland Revenue and Customs and Excise are to merge.

Tax avoidance

New disclosure rules are to be introduced in relation to certain tax schemes. Broadly the rules will require tax scheme promoters to provide details of their schemes to the Inland Revenue shortly after the scheme is sold. The scheme will then be registered and a reference number allocated. Taxpayers using such schemes will then be required to include on their tax return the registration number of the scheme.

Extra funding will be provided to the Inland Revenue to help tackle fraud and tax avoidance.

Lloyd's underwriters

Individual members of Lloyd's who convert to underwriting through a corporate member of Lloyd's will be able to set off trading losses from underwriting years before the transfer, against income derived from underwriting years after the transfer. They may also be able to defer liability to capital gains tax if assets held as funds are transferred to a company in exchange for shares.

Landfill tax

As previously announced the rate is increased from £14 to £15 per tonne with effect from 1 April 2004. The rate is to be increased by £3 per tonne in 2005 and by at least that amount in later years on the way to a medium to long-term rate of £35 per tonne.

The lower rate for inactive waste remains at £2 per tonne.

Property Investment Fund

The Chancellor has launched a consultation on the most appropriate structure for a new Property Investment Fund, a UK version of the successful US Real Estate Investment Trusts. It is hoped that the new fund will encourage more efficient investment in property and help to boost the private rented sector.

Immediate needs annuities

A measure is to be introduced to ensure the continued tax exemption of immediate needs annuity payments made by an insurance company for the provision of an individual's long term care.

INCOME TAX RATES

2004/05 Band £	Rate %	2003/04 Band £	Rate %
0 - 2,020	10	0 - 1,960	10
2,021 - 31,400	22*	1,961 - 30,500	22*
Over 31,400	40**	Over 30,500	40**

* Except dividends (10%) and savings income (20%).
** Except dividends (32.5%).
Other income taxed first, then savings income and finally dividends.

INCOME TAX RELIEFS

		2004/05 £	2003/04 £
Personal allowance	- under 65	4,745	4,615
	- 65 - 74*	6,830	6,610
	- 75 and over*	6,950	6,720
Married couple's allowance (relief at 10%)	- aged less than 75 and born before 6.4.35*	5,725	5,565
	- 75 and over*	5,795	5,635
	- min. amount	2,210	2,150
*Age allowance income limit		18,900	18,300
(reduce age allowance by £1 for every £2 of excess income over £18,900)			
Blind person's allowance		1,560	1,510

TAX CREDITS

	2004/05 £	2003/04 £
Working tax credit (WTC)		
Basic element - max.	1,570	1,525
Childcare element 70% of eligible costs to a max. of £135 per week (£200 if two or more children)		
Child tax credit (CTC)		
Child element per child - max.	1,625	1,445
Family element	545	545
Baby addition	545	545

Reductions in maximum rates
37% of income above £5,060*p.a.

*If only CTC is claimed, the threshold is £13,480 p.a. (£13,230). The family element of CTC is not reduced unless income is more than £50,000 p.a. when it is reduced by £1 for every £15 of additional income.

PENSION PREMIUMS

% of Net Relevant Earnings (NRE) 2004/05 and 2003/04

Age at the beginning of the tax year	*Personal Pensions (including stakeholder)	Retirement Annuities
35 or less	17.5	17.5
36 - 45	20	17.5
46 - 50	25	17.5
51 - 55	30	20
56 - 60	35	22.5
61 - 74	40	27.5

*Maximum contributions 2004/05 and 2003/04: higher of
- £3,600 (gross)
- % of NRE capped at £102,000 in 2004/05 (2003/04 £99,000).

INDIVIDUAL SAVINGS ACCOUNTS (ISAs)

2004/05 and 2003/04		£
Overall investment limit	- maxi ISA	7,000
	- mini ISA	3,000
	- mini cash ISA	3,000

CAR AND FUEL BENEFITS

Company cars 2004/05

CO_2 emissions (g/km) (round down to nearest 5g/km)	% of car's list price taxed	Fuel benefit (£14,400 x %) £
up to 145	15	2,160
150	16	2,304
155	17	2,448
160	18	2,592
165	19	2,736
170	20	2,880
175	21	3,024
180	22	3,168
185	23	3,312
190	24	3,456
195	25	3,600
200	26	3,744
205	27	3,888
210	28	4,032
215	29	4,176
220	30	4,320
225	31	4,464
230	32	4,608
235	33	4,752
240	34	4,896
245 and above	35	5,040

Company cars
- For diesel cars add a 3% supplement, but maximum still 35%.
- Discounts apply to certain environmentally friendly cars.
- For cars registered before 1.1.98 charge is based on engine size.
- The list price includes accessories and is subject to an upper limit of £80,000.
- List price is reduced for capital contributions made by the employee up to £5,000.
- Payments made by employees may reduce the benefits.

Fuel benefits
- The fuel benefit charge is proportionately reduced if provision of private fuel ceases part way through the year.
- The fuel benefit is reduced to nil only if the employee pays for all private fuel.

Van benefit per vehicle - 2004/05 and 2003/04

Vehicles under 4 years old	Vehicles at least 4 years old
£500	£350

Notes
1. The age is determined at the end of the tax year.
2. Van benefits include fuel for private use.

MILEAGE ALLOWANCE PAYMENTS

Cars and vans	2004/05 and 2003/04 Rate per mile
Up to 10,000 miles	40p
Over 10,000 miles	25p
Bicycles	20p
Motorcycles	24p

These rates represent the maximum tax-free mileage allowances for employees using their own vehicles for business. Any excess is taxable. If the employee receives less than the statutory rate, tax relief can be claimed on the difference.

