

Budget 2007

It was always wishful to think that the Chancellors 11th and last budget would in any way help our industry. There was a glimmer of hope that some 'green' initiatives may have recognised the importance of farming, but alas we will have to wait.

Many commentators described this budget as a 'zero sum game' i.e. any tax increases are offset by tax decreases. In other words there are winners and there are losers.

In this case capital-intensive businesses are the losers (the majority of you reading this), whilst service businesses will be the winners.

The Chancellor has proven, yet again, that he can revisit the past with his wholesale reform of Capital Allowances and the abolition of Industrial and Agricultural buildings allowances.

The increase in Corporation Tax for small companies and the capital allowance reform will cost the majority of you tens of thousands in tax over the next decade.

Capital Allowances

- From 2008/2009 Agricultural and Industrial buildings allowances will be phased out and there will be none from April 2011. This applies to all farm buildings, existing and new – a total loss of tax relief on farm buildings.
- From April 2008 writing down allowances on plant and machinery will be reduced to 20% from 25%.
- 50% First Year allowances for small enterprises will remain for one last year. Then replaced by a £50,000 investment allowance – full details not yet available.
- Enhanced allowances for Green technologies – details to be announced.

Comment

The abolition of ABA's can only be described as a complete disaster and everyone reading this with any lobbying power must act to get this changed. Chavereys are currently helping the NFU get a handle on just how significant this decision is for the industry. A snap shot of Chavereys' larger clients suggest they will lose £12,500,000 of allowances. Throughout the industry the effect will be massive and the real pain will be the cumulative not year on year tax effect. The change to writing down allowances on plant and machinery will make determining the exact date of expenditure on new assets very important over the next couple of years i.e. probably better to purchase qualifying assets in the 2007/2008 tax year to gain accelerated relief.

Corporation Tax

If you are lucky enough to make more than £300,000 in taxable profit per annum then you have some good news and your effective tax rate will fall.

The bad news is for those of you making less than £300,000, which in practice is most of you reading this; your effective tax rate will increase on a phased basis up to 2009.

In simple terms your Corporation Tax rate will increase from 19% to 22% over the next three tax years.

Comment

The Chancellor has never liked small companies and this is just another measure to stop people transferring to limited companies to obtain a perceived tax advantage.

Given the changes in capital allowances a company in partnership still provides significant benefits for our clients and the increase in Corporation tax won't discourage this.

Income Tax and National Insurance

- Basic rate tax band reduced by 2% to 20% from April 2008
- Lower rate of 10% is abolished
- Self employed National Insurance threshold will increase above inflation

Comment

The tax cut will only benefit individuals with income over £18,600 and where income is only derived from investments there will be no benefit. Frankly it is amazing that the Chancellor would hit the very lowest earners like this. Is this an indication of just how constrained he is by the true state of the country's finances.

Capital Gains Tax

CGT annual exemption for 2007/2008 is £9,200.

Comment

Still no firm word on the planning gain supplement for development land, in theory this is still set to be introduced from 2009. It is interesting to note though that extensive consultation is being undertaken to work out the best way to encourage the development of brownfield sites. The Government's target is for 60% of new homes to be built on Brownfield land. The Government has already introduced a tax relief, which gives 150% relief for land remediation, and there is likely to be further relief to follow.

Inheritance Tax, Trusts and Pre-owned Assets Tax

- As expected the Inheritance Tax threshold was increased to £300,000 and will rise to £350,000 by 2010.
- No significant further interference with trusts.
- Legislation to be included in the Finance Bill to allow HMRC to accept late Pre Owned Asset Tax Elections.

Comment

Relief, if nothing else, but the attack on trusts last year and the precedents being set on agricultural property relief are enough of a headache. The POAT issue still continues to be clouded in uncertainty and it is unsurprising they have had to relax deadlines.

Stamp Duty Land Tax

- No changes to rates and thresholds
- Zero carbon homes will be exempt from SDLT up to a purchase price of £500,000. Where the purchase price is over £500,000 the SDLT bill will be reduced by £15,000.

Comment

Disappointing that the Chancellor still has not raised SDLT thresholds. SDLT is yet another hugely complicated tax that the treasury seem very keen on. Qualifying as a zero carbon home will no doubt cost a lot more than it actually saves in SDLT.

VAT

Fuel scale charges reformed to be based on CO2 emissions and not engine size from 1 May 2007.

Fuel Duty

Red diesel duty up 2p per litre from 1 October 2007 – a 26% increase in duty (50% increase since August 2006)

The above has been written by Nick Holmes, a partner in Chavereys. If you are not a Chavereys client and have any specific questions on the above please email Nick at nick.holmes@chavereys.co.uk or call him on 01233 610384. Existing clients of Chavereys should use their usual Chavereys contact to raise any questions. This Technical Release provides general guidance and does not purport to deal with all possible questions and issues that may arise in any given situation. No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this guidance can be accepted by Chavereys.