

Making sense of the Budget*

The Chancellor's Budget 2008

UK tax datacard 2008/09 – Budget 2008 edition

(2007/08 details in brackets)

Income tax

Band		2008/09 (a)	2007/08
The first: Nil	(£2,230)	n/a (b)	(10%)
£0 - £36,000	(£2,231 - £34,600)	20%	(22%)
Over: £36,000	(£34,600)	40%	(40%)

(a) Dividends are taxed at 10% or 32.5%, with a non-repayable tax credit, and are treated as the top slice of total income.

(b) Other savings income, primarily bank and building society interest, is taxed at 10% up to a limit of £2,320. This 10% rate is not available if non-savings income exceeds £2,320.

These rates do not apply to income taxable on a remittance basis (income and foreign dividends).

For 2007/08 capital gains were taxed as the top slice of income, but for 2008/09 capital gains are taxed at 18%.

There are special rules for trusts.

Personal allowances

Personal	2008/09	2007/08
Personal	£5,435	(£5,225)
Age allowance:		
Age 65-74 (age on 5.4.2009)		
Personal (a)	£9,030	(£7,550)
Married couple's (a) (b) (c)	£6,535	(£6,285)
Age 75 or over (age on 5.4.2009)		
Personal (a)	£9,180	(£7,690)
Married couple's (a) (b) (c)	£6,625	(£6,365)
Income limit for age allowances	£21,800	(£20,900)
Blind person's	£1,800	(£1,730)

(a) Age related allowances reduce if total income exceeds the income limit.

Minimum personal allowance is £5,435 (£5,225). Minimum married couple's allowance is £2,540 (£2,440).

(b) For marriages before 5 December 2005, allowance only given where husband or wife born before 6 April 1935. Claimed by husband but, on election, may be claimed by wife or shared equally. Transferable on election if insufficient income. Relief limited to 10% (10%) of amounts shown.

(c) For marriages and civil partnerships on or after 5 December 2005 where one party born before 6 April 1935, allowance is given to the individual with the highest income. Couples married before 5 December 2005 may elect for this treatment, otherwise (b) will apply. Relief limited to 10% (10%) of amounts shown.

Working and child tax credits

The **working tax credit** is aimed at those on low incomes. The **child tax credit** can benefit where family income is up to £58,170 (£66,340 in the year of a child's birth). Credits can also be paid for eligible **childcare** costs.

Pension contributions

Within limits contributions are tax deductible and employer's contributions are exempt from national insurance. Individuals may draw benefits at 50 (55 from 6 April 2010). The fund value is capped (the lifetime allowance) at £1,650,000 (£1,600,000) (defined benefits are valued using a multiple of 20, so maximum pension equivalent to £82,500 p.a. (£80,000 p.a.)). Individuals exceeding the cap before 6 April 2006 (A-Day) can register a personal higher allowance and special rules apply as long as registration is complete by 6 April 2009. If the lifetime allowance is exceeded at retirement, the excess will be subject to a 25% lifetime allowance charge plus income tax on the balance drawn.

The contribution annual allowance is £235,000 (£225,000) (defined benefits are valued using a multiple of 10) and if individual and company contributions exceed this the individual is liable to 40% tax on the excess. The allowances increase in pre-announced stages until 2010 (approx 5% p.a.) and will be reviewed thereafter.

Company cars – annual benefits

The annual benefit is a percentage of list price, with the percentage dependent on the level of CO₂ emissions. From 6 April 2008 the minimum benefit is 10% for emissions of 120g/km or less. For emissions of 135g/km the rate is 15%. This rate increases by 1% for each additional full 5g/km up to a maximum charge of 35% for emissions of 235g/km or more. Emission levels are rounded down to the nearest multiple of five. List price includes certain accessories, but reduced for capital contributions of up to £5,000: maximum £80,000.

There is a 3% supplement for most diesel cars, but maximum charge is capped at 35%. This supplement does not apply to Euro IV compliant cars registered before 1 January 2006.

There are reduced percentages for cars running wholly or partly on alternative fuels, e.g. hybrid, LPG, electricity, bi-fuel cars.

For 2008/09 the taxable benefit for significant private use of a van is £3,000 (£3,000).

