

# Budget 2007/08

The following information is based on proposals set out by the Chancellor in his Budget of 21 March 2007 but is subject to amendment in the Finance Bill.

## Income tax

### Rates

	%	2007/08	%	2006/07
Starting	10	Up to £2,230	10	Up to £2,150
Basic	22	£2,231 to £34,600	22	£2,151 to £33,300
Higher	40	Above £34,600	40	Above £33,300

The rate of tax applicable to savings income, other than dividends, is 10% for income within the starting rate band, 20% for income falling within the basic rate band and 40% on income above the higher rate threshold.

For basic rate and starting rate taxpayers, tax on UK dividends is charged at 10%, which is discharged by the tax credit. For non-taxpayers, the dividend tax credit is not refundable. Higher rate taxpayers have to pay further income tax equal to 25% of the cash dividend.

### Reliefs

	2007/08	2006/07
Payment on loss of office	£30,000	£30,000
Enterprise Investment Scheme*	£400,000	£400,000
Venture Capital Trust**	£200,000	£200,000

\* Relief restricted to 20%

\*\* Relief available up to 30% (2006/07: 30%)

### Allowances

	2007/08	2006/07
Personal allowance:		
Aged up to 64	£5,225	£5,035
Aged 65 to 74	£7,550	£7,280
Aged 75 or over	£7,690	£7,420
Income limit for higher levels of personal allowance	£20,900	£20,100

## Individual Savings Accounts (ISA)

Income and gains on ISA investments are tax-free. Maximum annual investment of £7,000.

## Car and Car Fuel Benefits

### Cars

The taxable benefit in respect of a car provided by an employer is calculated by reference to the car's carbon dioxide emission rating, with the scale charge varying between 15% and 35% of the list price. There is a supplementary charge of 3% for diesel cars but not so as to take the total percentage beyond the maximum of 35% mentioned above.

### Car fuel

The taxable benefit in respect of fuel provided by an employer is the 'appropriate percentage' of £14,400 (2006/07 £14,400) where the appropriate percentage is the figure (from 15% to 35%) used to determine the taxable benefit in respect of the provision of the car.

## Inheritance tax

### Rates

	From 6.4.07	From 6.4.06
Nil	Up to £300,000	Up to £285,000
40%	Above £300,000	Above £285,000

Tapering relief is given in respect of gifts made between three and seven years before death.

Where tax is payable on lifetime gifts (other than those taxable only because they are made within seven years of death), tax is charged at 20%.

Various reliefs and exemptions are available.

## Air Passenger Duty

	From 1.2.07
Economy class flights in Europe, internal UK flights	£10
Business and first class flights in Europe	£20
Economy class long haul flights	£40
Business and first class long haul flights	£80

The Budget proposals and other tax changes are summarised on this page. The proposals may, however, be amended significantly before enactment. The content of this document is intended to provide a general guide to the subject matter and should not be regarded as a basis for ascertaining liability to tax or determining investment strategy in specific circumstances. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

## National Insurance Contributions

	2007/08	2006/07
<b>Class 1 (earnings related)</b>		
Lower earnings limit (LEL) (per week)	£87	£84
Upper earnings limit (UEL) (per week – employees only)	£670	£645
Earnings threshold (per week) for employees and employers	£100	£97
Employee rate:*		
– on earnings between earnings threshold and UEL	11%	11%
– on earnings above UEL	1%	1%
Employer rate*	12.8%	12.8%
<b>Class 2 (self-employed flat rate)</b>		
Per week	£2.20	£2.10
Small earnings exception (per year)	£4,635	£4,465
<b>Class 3 (voluntary): per week</b>	£780	£755
<b>Class 4 (self-employed)</b>		
Lower profits limit (per year)	£5,225	£5,035
Upper profits limit (per year)	£34,840	£33,540
Rate:		
– on earnings between lower and upper profits limit	8%	8%
– on earnings above upper profits limit	1%	1%

\* The rates of contributions on earnings below the UEL are reduced where the employee is contracted out. The reduction for employees is 1.6% (2006/07: 1.6%). The reduction for employers is 3.7% for salary-related schemes and 1.4% for money-purchase schemes (2006/07: 3.5% and 1.0% respectively).

## Stamp Taxes

Rate payable on chargeable consideration	Stamp Duty Land Tax		Stamp Duty/SDRT
	UK land transactions* Residential**	Non-residential or mixed use	
nil	£0-£125k***	£0-£150k	0.5%
1%	£125,001-£250k	£150,001-£250k	
3%	£250,001-£500k	£250,001-£500k	
4%	Above £500k	Above £500k	

\* Special rules apply to lease rentals.

