Deloitte & Touche

Tax Rates 2003/04

Contents

These tables are a summary and do not cover all situations. They are based on information in the Budget announcements on 9 April 2003. These may be subject to amendment during the passage of the Finance Bill through Parliament. You are advised to obtain specific professional advice before taking action in connection with any of the issues raised in this document.

Personal tax

Income tax rates 2003/04 *(2002/03)*

Income Band (£)	Dividends (%)	Other Savings Income (%)	Capital Gains (%)
Up to 1,960 *(1,920)*	10	10	10
1,961-30,500 *(1,921-29,900)*	10	20	20
Over 30,500 *(29,900)*	32.5	40	40

Income Band (£)	Other Income (%)	Cumulative Tax (£)
Up to 1,960 *(1,920)*	Starting rate: 10	196 *(192)*
1,961-30,500 *(1,921-29,900)*	Basic rate: 22	6,475 *(6,347)*
Over 30,500 *(29,900)*	Higher rate: 40	

Broadly speaking, the income bands are taken up in the following order:

- Income other than dividends, other savings income and capital gains.
- Other savings income.
- Dividends.
- Capital gains.

For lower or basic rate taxpayers the liability on dividend income is met by the tax credit attached to the dividend. For non-taxpayers, the tax credit is not refundable. Dividend income of discretionary trusts and accumulation and maintenance trusts is taxed at 25% (rather than the normal trust's income tax rate of 34%).

Personal allowances

	2003/04 (£)	2002/03 (£)
Basic individual	4,615	4,615
Individual aged 65-74 [a]	6,610	6,100
Individual aged 75 and over [a]	6,720	6,370
Married couple (born before 6 April 1935) [a,b,c]	5,565	5,465
Married couple (elder aged 75 and over) [a,b,c]	5,635	5,535

a. Reduced by £1 for each £2 of income (less deductions) which exceeds £18,300 (£17,900 for 2002/03). However, this reduction cannot take the allowance below that for an individual. The personal allowance is reduced first, then the married couple's allowance.

b. Restricted to relief at 10%.

c. The minimum age-related married couple's allowance is £2,150.

Income tax reliefs and incentives

Annual limits	2003/04 (£)
Enterprise Investment Scheme (EIS) (maximum) [a]	150,000
Venture Capital Trust (VCT) (maximum) [a]	100,000
Individual Savings Account (ISA)	
– total investment (maximum) [b]	7,000
– stocks and shares component (maximum) [b,c]	7,000
– cash component (maximum) [b]	3,000
– life insurance component (maximum) [b]	1,000

a. *Relief restricted to 20%.*

b. *These limits will apply until 5 April 2006. Detailed conditions and additional restrictions may apply where one or more mini-ISAs are taken out with different ISA managers for each component. You can only invest in one maxi ISA or up to three mini ISAs in each tax year.*

c. *The 10% tax credit on dividends received from shares in UK companies held in an ISA will be repayable until 5 April 2004.*

Relief is available at the taxpayer's marginal rate of income tax for charitable donations via the Gift Aid and Payroll Giving schemes and for charitable gifts of quoted shares and securities and real property.

Pensions

The maximum tax-deductible contribution in any tax year is specified as a percentage of net relevant earnings (NRE). If payments are made to both retirement annuity contracts and personal pension schemes, the personal pensions limit applies to the aggregate.

	Percentage of net relevant earnings (%)	
Age at start of tax year	*Personal pensions*	*Retirement annuities*
35 or less	17.5	17.5
36 – 45	20	17.5
46 – 50	25	17.5
51 – 55	30	20
56 – 60	35	22.5
61 – 74	40	27.5

The maximum earnings on which contributions to personal (including stakeholder) and occupational pension schemes attract relief is £99,000 for 2003/04 (£97,200 for 2002/03).

Personal pension premiums can be related back only if paid by 31 January (5 April for retirement annuity premiums) in the following tax year. For personal pensions, contributions for any tax year can be based on the NRE for any of the previous five years, if higher. This is subject to the earnings cap in the year that the relief is given.

Stakeholder pensions allow certain individuals under 75 years of age to contribute up to £3,600 *pa* even if they have no NRE. Above this level contributions are subject to personal pension limits. Members of occupational pension schemes may contribute to a stakeholder pension if their pay is £30,000 *pa* or less. Contributions to occupational pension schemes and AVCs up to 15% of NRE (subject to the maximum earnings limit) are deductible.

Taxable car and fuel benefits

The taxable car benefit is calculated as a percentage of the car's list price based on carbon dioxide (CO_2) emissions as follows:

- Car emitting less than 155 CO_2 g/km – 15%.
- For each additional 5 CO_2 g/km – add 1%.
- Maximum benefit where CO_2 exceeds 255 g/km – 35%.