Fuel: the additional scale charge, if fuel is provided for private use in a car, is the car benefit percentage applied to a fixed amount set at £16,900 (£14,400). The fuel scale charge for a van with significant private use is a flat £500 (£500). From 6 April 2008 there is a 2% discount for cars manufactured to run on E85 fuel.

National insurance contributions

Class 1 employees:

Weekly earnings	Contracted in	Contracted out
Up to £90 (£87)	Nil (Nil)	Nil (Nil)
£90.01 - £105 (£87.01 - £100)	Nil (Nil)	Rebate 1.6% (1.6%)
£105.01 - £770 (£100.01 - £670)	11% (11%)	9.4% (9.4%)
Over £770 (£670)	1% (1%)	1% (1%)

Class 1 employers:

Weekly earnings	Contracted in	Contracted out	
		Salary related	Money purchase
Up to £90 (£87)	Nil (Nil)	Nil (Nil)	Nil (Nil)
£90.01 - £105 (£87.01 - £100)	Nil (Nil)	Rebate 3.7% (3.7%)	Rebate 1.4% (1.4%)
£105.01 - £770 (£100.01 - £670)	12.8% (12.8%)	9.1% (9.1%)	11.4% (11.4%)
Over £770 (£670)	12.8% (12.8%)	12.8% (12.8%)	12.8% (12.8%)

Other:

Class 1A (employers only): 12.8% (12.8%) based on the amounts of taxable benefits.

Class 1B (employers only): 12.8% (12.8%) in respect of amounts in a PAYE settlement agreement and the income tax thereon.

Class 2 (flat rate for self-employed): £2.30 (£2.20) per week.

Class 3 (voluntary): £8.10 (£7.80) per week.

Class 4 (self-employed): 8% (8%) of profits between £5,435 (£5,225) and £40,040 (£34,840) per annum and 1% (1%) on profits above £40,040 (£34,840).

Inheritance tax

Aggregate chargeable value (nil rate band): up to £312,000 (£300,000) – nil% (nil%); over £312,000 (£300,000) – 40% (40%).

Reduced charge on lifetime gifts within seven years of death apply.

From 9 October 2007, a surviving spouse or civil partner may claim the unused proportion of a deceased spouse's or civil partner's nil rate band up to the current nil rate band.

Capital gains tax

Annual exemption	- individuals	£9,600 (£9,200)
	- trusts	£4,800 (£4,600)

From 6 April 2008 net gains are taxed at **18%** irrespective of the length of ownership of the asset with no distinction between business and non-business assets and regardless of other income or personal allowances.

For 2007/08 net gains were treated as the top slice of taxable income. Gains were calculated after indexation allowance (for assets held prior to April 1998) and subject to taper relief (with differing rates for business and non-business assets). Taper relief and indexation are abolished from 6 April 2008.

Entrepreneurs' relief - from 6 April 2008 the first **£1,000,000** of lifetime gains on the disposal of certain assets (broadly unincorporated trading businesses and shares in trading companies where 5% or more is held) will be taxed at **10%**.

Tax-efficient investments

Individual savings account (ISA): income and gains are free of UK income and capital gains tax, but the 10% tax credit on dividends from UK companies is not repayable. The maximum investment in 2008/09 is **£7,200** (£7,000), with a maximum **£3,600** (£3,000) cash investment. ISA tax benefits apply to personal equity plans (PEPs).

Venture capital trusts (VCTs): income tax relief at up to **30%** (30%) on qualifying investments of up to **£200,000** (£200,000) per year and dividends and capital gains exempt from tax.

Enterprise investment scheme (EIS): income tax relief at up to **20%** (20%) on subscription to eligible shares of between **£500** (£500) and **£500,000** (£400,000), and exemption on capital gains, or relief for losses, for income tax or capital gains tax purposes. Unlimited gains on disposals may be deferred into eligible shares.

Corporation tax

Financial year (from 1 April)	2008		2007	
	£	%	£	%
Small companies' rate	0 - 300,000	21	(0 - 300,000	20)
Marginal rate	300,001 - 1,500,000	29.75	(300,001 - 1,500,000	32.5)
Standard rate	Over 1,500,000	28	(Over 1,500,000	30)

From 1 April 2009 the small companies' rate is expected to increase to 22%, and the marginal rate will be 29.5%.

