



# Budget 2003

## **Overview: Increasing inequalities and inefficiency**

- The underlying theme of the budget was the continuing attempts at social engineering. The poverty trap is being replaced by the greater evil of extending the ossifying grip of welfare further and further up the income scale.
- Increasingly it will be more important to consult your accountant rather than your gynaecologist when contemplating having a child.
- The child trust fund will inevitably be abused by the non-poor as they have abused the student loan system (by taking subsidised loans they don't need and investing the proceeds). I very much doubt whether this encouragement of petty dishonesty is good for society as a whole.
- The enhancement of the power of regional development agencies will no doubt ensure that they continue to distort local economies as they chase the pet theories of the forests of dead-wood that they employ.

## **Pre-budget announcements**

The major changes in personal tax for the current tax year were announced in the last budget, namely the freezing of allowances and the additional 1% charge on both employees 'and employers' national insurance.

## **Income Tax**

- Personal allowances for 2003/04 are £4,615 (65-74 £6,610, 75+ £6,620)
- The starting rate of tax (10%) applies to the first £1,960 of taxable income and the higher rate (40%) to taxable income over £30,500, the standard rate remains 22%.
- Anti-avoidance provisions are to be introduced to prevent the avoidance of tax and NIC by employment of domestic servants through service companies. This is achieved by an extension of the IR35 provisions to cover all provision of personal services (it is currently restricted to cases where the services are provided to a business)
- There are measures to ensure that local authority payments to foster carers and in support of adopters are tax free (subject to an upper limit in the case of foster carers)

## **Benefits in Kind**

- The exempt amount for long service awards (not more than one every ten years) tax is to be increased from £20 to £50 per year of service.
- The exempt amount for staff parties is increased to £150 per head (per annum) from £75
- The number of breakfasts that can be provided free to employees participating in official cycle to work days was previously limited to six per annum; this limit is to be abolished.
- Gifts from third parties to a value of £250 will be free of tax (previously £150)
- The above limits will apply from the date the amending regulations come into force
- The rules in relation to the use of employee benefit trusts were changed from 27 November 2002 to deny relief in computing profits until a payment is made from the trust

that attracts income tax and NIC (except for retirement benefit, personal pension and accident benefit schemes)

- The government is to consult on the taxation of employer provided vans
- Up to £2 per week may be paid to meet the incidental costs of home-working without the need to keep supporting evidence. For larger payments evidence must be retained to show that the payment is wholly in respect of additional expenses incurred by the employee in carrying out his duties at home.

## **Reliefs**

- The earnings cap for contributions to personal pensions is raised to £99,000.
- There are changes to simplify employee share schemes:
  - The exercise of CSOPs will not be restricted by a previous tax relieved CSOP exercise in the previous 3 years. "Good leavers" will be able to exercise CSOP options within three years of grant without triggering a tax or NIC charge.
  - The deadline of 30 days from the date of exercise of an Unapproved Share Option for the employee to refund to the employer the PAYE liability is extended to 90 days.
  - SAYE rights will be preserved when an employee loses their job (as a "good leaver") after moving to an associated company
  - The holding period for SIP dividend shares is aligned with that of the base shares
- Prior to the budget it was possible for multiple deaths to give rise to unintended tax charges in respect of group life policies on the insured members or the policyholder. The budget relieves this charge from 9 April 2003 and gives retrospective relief for any charges to tax prior to the budget. The policies must satisfy certain conditions - policyholders and insurers have until 5 April 2004 to vary any terms that do not meet these conditions.

## **National Insurance**

- For 2003/04: a further 1% on ALL earnings above the lower limits are payable by employers, employees and the self-employed.
- The lower earnings limit is £77, the lower threshold £89 and the upper earnings limit £595.
- Changes in NI regulations to reflect the changes to the taxation of benefits above.

## **Capital Gains Tax**

- From 2003/04 the number of tax payers who have to complete the capital gains pages of tax returns is to be reduced (however the 95% of the work that is needed to determine whether submission of these pages is necessary will not be removed!)
- Gains on previously purchased then gifted second-hand life-policies will now be taxable and any capital loss will be restricted to the amount of the real economic loss.
- Certain tax avoidance ruses of the life assurance industry have been curtailed.

- From April 2004 business assets will include property let to unincorporated traders.

## Business Taxation

- Interest paid on overdue PAYE, NIC etc by employers in the construction industry will be deductible in calculating profits for accounting periods ending on or after 9 April 2002.
- Contributions to the running costs of Urban Regeneration companies are allowable in calculation profits if made on or after 1 April 2003.
- The rules surrounding the research and development tax credit are to be simplified, the minimum expenditure limit lowered to £10,000, the requirement to employ staff directly and that staff spend 80% of their time on research and development are removed.
- From April 2004 mandatory electronic payment of PAYE will be introduced for large employers.

