



Budget 2004

Overview: 2.75% more crystal amulets in real terms

- The Budget was an orgy of spending reminiscent of a wayward partner's splurge on obtaining yet another credit card. Just as with credit cards the debt will have to be paid at some point.
- In a budget for enterprise there was a commitment to increase spending on science; unfortunately New Labour's idea of science is best summed up as feng shui. Presumably this will mean more research on the crystal amulets beloved by Cherie Blair and their role in the NHS.
- It is a measure of the economic intelligence of this government that it considers it a matter of pride that over its tenure it has managed to create less than 3 private sector jobs for each public service job.

Income Tax

- Personal allowances for 2004/05 are £4,745 (65-74 £6,830, 75+ £6,950)
- The starting rate of tax (10%) applies to the first £2,020 of taxable income and the higher rate (40%) to taxable income over £31,400, the standard rate remains 22%.
- A simplified four page self-assessment tax return will be sent to employees, small businesses and pensioners from 6 April 2004.
- Distributions from jointly held shares in close companies will be split and taxed according to beneficial ownership rather than in equal shares.
- The rate of tax applicable to trusts will increase from 34% to 40% and the corresponding charge on dividends will increase from 25% to 32.5%. Further changes are planned for 2005 that will be backdated to 6 April 2004 in respect of trusts for the vulnerable.

Benefits in Kind

- The figure on which the car fuel benefit is calculated has been frozen at £14,400.
- Cars qualifying for the minimum percentage (15%) for company car tax will have to meet an emissions standard of 145gms per km of CO₂ in 2004/05 and 140gms per km in 2005/06 and 2006/07
- There will be changes in the treatment of company provided vans over the next few years that will result in an eventual increase in the tax charge to £3,000 by 2007 plus a charge of £500 if fuel is provided. However from 6th April 2005 no benefit will arise if the employee has to take the van home but is not allowed other private use.
- From 6 April 2005 the provision of up to £50 per week of childcare with an approved child-carer will be free of tax and national insurance. The employer must contract with the carer or provide childcare vouchers for the purpose of paying an approved child-carer.

Reliefs

- The earnings cap for contributions to personal pensions is raised to £102,000 for 2004/5.
- The rate of income tax relief for investments in qualifying

venture capital trusts in increased to 40% for the tax years 2004/05 and 2005/06. The investment limit is increased to £200,000 per annum from 6 April 2004.

- The annual limit for EIS investments is increased from £150,000 to £200,000 from 6th April 2004.

National Insurance

- For class 1 contributions the lower earnings limit is £79, the lower threshold £91 and the upper earnings limit £610 per week.
- Class 2 NI contributions are increased from £2 to £2.05 per week. The small earnings exemption is £4,215
- The lower limit for Class 4 contributions is £4,745 and the higher limit £31,720

Capital Gains Tax

- The deferral relief for gains reinvested in VCT's is withdrawn from 6 April 2004. Relief remains in respect of EIS investments.
- Further tax avoidance ruses of the life assurance industry have been curtailed.
- The annual exempt amount is £8,200 for individuals and £4,100 for most trustees.

Business Taxation

- A package of extra funding is to be made available to ensure that more resources can be devoted to encouraging those who do not currently pay their taxes in full to be better citizens.
- Changes to the transfer-pricing regime mean that it will now apply to transactions within the UK as well as cross-boarder transactions (for corporation tax purposes only at present).
- There are further detailed adjustments to the R&D tax credit, extending the definition of R&D.
- A charge to taxation will be imposed when a company realises capital in a partnership if the capital represents profits that would have been taxable in the UK had profits been allocated in proportion to shares of the partnership capital. This is an anti-avoidance measure and applies from budget day.
- From April 2004 mandatory electronic payment of PAYE will be introduced for large employers
- The 0% band of corporation tax is retained but will be restricted to undistributed profits thereby closing the mousetrap by which the chancellor has encouraged some businesses to incorporate. The tax on distributions will catch the distribution of previously retained profits.