Capital allowances

Expenditure on:	2008/09	2007/08
	%	%
Plant and machinery (new or second-hand) (a)	20	(25)
Motor cars (new or second-hand) (a) (b)	20	(25)
Industrial buildings, agricultural buildings and works/qualifying hotels (c) (d)	3	(4)
Machinery/plant which are long life assets (a)	10	(6)
Integral features in buildings/structures (a)	10	(-)
Patent rights and know how (a) (e)	25	(25)
Mines, oil wells, mineral rights (a) (f)	25	(25)
Research and development	100	(100)
Energy-saving and water-efficiency plant and machinery	100	(100)
Cars with low CO ₂ emissions	100	(100)
Plant or machinery for gas refuelling station	100	(100)
Renovation of business premises (deprived areas)	100	(100)

From 1 April 2008 there is a 100% annual investment allowance on the first **£50,000** capital expenditure on plant and machinery (per group of companies).

- These allowances are given on a reducing balance basis.
- Subject to a maximum allowance of £3,000 p.a. per vehicle.
- For new buildings this rate reduces to 2% from 1 April 2009, 1% from 1 April 2010 and 0% from 1 April 2011. For other buildings the effective rate of writing down allowances reduces by 25% p.a. from the 2007/08 effective rate to 0% from 1 April 2011.
- From 21 March 2007 there are no balancing adjustments on disposals.
- For expenditure from 1 April 2002 accounting write downs (and not capital allowances) are allowable deductions for tax.
- Acquisition of mineral deposits and rights qualify for 10% p.a.

Stamp duties

Shares and securities	0.5%	(0.5%)
Stamp duty reserve tax	0.5%/ 1.5%	(0.5%/ 1.5%)
Stamp duty land tax on land and buildings:		
£0 - £125,000 (£0 - £125,000) (b) (c)	0%	(0%)
£125,001 - £250,000 (£125,001 - £250,000) (b) (c)	1%	(1%)
£250,001 - £500,000 (£250,001 - £500,000) (c)	3%	(3%)
Over £500,000 (over £500,000) (c)	4%	(4%)

For new zero carbon homes, including flats, the 0% rate extends to £500,000 for five years from 1 October 2007; for such properties over £500,000 there is a £15,000 reduction.

- All figures are calculated inclusive of any VAT. Rates apply to the full amount.
- £150,000** (£150,000) for non-residential rather than **£125,000** (£125,000).
- For residential property in disadvantaged areas the 0% rate extends to £150,000.

On leases the rate is (broadly) 1% of the discounted rental values under the lease over the **£125,000/ £150,000** limit.

Value added tax

Standard rate	17.5%	(17.5%)
Lower rate	5%	(5%)
Zero rate	0%	(0%)

Registration threshold (changes from 1 April 2008): taxable supplies at the end of any month exceed **£67,000** (£64,000) in the past 12 months or will at any time exceed **£67,000** (£64,000) in the next 30 days. Different registration thresholds apply for supplies from other EC Member States.

Air passenger duty

Air passenger duty is a departure tax levied on air travel. Rates per passenger:

Standard rate for UK, most European destinations and Turkey	£20
Standard rate for all other destinations	£80
Reduced rate for economy travel - UK, most European destinations and Turkey	£10
Reduced rate for economy travel to all other destinations	£40
Flights from airports in the Scottish Highlands and Islands	Exempt

Climate change levy

Rates: 0.456p (0.441p) per kwh (electricity), 0.159p (0.154p) per kwh (gas), 1.242p (1.201p) per kg (coal, lignite, coke and semi-coke), 1.018p (0.985p) per kg (liquid petroleum gas).

Climate change levy is a single stage tax on supplies of various fuels to industrial and commercial consumers.

Landfill tax

Standard rate:	£32/tonne	(£24/tonne)
Lower rate:	£2.50/tonne	(£2/tonne)

The lower rate applies to inactive waste (e.g. rocks, bricks).

Insurance premium tax

Rate 5%/ 17.5%* (5%/ 17.5%*)

Insurance premium tax applies to most general insurance where the risk is located in the United Kingdom.

*The higher rate applies to a limited range of policies.

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