## Capital Allowances

- The medium company threshold is to be increased to the minimum allowed (~£20million turnover) as soon as the relevant European legislation permits (businesses under this limit are eligible for enhanced capital allowances)
- The 100% first year allowances for small business information and communications technology is extended for a further year
- Enhanced capital allowances (100% FYA) for energy saving technology and water technology
- Acceleration of capital allowance for Industrial Buildings, mineral extraction, flat conversion, agricultural buildings and assured tenancies by entering into transactions at an artificial value has been prevented from 27 November 2002

## Stamp Duty

- Non-residential property transactions in disadvantaged areas are exempted from stamp duty and non duty is payable on residential transactions up to £150,000. A post code search of the eligible areas is available at: [http://www.inlandrevenue.gov.uk/so/pcode\\_search.htm](http://www.inlandrevenue.gov.uk/so/pcode_search.htm). It is worth noting that the vast majority of Bradford is eligible for relief.
- From 1 December 2003 stamp duty is abolished other than in relation to land, shares and interests in partnerships.
- From 1 December 2003 reforms prevent a double stamp duty charge under Islamic mortgage arrangements and other similar schemes
- From 1 December 2003 duty on leases will be based on the net present value of the rents payable and there will be a zero rated band for commercial property transfers and leases up to £150,000

## Value Added Tax

- The VAT threshold is increased to £56,000 for registration and those businesses with turnover under £150,000 pa may use the flat rate and annual accounting schemes and will be subject to a relaxed late payment penalty regime.
- There is a claim that measures introduced will reduce the compliance costs for small businesses by over £1,000 – a telling measure of the appalling burdens placed upon business in the first place!

## Other Taxes

- The IHT threshold is increased by £5,000 to £255,000. This is much less than the increase in house prices in

many parts of the country and will thus result in more estates being subject to IHT.

- Air Passenger Duty is frozen although the yield of the tax is much compromised by the non-fiscal policies of the government which have reduced the attractiveness of air-travel.
- Changes in the Court Common Investment Fund will allow a wider range of investors including the beneficiaries themselves and these investors will be treated as unit holders for tax purposes.

## Social and Welfare Reform

- The existing employer training pilot schemes are to be extended and there is some additional funding for apprenticeships and skills training. However the sum total of the measures appears to be to waste time and effort formally assessing existing skills.
- Additional assistance is to be provided to discourage lone parents from looking after their children themselves with a £20 per week work search allowance and increases in the minimum income for the first year.
- There are to be reforms in the housing benefit scheme.

## Duties

- The current uncertainties in the oil-producing region have led to a delay until 1 October 2003 of the increases in fuel duty. Interestingly for those watching for the next “war” the chancellor broached the possibility of a further delay due to continuing uncertainty.
- From Monday 14<sup>th</sup> April 2003 beer is increased by 1p per pint and wine by 4p per bottle. This gives us all several days to drown the sorrows of the NI increases.
- Bingo tax is to be abolished from August – replaced by a tax on gross profits.
- Landfill tax will eventually be increased to £35 per tonne.
- The climate change and aggregates levies are unchanged.

## Roundup

- Much was made by the chancellor of the low level of borrowing by the UK government compared with other countries. I suspect that this referred to the publicly presented figures and in the case of the UK this excludes a substantial off-balance sheet finance element from PFI. Book-cooking of this nature led to the demise of Enron.
- The budget forecasts contain a marvellous example of creative accounting - the growth forecast for the current year is reduced but growth for the future increased so that over the long term the answer remains roughly the same as previously announced! Perhaps this unfortunate habit for fiction was picked up from PFI bids which (allegedly!) often include a fudge factor to ensure the private sector bid looks better than the public sector one

*The opinions expressed are those of  
A David Simpson BA(Oxon) ACA [david@fgco.com](mailto:david@fgco.com)  
You should not act on the information contained in this  
summary without first consulting either the above or:  
Ian J Fletcher FCA [ian@fgco.com](mailto:ian@fgco.com)  
Our website is at <http://www.fgco.com>*

*And finally- the prophetic words of Marcus Tullius Cicero:  
The national budget must be balanced. The public debt must be  
reduced; the arrogance of the authorities must be moderated and  
controlled. Payments to foreign governments must be reduced, if the  
nation doesn't want to go bankrupt. People must again learn to  
work, instead of living on public assistance. – in 55BC*