

# COBLEY DESBOROUGH & CO

*Chartered Certified Accountants*

*Chartered Tax Advisers*

**Budget 2005**

## Tax Data 2005/06

### Income Tax

Personal Allowance: £4,895

#### Tax rates:

First £2,090 @ 10%  
Next £30,310 @ 22%, 20% on gains, 10% on UK dividends  
Above £32,400 @ 40%, 32.5% on UK dividends.

### National Insurance

#### Class 1 employees:

12.8% on earnings over £4,895

#### Class 1 employees:

11% on £4,895 to £32,760,  
plus 1% above £32,760

#### Class 4:

8% on £4,895 to £32,760 plus  
1% on profits above £32,760

#### Class 2: £2.10 per week

#### Class 3: £7.35 per week

### Capital Gains Tax

Annual exemption: £8,500

### Inheritance Tax

Nil rate band: £275,000  
Excess taxed at 40% on death.

### Pension Contributions

Stakeholder: £3,600  
Earnings cap: £105,600

### Corporation Tax

Starting: 0% to £10,000  
Marginal: 23.75% to £50,000  
NCD rate: 19% on dividends  
Small co: 19% to £300,000  
Marginal: 32.75% to £1.5 m  
Large co: 30% over £1.5 m

### VAT turnover thresholds:

Registration £60,000  
Deregistration £58,000  
Flat rate scheme £150,000

### Tax free mileage rates

#### Own car:

First 10,000 miles 40p  
Over 10,000 miles 25p

#### Bicycle:

20p

#### Motorbike:

24p

#### Per Passenger:

5p

### Company car (fuel only):

Petrol Diesel LPG  
To 1400 cc 10p 9p 7p  
To 2000 cc 12p 9p 8p  
2000 cc + 14p 12p 10p

20 BILLING ROAD  
NORTHAMPTON  
NN1 5AW

Tel: 01604 632233

Fax: 01604 634435

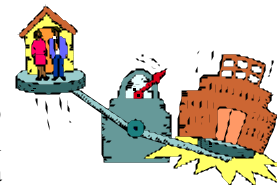
email: enquiries@cobdes.co.uk

## Stamp Duty give and take

Buyers of homes costing up to £120,000 will now escape Stamp Duty Land Tax (SDLT), as the starting point for this tax has been doubled from £60,000. However, this is a slab-imposed tax, not a graduated tax so if the purchase price is just £1 over this initial threshold SDLT is due on the whole property value at 1%.

The higher thresholds where SDLT is imposed at 3% (over £250,000) and 4% (over £500,000) have not been changed. The freezing of these boundaries combined with rising house prices mean that many more home-buyers have to pay SDLT at 3% or 4%. It is also worth noting that SDLT must be paid where a property is transferred between a husband and wife (other than on divorce), or gifted to a trust or adult child.

If the property lies in a designated disadvantaged area the purchase will be free of SDLT where the property is residential and valued at no more than £150,000. Until Budget day all purchases of commercial property of any value escaped SDLT if it was located in a designated disadvantaged area. This tax break has been cancelled with immediate effect, unless contracts had already been exchanged, which will save the Chancellor a lot more tax than he has given away to house buyers.



Business pays home-buyers tax

## Tax rates frozen

The Chancellor did not change the standard rate of VAT, it remains one of the lowest in Europe at 17.5%. The level of sales at which a business must become VAT registered is increased to £60,000 with effect from 1 April 2005, and the deregistration threshold is similarly increased to £58,000.

The corporation tax thresholds and rates have been frozen, so the effect of inflation will bring more real profits into the higher tax bands. The NCD rate also remains at 19%, which means companies with profits below £50,000 do not feel the benefit of the zero percent tax band if they pay dividends.

The Personal Allowance has increased by 3% but the family and baby elements of the Child Tax Credit, have been frozen again at £545 a year. The upper income limit beyond which a family becomes ineligible for child tax credit is also frozen at £50,000.

