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Tax

II

Tax rates 2007/08

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These tables are a summary and do not cover all situations. They are based on information in the Budget announcements on 21 March 2007. These may be subject to amendment during the passage of the Finance Bill through Parliament.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Personal Tax

Income tax rates 2007/08 (2006/07)

Income Band (£)	Dividends (%)	Other Savings Income (%)	Capital Gains (%)
Up to 2,230 (2,150)	10	10	10
2,231 – 34,600 (2,151 – 33,300)	10	20	20
Over 34,600 (33,300)	32.5	40	40
Income Band (£)	Other Income (%)		Cumulative Tax (£)
Up to 2,230 (2,150)	Starting rate: 10		223 (215)
2,231 – 34,600 (2,151 – 33,300)	Basic rate: 22		7,344 (7,068)
Over 34,600 (33,300)	Higher rate: 40		

Broadly speaking, the income bands are used 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 UK 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 32.5% rather than the normal trust's income tax rate of 40% subject to a 'standard rate' band which for 2007/08 is £1,000 (2006/07 £1,000).

Personal allowances

	2007/08 (£)	2006/07 (£)
Basic individual	5,225	5,035
Individual aged 65-74 ^a	7,550	7,280
Individual aged 75 and over ^a	7,690	7,420
Married couple (born before 6 April 1935) ^{a,b,c}	6,285	6,065
Married couple (elder aged 75 and over) ^{a,b,c}	6,365	6,135

a. Reduced by £1 for each £2 of income (less deductions) which exceeds £20,900 (£20,100 for 2006/07). 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 £2,440 (£2,350 for 2006/07).

Income tax reliefs and incentives

Annual limits	2007/08 (£)
Enterprise Investment Scheme (EIS) (maximum) ^a	400,000
Venture Capital Trust (VCT) (maximum) ^b	200,000
Individual Savings Account (ISA)	
– total investment (maximum) ^c	7,000
– stocks and shares component (maximum) ^c	7,000
– cash component (maximum) ^c	3,000

a. Income tax relief restricted to 20%. Capital gains tax deferral relief is also available.

b. Rate of income tax relief for investors in VCTs is 30%.

c. Investors may hold one of each component each tax year, with the same or different providers. The limits apply to the overall investment.

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

A completely new pensions tax regime took effect from 6 April 2006. The key points are as follows.

- The changes apply to all individuals in respect of whom pension contributions are made, or benefits accrue, after 5 April 2006 and those who draw any pension benefits after that date;
- The normal minimum pension age will be 50, rising to 55 from 6 April 2010;
- There will be an annual cap (£225,000 for 2007/08) on contributions to registered pension schemes (or growth in value of defined benefit schemes). Where the cap is exceeded a tax charge of 40% will be payable by the individual;
- There will be an effective tax charge of up to 55% on the value of the pension funds used to provide benefits, when those benefits are taken, insofar as they exceed the individual's available lifetime allowance (£1.6 million for 2007/08) subject to transitional relief – see below;
- The maximum tax-free lump sum that may be drawn from pension funds will be 25% of the value of an individual's uncrystallised pension rights, subject to a cap of 25% of the lifetime allowance and transitional relief – see below;
- Transitional reliefs are available to protect pension rights built up before 6 April 2006 by registering and protecting those rights, including lump sum rights in excess of £375,000. The time limit for registering these rights is 5 April 2009. Certain pre-existing lump sum rights of more than 25% are automatically protected.

	Earnings cap (£)	Annual allowance (£)	Lifetime allowance (£)
2005/06	105,600	–	–
2006/07	108,600 ^a	215,000	1,500,000
2007/08	112,800 ^a	225,000	1,600,000
2008/09	–	235,000	1,650,000
2009/10	–	245,000	1,750,000
2010/11	–	255,000	1,800,000

a. Notional earnings cap for the purpose of limiting contributions to, and benefits payable from, pre-6 April 2006 schemes that are subject to transitional rules.

Making contributions to pensions is a long term investment decision and individuals should take advice on the suitability of making pension contributions in their particular circumstances.

Taxable car and fuel benefits

The taxable car benefit is calculated as a percentage of the car's list price based on carbon dioxide (CO₂) emissions as follows:

- Car emitting 144 or less CO₂ g/km – 15%.
- For each additional 5 CO₂ g/km – add 1%.
- Maximum benefit where CO₂ at least 240 g/km – 35%.

A 3% supplement applies to certain diesel cars, up to the maximum charge of 35% of list price. The price of the car is reduced by up to a maximum of £5,000 for capital contributions made by an employee. Employees' contributions for private use reduce the taxable benefit pound for pound.

From 6 April 2007 the private use of vans attracts a scale charge of £3,000 pa, regardless of the age of the vehicle. In addition, from 6 April 2007 if free or subsidised fuel is provided for private use in a company van a taxable fuel benefit will arise (£500 for 2007/08).

Fuel benefit for cars is calculated by applying the relevant car CO₂ emissions percentage to a pre-set figure (frozen at £14,400 for 2007/08).

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		Non-business assets	
	% of gain chargeable	Effective tax rate (%) ^a	% of gain chargeable	Effective rate (%) ^a
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. Effective tax rate for a higher rate (40%) taxpayer.

The annual exemption for individuals in 2007/08 is £9,200 (2006/07 £8,800) and for trusts up to £4,600 (2006/07 £4,400). A chattels exemption applies for proceeds up to £6,000.