A 3% supplement applies to certain diesel cars, up to the maximum charge of 35% of list price. Discounts apply to cars first registered on or after 1 January 1998 which run on 'cleaner' fuels. The price of the car is reduced for capital contributions made by an employee up to a maximum of £5,000. Employees' contributions for private use reduce the taxable benefit pound for pound. Vans attract a scale charge of £500 *pa* (£350 *pa* if the van is more than four years old at the end of the tax year).

Fuel benefit is calculated by applying the relevant car CO_2 emissions percentage to a pre-set figure (£14,400 for 2003/04).

Approved mileage rates

Employers can make tax- and NI- free payments to employees using their own vehicle for business travel, as follows:

- cars and vans – 40p per mile for the first 10,000 miles and 25p per mile thereafter (for NIC the 40p rate applies to all miles);
- motor cycles – 24p per mile;
- bicycles – 20p per mile; and
- passengers – an optional 5p per mile for each passenger who is an employee travelling on business.

Capital gains tax (CGT)

Capital gains are tapered. For non-business assets acquired before 17 March 1998, an additional year is added to the actual period of ownership. An indexation allowance applies up to April 1998 to assets held before then. If an asset moves between non-business and business, the gain is time apportioned and tapered.

Number of complete years asset held after 5 April 1998	Business Assets [a]		Non-business assets	
	% of gain chargeable	*Effective rate (%)* [b]	*% of gain chargeable*	*Effective rate (%)* [b]
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 or more	25	10	60	24

a. The rates shown apply to disposals on or after 6 April 2002.

b. Effective tax rate for a higher rate (40%) taxpayer.

The annual exemption for individuals in 2003/04 is £7,900 (£7,700 2002/03) and for trusts up to £3,950 (£3,850 2002/03). A chattels exemption applies for proceeds up to £6,000. Gains on the disposal of the owner's only or main residence are wholly or partly exempt. Capital gains can be deferred if the gain is reinvested in qualifying shares under the Enterprise Investment Scheme (EIS) or a Venture Capital Trust.

Inheritance tax (IHT)

IHT is charged on the estate at death, on gifts within seven years of death and on chargeable lifetime transfers of value. For 2003/04 the first £255,000 (£250,000 for 2002/03) of cumulative chargeable transfers are exempt. Over this amount the rate is 20% for lifetime transfers, 40% on death. A tapered inheritance tax rate applies to gifts made between three and seven years before death. Transfers between UK-domiciled spouses are exempt.

Indirect taxes

Value Added Tax (VAT)

From 10 April 2003, VAT registration is required where taxable supplies exceed £56,000 (previously £55,000) for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold is increased to £54,000 (previously £53,000). An optional flat rate scheme and/or immediate access to the VAT annual accounting scheme applies to businesses with taxable turnover under £150,000 (previously £100,000).

Rates	(%)
Zero rate (newspapers, children's clothes etc)	0
Certain fuel and power; energy saving materials; residential property works etc	5
Standard rate	17.5
VAT fraction for inclusive price	7/47

Insurance premium tax

The standard rate of insurance premium tax applicable to most general insurance is 5%. Life and other long-term insurance is exempt. A higher 17.5% rate applies to mechanical breakdown and travel insurance, and insurance sold with certain goods.

Stamp duty

The rates below apply to chargeable transfers of property. Different rates apply to shares and securities (0.5%) and leases.

Value of property (£)	Rate (%)
0 – 60,000	–
60,001 – 250,000	1
250,001 – 500,000	3
Over 500,000	4

Residential sales of land and buildings up to £150,000, and all commercial sales, in 'disadvantaged' areas are exempt. From 1 December 2003 the zero rate band will increase to £150,000 for non-residential purchases and leases with a net present value less than £150,000. Stamp duty land tax on commercial property is expected to come into force on 1 December 2003.

National insurance contributions 2003/04

Class 1 (employees and employers)

Weekly earnings (£)	Employees	Employers
77.00 or less [a]	–	–
77.01 – 89.00 [b]	0%	–
89.01 – 595.00	11%	12.8%
Over 595.00 [c]	£55.66 plus 1% on earnings over £595 pw	12.8%

Contracted out – salary related		
77.00 or less [a]	–	–
77.01 – 89.00 [b]	0%	–
89.01 – 595.00	9.4%	9.3%
Over 595.00 [c]	£47.56 plus 1% on earnings over £595pw	£47.06 plus 12.8% on earnings over £595pw

Contracted out – money purchase		
77.00 or less [a]	–	–
77.01 – 89.00 [b]	0%	–
89.01 – 595.00	9.4%	11.8%
Over 595.00 [c]	£47.56 plus 1% on earnings over £595pw	£59.71 plus 12.8% on earnings over £595pw

a. *Monthly and annual lower earnings limits are £334 and £4,004 respectively.*

b. *A zero rate of NIC applies to earnings between the lower earnings limit of £77 pw and the earnings threshold of £89 pw to protect employees' contributory benefit entitlements.*

c. *Monthly and annual upper earnings limits (relevant for employees only) are £2,578 and £30,940 respectively.*

Employees' reasonable business travel and subsistence expenses are excluded from earnings for Class 1 NIC purposes. Employers should use Inland Revenue authorised mileage rates for up to 10,000 miles *pa* of business travel when calculating the cost of a business journey by car.

