AUTUMN '07 NEWSLETTER

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DEAR DARLING!

No doubt many of you will have already seen analysis of the Pre-Budget Report in the Press or sought to digest the large volume of Press Releases which came out following the Speech. Our newsletter is not intended to be a comprehensive summary of everything in the Report. We highlight certain points which we believe will be of interest to our clients, but as ever, you should take specific professional advice before taking action. Tax is complicated!

A number of the proposed changes are not to be imposed for some time. This gives opportunities and hence the need to take commercial decisions now to maximise the outcome.

KEY POINTS

CGT Reform

IHT Reform

Capital Allowance Reforms

Penalties on Directors

VAT Changes

Income Shifting

CGT REFORM

Gordon Brown introduced taper relief to replace indexation allowance for gains accruing after 6 April 1998. Both are to be abolished from next tax year.

Significant thought needs to be given to planning before 5 April 2008, for individuals and trusts. Capital assets owned by companies are not affected.

1. If you have an interest in a trading firm or company, the loss of taper relief will increase your marginal tax rate on disposal of the business – in general from 10% to 18%.
2. If you acquired assets before 5 April 1998, you could be about to lose substantial tax relief – previously attained through indexation.
3. Those with an "investment portfolio" may benefit from the taper relief changes, but still need to consider other issues related to the reforms.

Action to review capital assets to establish whether disposals should be completed before 5 April 2008, or whether indexation and the 10% rate should be banked in other ways.

IHT REFORM

1. All Wills need to be reviewed, because of the proposed "carry forward" of the IHT nil rate band. The changes allow the nil rate bands of a married couple to be amalgamated. This should be generally advantageous, however, the devil is in the detail and Trusts and Wills prepared before the changes in law, need to be reviewed.
2. Remember "Pensions Simplification" and A Day – so long ago - 6 April 2006! Now extra anti-avoidance legislation is to be introduced to tax "unauthorised" pension payments, with an extra IHT charge where there is an aim to pass the value of a fund down to the next generation. Again, clients need to review their pension arrangements.

ARCTIC SYSTEMS

As many of you will know, HM Revenue and Customs lost in the House of Lords in the Arctic Systems case. Hence, the principle of independent taxation between husband and wife (as previously recommended as a tax planning idea by the Department for Trade and Industry) was preserved.

Within days though, there was a Ministerial announcement that the decision was not fair and the legislation needed to be "clarified".

A "Consultation" is to take place to prevent "Income Shifting" to avoid this "unfairness". Apparently, family companies have been declaring dividends to "relatives". If anyone has any comments we would be happy to discuss them, with a view to helping with the consultation process.

INVESTORS/DEVELOPERS

In addition to the proposed CGT reforms, developers need to consider the changes to VAT. In appropriate cases, 5% (as opposed to 17.5%) VAT is to be charged on costs related to redeveloping a property empty for 2 years, (rather than the previous rule of 3 years). Bearing in mind the planning process etc., this could have a significant impact on cost/yield on projects.

PENALTIES

It was not part of the Autumn Statement; in fact the measures introduced were not highlighted with any publicity. However, it is important to note, that in future penalties for incorrect corporation tax returns may now be charged upon the officers of the company, personally. This increases the personal risk of being in business, and makes it even more important to get the right tax advice.

CAPITAL ALLOWANCE REFORMS

Proposals for changes to relief for expenditure on plant and machinery have been published by HMRC and HM Treasury, with the changes due to come into effect from April 2008. Currently small and medium enterprises receive first-year allowances on plant and machinery expenditure and thereafter allowances at 25%.

Under the new proposals these will be scrapped and replaced with an Annual Investment Allowance of £50,000 per year for businesses of any size. Yearly expenditure above this amount will receive allowances at the normal rate, which will be reduced to 20%. For the vast majority of businesses this constitutes a reduction in the allowances and so careful planning should be considered in relation to clients' agendas for capital expenditure over the years to come.

Also the allowances in relation to Industrial Buildings are to be reduced down to zero from 2010. There are no balancing tax charges/allowances on disposals from 21 March 2007.

Eaves and Co are independent tax advisors with many years experience in dealing with the professions and clients. Visit our websites www.eavesandco.co.uk and www.equityvalue.eu

Darling! Talk to us, we can help.

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