

Making sense of the Budget*

The Chancellor's Budget 2007



UK tax datacard 2007/08 – 2007 Budget edition

(2006/07 details in brackets)

Income tax

Band	Dividends (b)	Interest (b)	Other
The first: £2,230 (£2,150) (a)	10% (10%)	10% (10%)	10% (10%)
£2,231-£34,600 (£2,151-£33,300) (a)	10% (10%)	20% (20%)	22% (22%)
Over: £34,600 (£33,300) (a)	32.5% (32.5%)	40% (40%)	40% (40%)

(a) Dividends are treated as the top slice of total income, interest as the next slice and other income as the lowest slice.

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

From 5 April 2008 the 22% rate reduces to 20% and the 10% rate is restricted to savings income and capital gains.

There are special rules for trusts.

Personal allowances	2007/08	2006/07
Personal	£5,225	(£5,035)
Age allowance:		
Age 65-74 (age on 5.4.2008)		
Personal (a)	£7,550	(£7,280)
Married couple's (a) (b) (c)	£6,285	(£6,065)
Age 75 or over (age on 5.4.2008)		
Personal (a)	£7,690	(£7,420)
Married couple's (a) (b) (c)	£6,365	(£6,135)
Income limit for age allowances	£20,900	(£20,100)
Blind person's	£1,730	(£1,660)

(a) Age related allowances reduce if total income exceeds the income limit. Minimum personal allowance is **£5,225** (£5,035). Minimum married couple's allowance is **£2,440** (£2,350).

(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%** of amounts shown.

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 about £58,000 (about £66,000 in the year of a child's birth). Credits can also be paid for eligible **childcare** costs.

Company cars – annual benefits

The annual benefit is a percentage of list price, with the **percentage dependent on the level of CO₂ emissions**. The minimum benefit is **15%** for emissions of **140g/km** (140g/km) or less. This charge increases by 1% for each additional full 5g/km up to a maximum charge of **35%** for emissions of **240g/km** (240g/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** (£5,000): maximum **£80,000** (£80,000). Second cars are taxed in the same way as first cars. For 2008/09 the level of emissions qualifying for the lower rate of 15% will be 135g/km, and there will be an additional rate of 10% for company cars with emissions not exceeding 120g/km.

Diesel supplement: for cars registered on or after 1 January 1998, 3% supplement, but maximum charge not to exceed 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 2007/08 the taxable benefit for significant private use of a van is **£3,000** (£500).

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 **£14,400**. The fuel scale charge for a van with significant private use is a flat **£500** (£nil).

Pension contributions

From 6 April 2006 (A-Day) there is a single pensions regime, under which contributions are tax deductible and employer's contributions are exempt from national insurance. Individuals may draw benefits at **50** (55 from 2010). The fund value is capped (the lifetime allowance) at **£1,600,000** (£1,500,000) (defined benefits are valued using a multiple of 20, so maximum pension equivalent to **£80,000 p.a.** (£75,000 p.a.)). Individuals exceeding the cap before A-Day could register a personal higher allowance and special rules apply. 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 **£225,000** (£215,000) (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 will increase in pre-announced stages until 2010 (approx 5% p.a.) and will be reviewed thereafter.

National insurance contributions

Class 1 (employers and employees):

Contracted-in:

Employees: no contributions are due on earnings up to **£100** (£97) per week; thereafter at **11%** (11%) up to **£670** (£645) per week and thereafter at **1%** (1%) on earnings above **£670** (£645).

Employers: contributions are paid at **12.8%** (12.8%) on so much of an employee's earnings as exceed **£100** (£97) per week.

Contracted-out:

Employees: the **11%** (11%) rate reduces to **9.4%** (9.4%). A rebate is also given equal to **1.6%** (1.6%) of earnings between **£87** (£84) and **£100** (£97).

Employers: rates are reduced by **3.7%** (3.5%) for salary related schemes, and **1.4%** (1%) for money purchase schemes, on the part of the earnings between **£100** (£97) and **£670** (£645) per week. Contributions are paid at a rate of **12.8%** (12.8%) on the excess over **£670** (£645). Rebate at **3.7%** (3.5%) or **1.4%** (1%) is also given on an amount equal to earnings between **£87** (£84) and **£100** (£97).

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): **£2.20** (£2.10) per week.

Class 3 (voluntary): **£7.80** (£7.55) per week.

Class 4 (self-employed): **8%** (8%) of profits between **£5,225** (£5,035) and **£34,840** (£33,540) per annum and **1%** (1%) on profits above **£34,840** (£33,540).

Inheritance tax

Aggregate chargeable value: up to **£300,000** (£285,000) – **nil%** (nil%); over **£300,000** (£285,000) – **40%** (40%).