Capital Allowances

- First year allowances for small enterprises will increase to a rate of 50% for the forthcoming year. There is no time extension of the 100% relief for ITC expenditure which therefore ceases.

Stamp Duty

- The extension of Stamp Duty Land Tax to partnership transactions from the date of Royal Assents is a belated realisation that a small "planning" opportunity had been left.

Value Added Tax

- The registration threshold is increased to £58,000 – "the highest in Europe". The turnover ceiling for cash and annual accounting schemes is increased to £660,000.
- A register of VAT abusive avoidance scheme is to be published and businesses with an annual turnover of more than £600,000 will have to disclose use of these schemes to Customs and Excise.
- Subject to a derogation from the EU rules will be introduced to impose VAT charges where demonstrator cars are made available for the private use of dealers and manufacturers.
- There will be a reduced rate of VAT on the installation of ground source heat pumps (much loved by the tree-hugging fraternity) from 1 June 2004 and wasteful (if research is to be believed) micro-CHP units will benefit from this reduced rate in 2005 – not, of course, the first example of an environmentally friendly tax being used to promote the waste of energy but a particularly stupid one.

Other Taxes

- The threshold for inheritance tax is raised to £263,000, approximately one half of a decent house in London or 10 modest houses in Bolton.
- From 2005/06 a system of "benefits-in kind" will operate in respect of assets that have been previously owned and where the taxpayer continues to enjoy the use of those assets after they have been transferred. Out of the goodness of the chancellor's dear little heart, transfers made before 18 March 1986 will be exempted and there are other concessions from his original draconian intentions. Taxpayers have until January 2007 to elect for special treatment on existing arrangements.
- A number of corrections to drafting errors in the ITEPA, perhaps Tony Blair's notorious contempt for detail is seeping down even to the parliamentary draftsmen.
- The tax rate applicable to trusts is to increase from 6 April 2004 to 40% (32.5% for dividends).
- Advisors will have to register tax avoidance schemes after they sell them and automatic penalties will apply if an unregistered scheme is used.

Welfare Reform

- The various tax credits are increased in line with inflation with the exception of the child care element, the family element of the child tax credit which is not increased and the child element of the child tax credit which is increased by £180 to £1,625.
- The government is to consult on the phasing out of the payment via employers of the working tax credit. It seems that while employers are happy to be unpaid tax-collectors they are baulking at being unpaid distributors of welfare.
- Households containing a pensioner aged 70 or over will receive a £100 payment to help pay their Council tax bills. The increase in bills remains at the discretion of the Council.
- The time period for claiming Pension Credit is increased to twelve months. This will help pensioners on low incomes
- It will be possible to defer the state pension in return for a lump sum from April 2005.

Duties

- Increases in duty will result in the price of 20 cigarettes increasing by 9.2p, 5 cigars by 3.3p, beer by 1p per pint

and wine by 4p per bottle

- Vehicle excise duties, Air Passenger Duty and Insurance Premium taxes and the climate change levy are all frozen
- Fuel duties increases are once again delayed until 1 September (this time due to the delays in getting sulphur-free fuel onto the market). The increase will be 1.92p per litre for low sulphur fuels and 1.42p per litre for sulphur-free fuel.
- Duties on spirits are to be frozen for the remainder of this parliament. Tax stamps will be introduced on Spirits from April 2006 (no more séances for the wackier members of New Labour without taxation?)

Pensions

- Changes are delayed until 6 April 2006.
- It is proposed that the lifetime limit will be £1.5M for 2006/7 rising to 1.8M by 2010.
- The maximum annual pension premium will be £215,000 initially.

Roundup

A desperate attempt to paper over the holes in the national finances in the hope that no demands from creditors will break before the next election is out of the way and taxes can be raised. Much of the devil is in the detail (yet to come).

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Errors and omissions excepted.

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