### Welcome to our newsletter

This is the first release of our new quarterly newsletter. We hope you find it interesting. Please feel free to give copies to your colleagues and business acquaintances.

In future we will also distributing our newsletter by email and via our new website, which is currently under construction. We would like you to choose the distribution method that suits you best, so please complete the enclosed questionnaire to enable us to send you future issues of our newsletter in the format you prefer. We look forward to receiving your feedback.

## Property Taxes and tax breaks

Inheritance tax (IHT) is now primarily a property tax as it hits homeowners hardest. The threshold at which IHT bites into estates on death has been raised to £275,000 from 6 April 2005, and will be increased to £285,000 from April 2006 and to £300,000 in 2007.

This IHT nil rate band as it is called, applies to each individual so a married couple have scope to arrange their affairs to make use of £550,000 of IHT exemption. Partners of the same sex who have committed to a civil partnership will have the same opportunities to make tax free gifts to each other, in life and on death, from 5 December 2005. Please ask us to assess how your exposure to IHT can be reduced.

### Pre Owned Asset Tax

Taxpayers who have used schemes to avoid IHT, which allow them to continue to occupy a property although they have given away an interest in it, will be hit by a new income tax charge from 6 April 2005. The tax is calculated as a benefit in kind on

the market rent avoided by occupying the property for free. There are exemptions if the market rent is less than £5,000 per year, or the property is still treated as held by the previous owner for IHT purposes. There is also an election to make to avoid the charge applying, which will need very careful consideration.

### Business Renovation Allowance

Although the Chancellor has abolished the exemption from SDLT for commercial property in disadvantaged areas (see page 1), he is introducing a new tax relief for renovating business property in the same areas if the building has remained unused for at least 12 months. This new tax relief will start once the scheme has been given EU clearance that it is not illegal state aid.



Empty for 12 months?

## Benefits for employees

The benefit in kind rules for employees are very complex and every year the Chancellor tries to simplify them, without giving too much away. This year is no exception.

### Computers and bicycles



These machines can both be loaned to employees to use at home, or for travelling to work, tax-free. Problems arise where the employee wants to hang on to the bike or computer after the loan period and offers to pay the second-hand value. Due to the strange valuation rules a tax charge can arise even if the employee pays a fair market value.

From 6 April 2005 this problem is eliminated, but only for computers and bikes that have previously been loaned to employees. Where an employee buys a different second hand asset from his employer, there can still be a tax charge.

### Training

Where employees are made redundant the employer can pay for counselling and retraining courses with no tax charges arising if the employee had a full-time post. Part-time employees who received the same consideration on losing their job would be taxed on the cost of the course or counselling provided. From 6 April 2005 part-time employees will be taxed on the same basis as their full-time colleagues.



Occasionally an employer will help one of his workers gain a qualification through a full-time college course. Payments to cover the student's board, lodging and travelling expenses could be made tax free up to £7,000 per year. This limit will be raised to £15,000 from 1 September 2005.

## Payroll issues

"Regulation, regulation, regulation," is what many business people moan, particularly in connection with payroll. One of the biggest burdens in this area is the payment of working tax credits. In last year's Budget Gordon promised to remove this obligation from employers and make the Inland Revenue totally responsible for paying all tax credits.

We had hoped this would happen from April 2005, but the switch over will now be phased in between November 2005 and April 2006. However employers will be required to publicise the change to their staff, probably at their own expense.

Student loans repayment is another major burden for employers. All ex-students who borrowed from the Student Loan Company have repayments deducted from their pay when they earn over £10,000 per year. As this limit is only just above the minimum

wage level, the threshold is to be raised to £15,000 from 6 April 2005. As the average starting salary for a graduate is at least £17,000 this change will have little real effect for most employers.

Finally remember you can give up to £50 per week of childcare vouchers to your employees completely free of tax and NI from 6 April 2005. The vouchers do not have to be issued by a large nurseries, you can produce the vouchers yourself and arrange for local registered childminders or nurseries to take them as part payment for places. Ask us for details.



Homemade childcare vouchers