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THE OFFICIAL ELSBY & COMPANY NEWSLETTER

BUDGET — EDITION 2008

Budget 2008— A brief summary

Alistair Darling presented his first Budget on Wednesday 12 March 2008. What with the Northern Rock saga and the recent changes of mind as regards the "simplification" of capital gains tax, we really did not know what to expect....

Income Tax—from 2008/09 the basic rate of income tax will be reduced from 22% to 20%. However, the current starting rate will be abolished and replaced with a new 10% rate on savings income. The 40% higher rate remains unchanged but the threshold will be increased to £41,435 (previously £39,825).

Income Shifting—income shifting refers to the situation where one spouse generates most of the profits of a business but the other receives a proportion of the profit and the couple save tax as a result. The government had intended to introduce legislation from 6th April 2008. This will now be delayed by 1 year, which is welcome as hopefully further consultation will allow for a more reasonable system and also allow us to plan for any changes.

Corporation Tax—The small companies CT rate (applies to companies with up to £300k of profits) will increase from 20% to 21% from 1st April 2008. The intention is to increase this to 22% in 2009. The main rate of CT which applies to companies with profits in excess of £1.5m falls to 28% from 30% from 1st April 2008. The effective marginal CT rates for profits between £300k and £1.5m will now be 29.75%
Comment: The tax advantages of trading as a limited company are reducing annually. However there is still potentially a 8% NI saving.

Capital allowances—Major changes will be implemented from 2008/09. There is a new Annual Investment Allowance (AIA) for the first £50k spent on plant & machinery. This gives a 100% write off against profits. Writing down allowances for plant & machinery will be cut from 25% to 20%. There will be a new writing down allowance for "integral features" in a building of 10%. Where companies have a loss after claiming 100% first year allowances on green technologies, you will be able to claim a tax credit from HMRC. The capital allowances treatment on cars is also being transformed with allowances being reduced on cars with CO2 emissions above 160gm/km. There will be 100% first year allowances on the cleanest cars ie 110gm/km to 31st March 2013.

Company cars and the fuel scale charge -If free fuel is provided with a company car for private motoring then a fuel benefit tax charge arises. The multiplier used to calculate this fuel scale charge has increased by 17% .
Comment: If a company provides fuel for its employees we believe there is a better way to deal with this—in most cases. Please contact us for more advice.

Capital Gains Tax—For gains arising on or after 6th April 2008 changes to the CGT regime include:

- The withdrawal of taper relief;
- The withdrawal of indexation allowance;
- The introduction of Entrepreneur's Relief;
- 18% flat rate, rather than 40%.

Comment: The introduction of Entrepreneur's Relief goes someway to remove the problem of the 18% flat rate (previously business owners could count on a tax rate of 10%). However, the small print means that considerable care is required when planning to obtain the benefit of Entrepreneur's Relief. Please refer to our earlier technical bulletin for more details or see our website, news section.

Rates and Allowances— a summary of the rates & allowances is available on our news section of the website www.elsbyandco.co.uk .

Carl's Comment

"After almost universal ridicule for everything he has done so far, the Chancellor has played safe and announced nothing controversial.... or of any real impact. At least, there seems little for Mr Darling to backtrack on."