



# Budget 2002

## "A small tightening"

### Overview: *at last the truth – Gordon wants your money!*

- It seems strange after years of being told tax increases are actually tax cuts to have a budget that openly increases tax. It is to be hoped that it's not simply that the economic prospects are so bad some of the truth had to be told.
- We now have a fully fledged, red in tooth and claw budget that is designed to redistribute from those creating wealth to those who consume.
- The objective of a "family-friendly" tax system continues – with the unspoken corollary that it penalises individuals and couples.

### Pre-budget announcements

In accordance with established tradition very few of the measures announced today have any impact until 2003/04, this is probably to give the taxpayer time to get used to the pain. In addition many of the changes in the current tax year are the result of previous budgets. We have attempted to present the results in a coherent manner but this becomes increasing difficult as the government attempts to dress its wolves in sheep's clothing.

### Income Tax

- Personal allowances and threshold have been increased for 2002/03 as follows
  - Basic personal allowance £4,615
  - 10% band, first £1,920 of taxable income
  - 40% tax starts above £29,900 taxable income
  - Age allowance (65-74) £6,100
  - Age allowance (75+) £6,370
  - Income limit for age related allowance is £17,900
- For 2003/04 allowances will be frozen with the exception of the age related allowances which will be increased faster than inflation.

### Benefits in Kind

- The taxation of company cars is now
  - Based on the CO<sub>2</sub> emissions and cost
  - Annual mileage and age are no longer a factors
  - Fuel charge is increased by 20% over the increase in pump prices.
- Employees will not be taxed on free or discounted travel on buses subsidised by their employers

### Reliefs

- It is no longer possible to carry forward unused personal pension relief.
- The maximum net relevant earnings for personal and stakeholder pension contributions for 2002/03 is £97,200
- Relief for charitable donations can now be carried back to the previous tax year. From 2004 taxpayers filing a return will be able to direct the Inland Revenue to send any refund to a charity of their choice.
- From Budget day new provisions will give flexibility to VCTs and their investors to consider options on being wound up or merged from a commercial standpoint

rather than with regard to the tax implications

### National Insurance

- For 2002/03:
  - Employees contributions are 10% on earnings between £75 and £585 per week
  - Employers contributions are 11.8% on earnings above £89
  - The contracting out rebates are 1.6% for employees and 3.5% (final salary) or 1% (money purchase) for employers
  - Class 2 contributions are £2 per week and the small earnings exemption is £4,025
  - Class 4 contributions are at a rate of 7% on profits between £4,615 and £30,420
- From 2003/04 in addition to contributions at the above rates a further 1% on ALL earnings above the lower limits are payable by employers, employees and the self-employed

### Capital Gains Tax

- The tax on business asset gains is now charged at the tax payers marginal rate on:
  - 100% of the gain for assets held for less than one year
  - 50% of the gain for assets held for a whole year
  - 25% of the gain for assets held for two whole years
- The 2002/03 exempt amount is £7,700 for individuals and £3,850 for trustees
- Gains on the sale of substantial shareholdings in trading companies by trading companies are now exempt provided the holding was more than 10% in at least 12 months in the two years prior to sale.

### Business Taxation

- There are some immediate changes in the tax rates for small companies
  - Starting rate for Companies is reduced to 0%
  - The small companies rate is reduced to 19%
- Deductions suffered under the Construction Industry scheme can be offset against PAYE/NIC liabilities in respect of employees or CIS liabilities in respect of their own sub-contractors
- Businesses will no longer be able to claim relief for bribes paid overseas (UK bribes are already disallowed as "criminal payments" although their stable-mate "the political donation" remains)
- There is an R&D tax credit of 25% for businesses not already entitled to the credit for SMEs
- Combined Heat and Power systems are exempted from the Climate Change Levy

### Capital Allowances

- Relief has been introduced from 1 April 2002 for the costs of acquiring intangible assets and goodwill
- Five new energy-saving technologies have been added to those attracting enhanced capital allowances, these are
  - heat pumps;

- radiant and warm air heaters;
- solar heaters;
- energy-efficient refrigeration equipment, including display cabinets; and
- compressor equipment

