



Budget 2005

Overview: a grab-bag of pre-election bribes

- But first a classic illustration of the great Mr Brown's overwhelming arithmetic talent – "... debt interest payments consume a lower share of national income than at any time since 1915 ... The lowest debt interest payments for a century ..."
- Not quite as inaccurate as his prediction of borrowing in his last pre-election budget which was £16bn over the next parliament with an actual out-turn of somewhere north of £90bn but it still makes me slightly uneasy that our supposed top fiscal brain believes 90 is 100!
- As usual smoke and mirrors feature heavily – notably in his claiming credit for a £2m memorial for the dear old Queen Mum which will actually be financed by a commemorative £5 coin issued for the Queen's 80th birthday – this from a man who so dislikes royalty he has avoided the last five state banquets.

Income Tax

- The existing ISA limits (£7,000 maximum, £3,000 cash) are to be retained for a further five years until 5 April 2010.
- The tax and NI due on shares in research institution spinouts may in some cases be deferred until the value of the underlying intellectual property of the company becomes realisable.
- Rules have been introduced to ensure that alternative finance arrangements (for example sharia friendly bank accounts) are subject to the same rules regarding the deduction of tax at source as conventional products.
- A £500 standard rate band is to be introduced from 6th April 2005 for all trusts paying tax at the rate applicable to trusts.

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 140gms of CO2 per km in 2005/06 to 2007/08
- 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.

Income tax, capital gains tax, and inheritance tax

£ per year (unless stated)

Income tax

| | 2004-05 | Change | 2005-06 |
|---|----------|----------|----------|
| Personal allowance (age under 65) | £4,745 | +£150 | £4,895 |
| Personal allowance (age 65-74) | £6,830 | +£260 | £7,090 |
| Personal allowance (age 75+) | £6,950 | +£270 | £7,220 |
| Married couple's allowance* (aged less than 75, born before 6/4/1935) | £5,725 | +£180 | £5,905 |
| Married couple's allowance* (age 75 and over) | £5,795 | +£180 | £5,975 |
| Married couple's allowance* - minimum amount | £2,210 | +£70 | £2,280 |
| Income limit for age-related allowances | £18,900 | +£600 | £19,500 |
| Blind person's allowance | £1,560 | +£50 | £1,610 |
| Capital gains tax annual exempt amount | | | |
| Individuals etc | £8,200 | + £300 | £8,500 |
| Most trustees | £4,100 | + 150 | £4,250 |
| Inheritance tax threshold | £263,000 | +£12,000 | £275,000 |
| Pension schemes earnings cap | | | |
| Pension schemes earnings cap (1989 Cap) | £102,000 | +£3,600 | £105,600 |
| Occupational Pension Schemes final remuneration cap (1987 Cap) | £100,000 | +£5,600 | £105,600 |
| Occupational Pension Schemes tax free lump sum (1987 Cap) | £150,000 | +£8,400 | £158,400 |

* married allowance is at 10%

Income tax: taxable bands

| | Rate | 2004-05 | 2005-06 |
|----------------|------|----------------|------------------|
| Starting rate: | 10% | £0-£2,020 | £0 - £2,090 |
| Basic rate: | 22% | £2,020-£31,400 | £2,090 - £32,400 |
| Higher rate: | 40% | over £31,400 | over £32,400 |

- 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.
- Where an employee purchases or otherwise acquires a bicycle or computer that has previously been loaned to him/her by the employer then the transfer will be at market value (for computers no

change will arise on the first £500 of any resulting benefit)

Reliefs

- 2005/06 is the final year of the current pension relief regime and from 6th April 2006 the new rules applying a life-time investment cap will operate
- The rate of income tax relief for investments in qualifying venture capital trusts is 40% for the tax year 2005/06.

National Insurance

- For class 1 contributions the lower earnings limit is £82, the lower threshold £94 and the upper earnings limit £630 per week.

- Class 2 NI contributions are increased from £2.05 to £2.10 per week. The small earnings exemption is £4,345
- The lower limit for Class 4 contributions is £4,895 and the higher limit £32,760, contributions at a rate of 1% continue above this limit.

Business Taxation

- The reliefs available for low-budget films are to be extended from 1 July 2005 to 31 March 2006. This will be accompanied by some anti-avoidance measures on other aspects of film-scheme investments that attempt to extend the tax relief beyond 15 years or obtain relief for money not at risk.
- Eight tax avoidance schemes disclosed to the Inland Revenue under the Finance Act 2004 rules have been blocked, two from 2 December 2004, two from 10 February 2005 and the rest from budget day. This illustrates that avoidance schemes will not survive long after disclosure and should be used with extreme caution.

Capital Allowances

- A new Business Premises Renovation Allowance scheme will provide 100% first year allowances for capital expenditure on the renovation or conversion of vacant business properties in designated disadvantaged areas .

Stamp Duty

- The zero band of SDLT on residential property is extended from £60,000 to £120,000.
- The additional reliefs available on commercial property in disadvantaged areas were removed.

Value Added Tax

- The registration threshold is increased from £58,000 to £60,000. The deregistration threshold is £58,000
- Subject to approval from the EU grants will be available to reduce the effective rate of vat on the repair of church buildings and memorials to 5%.

Other Taxes

- The threshold for inheritance tax is to be raised to £275,000 (05/06), £285,000 (06/07) and £300,000 (07/08).
- 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. Transfers made before 18 March 1986 will be exempted and there are other concessions from his original draconian intentions, mainly an exemption for the first £5,000 of "benefit". Taxpayers have until January 2007 to elect for special treatment on existing arrangements. If you have received assets from your parents from which they continue to benefit you should consider whether they will need to consult an accountant over these rules.
- With effect from 5 December 2005 changes will ensure that civil partners formed under the Civil Partnership Act 2004 will be treated the same as married couples for tax purposes.

Welfare Reform

- The various tax credits are increased in line with inflation with the exception of the child care element (up to by £40 to £175pw).
- Pensioner households (i.e those only containing pensioners) will receive a £200 contribution towards council tax for one year only.
- 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 7p, 5 cigars by 3.3p, beer by 1p per pint and still wine by 1p per 175ml glass.
- 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 (conveniently after the election)
- Duties on spirits are to be frozen for the remainder of this parliament. Tax stamps will be introduced on Spirits from April 2006

PAYE – Online filing small/medium employers

- By filing your 04/05 year-end PAYE returns online you will receive a credit of £250 (plus further amount for subsequent years)
- You must register at <https://online.inlandrevenue.gov.uk>,
- For successful registration you will need both the employers PAYE reference and the accounts office reference (both from the yellow paye payments booklet)
- You should register now since the system involves a seven day delay for postal confirmation of your registration.
- Once registered we recommend submitting returns as early as possible to avoid the inevitable congestion as the deadline approaches
- If you wish us to do this for you then provided you provide the required references and completed p11s for all employees we will do so for a fee of £100 plus VAT for existing clients with 20 or fewer employees. Contact Hazel Fletcher to arrange this.

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Errors and omissions excepted.

Do not take action on the basis of this summary without discussion with ourselves first