\*\* Relief from SDLT of up to £15,000 applies from 1 October 2007 for new zero carbon homes.

\*\*\* The nil rate band is £150,000 in disadvantaged areas.

## Capital Gains Tax

### Rates

Gains are charged at 10% if the gains when added to total income are within the starting rate band, at 20% if they are within the basic rate band and at 40% if they are above the higher rate threshold.

Companies pay corporation tax on capital gains at their normal rate. Gains and losses on sales by trading companies or members of trading groups of shareholdings of 10% or more in trading companies or trading groups are exempt, subject to certain exclusions.

For individuals, gains on disposals after 5 April 1998 benefit from indexation up to that date. Gains are reduced by taper relief reflecting the number of complete years after 5 April 1998. Non-business assets acquired before 17 March 1998 qualify for a bonus year of taper relief.

The holding period required to receive maximum taper relief for business assets is two years and for non-business assets is ten years.

Years	Percentage of gain chargeable	
	Business asset	Non-business asset
0	100	100
1	50	100
2	25	100
3	25	95
4	25	90
5	25	85
6	25	80
7	25	75
8	25	70
9	25	65
10	25	60

### Reliefs

	2007/08	2006/07
Annual gains exemption for individuals	£9,200	£8,800
Chattels proceeds exemption	£6,000	£6,000
Enterprise Investment Scheme*	100%	100%
Venture Capital Trust*	100%	100%
Principal private residence	100%	100%

\* Subject to conditions

## Pensions

### Contribution

Tax relief is available on aggregate contributions by the member up to 100% of earnings, or £3,600 if higher. Higher contributions are allowed without relief.

However, if the value of a member's input – all contributions/accrual – exceeds an annual allowance, the excess will be subject to a 40% tax charge. The annual allowance is £225,000 for tax year 2007/08 (2006/07: £215,000).

### Benefits

A single lifetime allowance restricts the amount of pension savings that can benefit from tax relief. For 2007/08 the lifetime allowance is £1.6m (2006/07: £1.5m).

Pension rights built up before 6 April 2006 can be protected if an individual registers with HMRC.

## Value Added Tax

Standard rate 17.5%. Registration threshold from 1 April 2007: annual turnover £64,000 (previously £61,000). Simplified arrangements are available for businesses with annual taxable turnover not exceeding £1,350,000.

## Intangible Assets

Companies receive a deduction for expenditure on an accounts basis. Allowances at 4% p.a. are available by election.

## Research and Development Relief

Qualifying revenue expenditure on research and development attracts an additional deduction equal to 25% or 50% of the expenditure where it is incurred at a rate of not less than £10,000 p.a.

The rate of 50% applies to SMEs. The 25% rate applies to companies that are not SMEs. SMEs which make losses can surrender the deduction in exchange for a payment of up to 16% of the loss.

## Corporation Tax

	Year to 31 March	
	2008	2007
Main rate	30%	30%
Small companies' rate**	20%	19%
Where profits*	£0-£300k	£0k-£300k
Marginal relief where profits*	£300k-£1,500k	£300k-£1,500k
Marginal relief fraction**	1/40	11/400
Profit threshold for quarterly instalment payments*	£1,500k	£1,500k

\* Reduced by reference to number of associated companies.

\*\* Ring fence profits from UK oil extraction and rights are taxed at 19% with a marginal relief fraction of 11/400.

## Capital allowances

Machinery and plant		
– normal rate	25%	reducing balance
– first year allowance*	40%	(50% small enterprises)*****
– long life assets**	6%	reducing balance
– designated water and energy saving, gas refuelling infrastructure and North Sea assets	100%	
Motor cars***	25%	reducing balance (maximum £3,000 p.a.)
Industrial & agricultural buildings and qualifying hotels	4%	of cost per annum
Commercial or industrial buildings in an enterprise zone	100%	
Business Premises Renovation Allowance****	100%	
Scientific research	100%	

\* Applies to SMEs. Cars and certain other assets excluded.

\*\* Assets with a working life of 25 years or more unless expenditure on such assets is below £100,000 in the period.

\*\*\* 100% first year allowance on low emission cars.

\*\*\*\* On capital expenditure incurred after 10 April 2007 on renovating or converting business properties in Assisted Areas and vacant for at least a year.

\*\*\*\*\* Until 31 March 2008 (for companies) or 5 April 2008 (for individuals).

From April 2008 the capital allowances regime will be substantially amended. Certain changes to industrial and agricultural buildings allowances take effect from 21 March 2007.

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