## Stamp Duty

- Subject to approval under EC state aid rules stamp duty will be abolished on all commercial property transactions in high unemployment areas (currently exempt upto £150,000)
- The practice of avoiding stamp duty by “resting on contract” is to be ended and other stamp duty avoidance schemes are to be tackled
- A review of stamp duty on leases is to undertaken with a view to bringing the duty into line with current commercial practices

## Value Added Tax

- The registration threshold is increased to £55,000 per annum. Businesses with taxable outputs that exceed this amount must be registered.
- Businesses with turnover less than £100,000 (£150,000 in 2003/04) may choose to pay a flat rate of VAT based on their turnover thus avoiding the need to keep detailed VAT records.
- From 2003/04 businesses with turnover less than £150,000 that are late with payments will first be offered advice rather than an automatic penalty.
- The rules for the annual accounting scheme are to be simplified
- It will no longer be necessary to write to debtors in order to claim bad debt relief
- From 2003/04 following consultation a scheme will be introduced to permit approved importers to defer payment of VAT on imports

## Other Taxes

- The Inheritance Tax threshold is increased to £250,000
- Bingo duty is abolished and replaced with the Betting and Pools tax on the gross profits of the operators.
- Air Passenger Duty is to be applied at the lower European rate from 1 November 2002 to flights to Switzerland and countries applying to join the EC.
- Community Amateur Sports Clubs will be able to obtain some of the tax reliefs available to charities without the necessity of registering as a charity.

## Welfare Reform

- The National Minimum Wage will increase by 10p from October.
- Mandatory employment is to be introduced for the long-term unemployed in pilot areas, presumably naval ports will be avoided to allay fears of a return of the press-gang
- From 2003/04 the child tax credit paid to the primary carer with Child Benefit will give £54.25 a week for the first child to families earning less than £13,000 per annum and £26.50 to families earning less than £50,000.
- Working Families Tax credit is to be adjusted from 2003/04 to provide incentives for non-working partners to take part-time employment

## Duties

- Duty on micro-breweries (those with production of less than 5 million pints per annum) to be halved, a cut of

14p per pint to be in place before the World Cup. (Details of pubs selling such beers which have a large screen TV and extended hours for the world cup will be gratefully received – email [worldcup@fgco.com](mailto:worldcup@fgco.com)). A tapered relief will apply to breweries producing between 500,000 and 3,000,000 pints per annum.

- Bicardi Breezers and other coolers are to be taxed as spirits which will increase the price per bottle by 11p
- Fuel duties have been frozen.
- Vehicle Excise Duty is frozen and in the case of the least polluting cars cut by the introduction of a lower £60 band. Similar reductions are made for small vans and motorcycles

## Pensions

- Pensions increase by £3 per week for single pensioners and £4.80 for couples.
- The minimum income guarantee is £98.15 and will be £100 from 2003/04
- Basic state pensions will increase by a minimum of £100 per annum regardless of the rate of inflation

## Roundup

- The headline reason for the substantial tax increases made is to fund the National Health Service.
  - The increases in tax are insufficient to cover the long term commitments made to the NHS and the quid pro quo of those commitments must be assumed to be an annual repetition of tax increasing budgets – unless that is the current regime is deposed
  - Interestingly the financial review functions of the Audit Commission, a scrupulously independent body that does not shy from criticizing government waste, are to be removed and given to an untried and untested supervisory body. Given that the NHS is said to waste 15% of its budget perhaps a less toothsome watchdog was thought necessary.
- It is ironic that the budget strives to improve the health service and thus presumably prolong our lives but makes no attempt to deal with the growing problems in provision of pensions arising from previous tax changes, FRS17 and the general lack of trust following the Equitable Life debacle.
- One of the consequences of the family and children’s tax credits is to make explicit the cost of working when in receipt of benefits – the budget changes will result in an extra half a million people suffering a marginal tax rate in excess of 60%.
- It is difficult to see how increasing the cost of employment will increase the numbers in work but I’m sure the chancellor is smarter than me so he must be right.

For details of the tax rates, allowances and credits see the links at <http://www.fgco.com/info.htm> which also includes links to a number of tax calculators.

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