CAPITAL ALLOWANCES

	Writing Down Allowance
Plant and Machinery*	25%#(reducing balance)
Motor Cars**	25% (reducing balance) - £3,000 max
Industrial and Agricultural Buildings and Hotels	4% (straight line)

* **For small businesses:** first year allowances (FYAs) of 40% on expenditure until 5.4.04 (31.3.04 for companies).
FYAs of 50% for 12 months from 6.4.04 (1.4.04 for companies). 100% FYAs between 1.4.00 and 31.3.04 on computers, software and internet-enabled mobile phones.
For medium-sized businesses: FYAs of 40%.
For all businesses: 100% FYAs on expenditure on energy saving plant and machinery from 1.4.01.
** 100% FYAs on new cars with CO_2 emissions not exceeding 120 gm/km from 17.4.02.
\# 6% on certain long life assets.

PROPOSED RATES AND ALLOWANCES 2004/05

CORPORATION TAX

	Years to 31.3.05 and 31.3.04	
	Profits band	Rate
	£	%
Starting rate	0 - 10,000	0*
Marginal (starting) rate	10,001 - 50,000	23.75
Small companies rate	50,001 - 300,000	19
Marginal (small companies) rate	300,001 - 1,500,000	32.75
Full rate	Over 1,500,000	30
Starting rate fraction		19/400
Small companies fraction		11/400

*With effect from 1 April 2004, minimum rate of 19% will apply when profits are distributed to non-company shareholders.

The profits limits are reduced for accounting periods of less than 12 months and for a company with associated companies.

VALUE ADDED TAX

Standard Rate	17.5%
Lower Rate	5%
Annual Registration Limit - from 1 April 2004 (10.4.03 - 31.3.04 £56,000)	£58,000

VAT on private fuel - scale charge due per quarter per car for accounting periods beginning on or after 1 May 2004.

	Petrol		Diesel	
	Charge	VAT	Charge	VAT
	£	£	£	£
Up to 1400cc	232	34.55	216	32.17
1401 - 2000cc	293	43.63	216	32.17
Over 2000cc	432	64.34	273	40.65

CAPITAL GAINS TAX

	2004/05	2003/04
	£	£
Individuals		
Exemption	8,200	7,900

Balance of gains (reduced by taper relief) charged as top slice of income (at savings rates - ie 10%, 20% or 40%)

	2004/05	2003/04
Trusts		
Exemption	4,100	3,950
Balance of gains (reduced by taper relief)	40%	34%

Taper relief 2004/05 and 2003/04 disposals

Percentage relief depends on number of complete years asset owned after 5.4.98.

Years of ownership	1	2	3	4	5	6	7	8	9	10
Business assets (% relief)	50	75	75	75	75	75	75	75	75	75
Non-business assets*(% relief)	0	0	5	10	15	20	25	30	35	40

*Add one extra year if asset owned before 17.3.98.

STAMP DUTY & STAMP DUTY LAND TAX

Shares and securities	0.5%
Other property	
Up to £60,000*	Nil
£60,001 - £250,000	1%
£250,001 - £500,000	3%
Over £500,000	4%

Disadvantaged areas

Residential property:
exemption up to £150,000 from 30.11.01

Commercial property:
exemption up to £150,000 from 30.11.01 to 9.4.03
exemption without limit from 10.4.03

***From 1.12.03** Nil rate upper threshold on commercial property increased to £150,000.

INHERITANCE TAX

Death Rate	Lifetime Rate	Chargeable Transfers 2004/05	Chargeable Transfers 2003/04
%	%	£'000	£'000
Nil	Nil	0 - 263	0 - 255
40	20	Over 263	Over 255

Reliefs

Annual exemption	£3,000	Marriage	- parent	£5,000
Small gifts	£250		- grandparent	£2,500
			- bride/groom	£2,500
			- other	£1,000

Reduced charge on gifts within seven years of death

Years before death	0-3	3-4	4-5	5-6	6-7
% of death charge	100	80	60	40	20

NATIONAL INSURANCE

Class 1 (employed) Contracted in	2004/05 Rates	
Weekly earnings	Employer	Employee
Up to £91	Nil*	Nil*
£91.01 - £610	12.8%**	11%**
Over £610	12.8%**	£57.09 + 1%♦

* Entitlement to contribution-based benefits retained for earnings between £79.01 and £91 per week.

**On earnings above £91.

♦ On earnings above £610.

Class 1A (employers)	12.8% on employee taxable benefits
Class 1B (employers)	12.8% on PAYE Settlement Agreements
Class 2 (self-employed)	flat rate per week £2.05 small earnings exception p.a. £4,215
Class 3 (voluntary)	flat rate per week £7.15
Class 4 (self-employed)	8% on profits between £4,745 and £31,720 plus 1% on profits over £31,720

MAIN SOCIAL SECURITY BENEFITS

Weekly Benefit	2004/05	2003/04
Basic Retirement Pension - single person	£79.60	£77.45
- married couple	£127.25	£123.80
Statutory pay rates - average weekly earnings £79 (£77) or over		
Statutory Sick Pay	£66.15	£64.35
Statutory Maternity Pay		
First six weeks	90% of weekly earnings	
Next 20 weeks	£102.80*	£100.00*
Statutory Paternity Pay - two weeks	£102.80*	£100.00*
Statutory Adoption Pay - 26 weeks	£102.80*	£100.00*

* Or 90% of weekly earnings if lower.