Reduced charge on lifetime gifts within seven years of death:

Years between gift and death	0-3	3-4	4-5	5-6	6-7
% of death rates	100% (100%)	80% (80%)	60% (60%)	40% (40%)	20% (20%)

Note: if a lifetime gift is chargeable when made, the tax already paid at half death rates cannot be reduced.

Capital gains tax

Annual exemption	- individuals	£9,200 (£8,800)
	- trusts	£4,600 (£4,400)

Individuals – net gains are treated as the top slice of taxable income and taxed:

The part, if any, in the range
£0-£2,230 (£0-£2,150) of income plus gains **10%** (10%)

The part, if any, in the range
£2,231-£34,600 (£2,151-£33,300) **20%** (20%)

The part over £34,600 (£33,300) **40%** (40%)

Trustees and personal representatives **40%** (40%)

The effective tax rate on gains may be reduced by taper relief. Care is needed over business/non-business definitions and calculation of holding periods. Effective tax rates for higher rate taxpayers are shown in brackets.

Complete tax years held post 5.4.1998	Percentage of gain chargeable	
	Business assets	Non-business assets
0	100 (40)	100 (40)
1	50 (20)	100 (40)
2	25 (10)	100 (40)
3	25 (10)	95 (38)
4	25 (10)	90 (36)
5	25 (10)	85 (34)
6	25 (10)	80 (32)
7	25 (10)	75 (30)
8	25 (10)	70 (28)
9	25 (10)	65 (26)
10	25 (10)	60 (24)

Tax-efficient investments

Individual savings account (ISA): the 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 2007/08 is **£7,000** (£7,000), with a maximum **£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. Capital gains can no longer be deferred into VCTs.

Enterprise investment scheme (EIS): income tax relief at up to **20%** (20%) on subscription to eligible shares of up to **£400,000** (£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)	2007		2006	
	£	%	£	%
Small companies' rate	0-300,000	20	0-300,000	19
Marginal rate	300,001-1,500,000	32.5	300,001-1,500,000	32.75
Standard rate	Over 1,500,000	30	Over 1,500,000	30

From 1 April 2008 the standard rate of corporation tax will decrease to 28% and the small companies' rate will increase to 21% (22% from 1 April 2009).

Capital allowances

Expenditure on:	Writing down allowance %
Plant and machinery (new or second-hand) (a) (b)	25
Motor cars (new or second-hand) (a) (c)	25
New industrial buildings	4
Machinery/plant which are long life assets (a)	6
Agricultural buildings and works/qualifying hotels	4
Patent rights & know how (a) (d)	25
Mines, oil wells, mineral rights (a) (e)	25
Research and development	100
Energy-saving and water-efficiency plant and machinery	100
Cars with low CO ₂ emissions	100
Plant or machinery for gas refuelling station	100
Renovation of business premises (deprived areas) (f)	100

- These allowances are given on a reducing balance basis.
- Small businesses (as defined) have a **50%** (50%) allowance in the first year. Medium sized businesses (as defined) have a **40%** (40%) allowance in the first year.
- Subject to a maximum allowance of **£3,000** p.a. per vehicle.
- For expenditure from 1 April 2002, accounting write downs are tax allowable rather than capital allowances.
- Acquisition of mineral deposits and mineral rights qualify for **10%** p.a.
- Effective from 11 April 2007.

There are numerous rules defining the precise nature of which assets attract a particular rate of allowance.

Major changes to the capital allowance regime are anticipated from 2008/09.

Stamp duties

Stocks and shares:	0.5%	(0.5%)
Stamp duty reserve tax:	0.5%	(0.5%)

Stamp duty land tax on property:		
£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%)

(a) All figures are calculated inclusive of VAT, if any. Rates apply to the full amount.

(b) **£150,000** (£150,000) for non-residential rather than **£125,000** (£125,000).

(c) For residential property in disadvantaged areas the 0% rate extends to **£150,000**.

For new zero carbon homes the 0% rate extends to **£500,000** for five years from 1 October 2007.

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

Value added tax

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

Registration threshold (changes from 1 April 2007): taxable supplies at the end of any month exceed **£64,000** (£61,000) in the past 12 months or will at any time exceed **£64,000** (£61,000) 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 (from 1 February 2007):

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

(a) Includes Turkey.

Climate change levy

Rates: 0.441p (0.43p) **per kwh (electricity)**, **0.154p** (0.15p) **per kwh (gas)**, **1.201p** (1.17p) **per kg (coal, lignite, coke and semi-coke)**, **0.985p** (0.96p) **per kg (liquid petroleum gas)**.

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

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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