



Budget 2008

The Chancellor of the Exchequer delivered his Budget speech on 12th March 2008. It was generally regarded as a fairly dull budget, but not entirely unexpected - difficult economic conditions and a raft of earlier announcements meant that Alistair Darling's debut budget contained few surprises. In the 2007 budget, Gordon Brown had already trialed the main changes to Income Tax and Corporation Tax. Similarly, Mr Darling's pre budget report of last October heralded revision of Inheritance Tax and, more controversially, reform of Capital Gains Tax and the treatment of non-domiciles. However, as with all Budgets, it takes time to realise the full implications of all the announcements and the small print, hence the delay on reporting the results.

Overall Considerations

The net result of all the budget changes is a reduction in taxes for 2008/09 of £140 million. The two largest give-aways in the calculations are the extra winter fuel payments to pensioners, costing £575 million, and the cost of delaying the increase in fuel duty, £550 million. These are mainly to be met by £400 million from drinkers and a clutch of anti-avoidance measures, which (probably rather optimistically, according to most tax commentators) should raise some £650 million.

- The largest single tax raising measure was the announcement of an increase in alcohol duties of 6% above inflation. This means an increase of 4p on a pint of beer, 55p on a



- 70cl bottle of spirits and 14p on a bottle of wine.
- The planned increase in fuel duty of 2p per litre was due to take place in April, but this has now been delayed until October. The tax break for bio fuels is set to end in 2010.
- Smokers were hit by an increase in tax, raising the cost of a packet of 20 cigarettes by 11p and a pack of 5 cigars by 4p.
- It is intended to introduce a new band of Vehicle Excise Duty for new cars from 2010. The most polluting vehicles will attract a higher £950 rate of tax in the first year, while cars emitting less than the EU cap (set to be 100g of CO₂ per km) will be exempt for a year.
- Winter Fuel Allowance will go up from £200 to £250 for the over 60s and from £300 to £400 for the over 80s.

Personal Issues

The main tax changes are as follows:

- Personal Allowance increased from £5,225 to £5,435
- Personal Allowances for over 65s increased from £7,550

- to £9,030
- The basic rate of Income Tax has been reduced from 22% to 20% and the starting rate of 10% on earned income has been abolished. The 10% rate will still apply to the first £2,230 of savings income. As a result of these changes, the likelihood is that anyone on earned income of less than £18,000pa will be worse off. However, anyone who is entitled to claim Child Tax Credits will have this tax loss offset by an increase in the amount of Tax Credit they can claim. For those who cannot claim Child Tax Credits, some may still be able to claim Working Tax Credit provided that they are over 25, work more than 30 hours a week and their household income is below £13,000pa.
- The amount of Class 2 NIC has been increased from £2.20 to £2.30 per week.
- Class 4 NIC is now payable at 8% on the band of profits from £5,435 to £40,040 plus 1% on all profits over £40,040.
- One of the knock on effects of the reduction in the basic rate of Income Tax is that for

every £78 of personal pension contributions that you make, the Revenue now add only £19.50 to your pension plan instead of the £22 they used to add. The same is true if you make gift aid contributions to charities although as a concession, the Revenue will make up the difference for the next three years in respect of charities.

- Capital Gains exemption is increased to £9,600 for 2008/09 and all gains will be charged at a flat rate of 18%. A new entrepreneur's relief, up to a maximum of £1 million, is available on the disposal of business assets. This includes the disposal of property used as furnished holiday lettings but not disposals of other properties let furnished, or unfurnished.
- The NIL rate band of Inheritance Tax is raised from £300,000 to £312,000.
- The Chancellor also confirmed that for 2008/09, the maximum amount that can be paid into an ISA will increase to £7,200, of which £3,600 can be held as cash.

The details of the well-publicised reform to Capital Allowances were confirmed with legislation to be included in the 2008 Finance Bill. This was the subject of an article in February's edition of adiNEWS regarding the introduction of the Annual Investment Allowance to replace the old system of Capital Allowances on business assets. It was confirmed that the first £50,000 of investment in business assets would be entitled to 100% writing down allowance. **adi**