Class 1A (employers providing benefits-in-kind)

Employers are liable to Class 1A NIC at 12.8% on most benefits-in-kind subject to income tax. Benefits-in-kind covered by a dispensation or included in a PAYE Settlement Agreement (but see below) are not subject to Class 1A NIC. Certain other benefits are specifically exempt from both income tax and Class 1A NIC.

Class 1B (employers settling tax liabilities via PSAs)

Class 1B NIC is an employer-only charge, similar to Class 1A, payable by employers on the value of the tax and on certain benefits paid via PAYE Settlement Agreements (PSAs). The rate is tied to the Class 1 secondary rate (12.8%) and contributions are payable by 19 October following the end of the tax year, along with the tax under a PSA.

Class 2 (self-employed)	
Weekly rate	£2
Annual limit	£104
Small earnings exception (annual)	£4,095

Class 3 (voluntary)	
Weekly rate	£6.95
Annual limit	£362

Class 4 (self-employed)	
Lower limit of profit or gains	£4,615
Upper limit of profit or gains	£30,940
Rate on profits between lower and upper limits	8%
Rate on profits above £30,940	1%

Business tax

Corporation tax rates

	Year ended 31 March	
	2004	2003
Normal main rate	30%	30%
Starting rate (up to £10,000) [a, c]	0%	0%
Fraction for 'starting rate' marginal relief	19/400	19/400
Small companies' rate [b, c]	19%	19%
Fraction for 'lower' marginal relief	11/400	11/400

a. Marginal relief applies to profits between £10,000 and £50,000 with an effective marginal rate of 23.75%.

b. The upper threshold for the small companies' rate is £300,000. Marginal relief applies to profits between £300,000 and £1.5 million, with an effective marginal rate of 32.75%.

c. The limits are reduced pro rata by the number of associated companies, including the company itself, and for accounting periods of less than 12 months.

Corporation tax payments

Large companies pay tax in instalments. Large companies are broadly those with taxable profits of at least £1.5 million and a corporation tax liability in excess of £10,000 for a 12-month accounting period (AP). Profits limits are reduced *pro rata* based on the number of associated companies worldwide.

In a 12-month AP, four instalments are payable as follows:

- 6 months and 13 days from the first day of the AP;
- 3 months after the first instalment;
- 3 months after the second instalment; and
- 3 months and 14 days from the last day of the AP.

Medium-sized companies are not required to make instalment payments in the first year in which the £1.5 million threshold is reached unless their profits exceed £10 million.

Groups may pay tax on a group-wide basis, provided certain conditions are met.

Capital expenditure

	First year/ initial allowance	Writing-down allowance
Plant and machinery	40% [a]	25% reducing balance
Long-life assets [b]	–	6%
Cars [c]	–	25% reducing balance
Patent rights and qualifying know-how	–	25% reducing balance
Industrial/agricultural buildings, hotels	–	4% on cost
Research and development (R&D)	100%	–
Enterprise zones	100%	–

a. *Only available to small or medium size businesses – currently defined as those meeting two of the following criteria: turnover up to £11.2 million, assets up to £5.6 million, or up to 250 employees. For the four years to 31 March 2004 small businesses can also claim 100% allowances on information, communication and technology equipment.*

b. *Applies to businesses spending more than £100,000 pa on certain assets with a useful life of 25 years or more.*

c. *Maximum allowance £3,000 pa.*

Under the enhanced capital allowance (ECA) scheme, a 100% first year allowance is available for expenditure on designated energy-saving or water-related plant and machinery and for the purchase of 'green' vehicles or refuelling equipment.

Tax relief is available for the cost of intangible assets (including goodwill and intangible property). This will, in most cases, be the level of amortisation recognised in the accounts. A fixed rate of 4% *pa* may be applied in the case of indefinite or longer life assets.

Research and development: revenue costs

An additional deduction of 25% of qualifying R&D expenditure is available to large companies (i.e. those that are not SMEs- see below). For SMEs the additional deduction is 50% of qualifying R&D expenditure. For this purpose the current definition of SMEs requires a company to be independent and to have fewer than 250 employees and either turnover up to €40m or total assets up to €27m.

In addition to the above, qualifying R&D expenditure incurred on or after 22 April 2003 in relation to specified vaccines and medicines will attract a further 50% deduction from taxable profits for both SMEs and large companies.

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