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 2007/08 the first £300,000 (£285,000 for 2006/07) 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 1 April 2007, VAT registration is required where taxable supplies exceed £64,000 (previously £61,000) for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold is increased to £62,000 (previously £59,000).

Rates	(%)
Zero rate (newspapers, children's clothes etc)	0
Certain fuel and power; some energy saving materials; some 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 land tax (SDLT)

The rates below apply to acquisitions of chargeable interests in land including leases.

Relevant consideration (£) – residential	Rate (%)	Relevant consideration (£) – non-residential or mixed	Rate (%)
0 – 125,000	0	0 – 150,000	0
125,001 – 250,000	1	150,001 – 250,000	1
250,001 – 500,000	3	250,001 – 500,000	3
Over 500,000	4	Over 500,000	4

In disadvantaged areas residential sales of land and buildings up to £150,000 are exempt. Commercial property sales entered into after 16 March 2005 are no longer exempt.

Stamp duty

Stamp duty applies to transfers of shares and securities at a rate of 0.5%. Payment of the appropriate amount of stamp duty generally cancels the parallel charge to stamp duty reserve tax.

National insurance contributions 2007/08

Class 1 (employees and employers)

Weekly earnings (£)	Employees	Employers
87.00 or less ^a	—	—
87.01 – 100.00 ^b	0%	—
100.01 – 670.00	11%	12.8%
Over 670.00 ^c	£62.70 plus 1% on earnings over £670 pw	12.8%
Contracted out – salary related		
87.00 or less ^a	—	—
87.01 – 100.00 ^b	0%	—
100.01 – 670.00 ^d	9.4%	9.1%
Over 670.00 ^{c,d}	£53.58 plus 1% on earnings over £670 pw	£51.87 plus 12.8% on earnings over £670 pw
Contracted out – money purchase		
87.00 or less ^a	—	—
87.01 – 100.00 ^b	0%	—
100.01 – 670.00 ^d	9.4%	11.4%
Over 670.00 ^{c,d}	£53.58 plus 1% on earnings over £670 pw	£64.98 plus 12.8% on earnings over £670 pw
<p>a. Monthly and annual lower earnings limits are £377 and £4,524 respectively.</p> <p>b. A zero rate of NIC applies to earnings between the lower earnings limit of £87 pw and the earnings threshold of £100 pw to protect employees' contributory benefit entitlements. Monthly and annual thresholds are £435 and £5,225 respectively. A contracted out rebate is due at the relevant rate (not shown in table on these earnings).</p> <p>c. Monthly and annual upper earnings limits are £2,904 and £34,840 respectively.</p> <p>d. Contracted out rebates apply to the difference between the upper earnings limit and the lower earnings limit (not the earnings threshold).</p>		

Employees' qualifying business travel and subsistence expenses are excluded from earnings for Class 1 NIC purposes. In determining the allowable cost of business travel by employees in their own cars employers should use the HM Revenue & Customs authorised mileage rate of 40p per mile.

For contracted out – money purchase schemes, in addition to the flat-rate abatement shown above, HM Revenue & Customs pay an age-related rebate directly to the pension scheme.

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	£2.20
Small earnings exception (annual)	£4,635
Class 3 (voluntary)	
Weekly rate	£7.80
Class 4 (self-employed)	
Lower limit of profit or gains	£5,225
Upper limit of profit or gains	£34,840
Rate on profits between lower and upper limits	8%
Rate on profits above £34,840	1%

Business tax

Corporation tax rates

	Year ended 31 March	
	2008	2007
Normal main rate	30%	30%
Small companies' rate ^{a, b}	20%	19%
Fraction for 'lower' marginal relief	1/40	11/400

a. 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 32.5%
b. The limits are reduced pro rata for associated companies 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 (see note b above) and a corporation tax liability in excess of £10,000 for a 12-month accounting period (AP). The £10,000 is reduced proportionately for shorter accounting periods.

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.

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.

Capital expenditure

	First year/ initial allowance	Writing-down allowance
Plant and machinery	50% ^a 40% ^b	25% reducing balance
Long-life assets ^c	–	6%
Car ^d	–	25% reducing balance
Industrial/agricultural buildings, hotels	–	4% on cost
Research and development (R&D)	100%	–

a. Only available to small businesses – currently defined as those meeting two of the following criteria: turnover up to £5.6 million, assets up to £2.8 million, or up to 50 employees – for a period of one year only.

b. Only available to medium size businesses – currently defined as those meeting two of the following criteria: turnover up to £22.8 million, assets up to £11.4 million, or up to 250 employees

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

d. 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/impairment recognised in the accounts. A fixed rate of 4% pa may be applied on election.

Research and development: revenue costs

An additional deduction of 50% of qualifying R&D expenditure is available to companies that meet the EU definition of an SME (see below). Large companies (i.e. those that are not SMEs) can claim an additional 25% deduction on their qualifying costs.

For non tax paying SMEs a cash refund alternative of up to 24 pence in the pound of qualifying expenditure may be available.

For this purpose, the latest definition of SME (effective from 1 January 2005) requires a company, together with certain related companies, to have fewer than 250 employees and either turnover of less than €50m or total assets up to €43m.

The SME R&D relief scheme will be extended to companies with fewer than 500 employees and either an annual turnover not exceeding €100 million or balance sheet total not exceeding €86million. This extension of support will have effect from a date to be appointed by Treasury Order. The Government is currently in discussions with the European Commission to ensure that any extension to the SME scheme meets with EC state aid approval rules. The appointed date will be announced once approval has been received.

The meaning of R&D for these purposes and for the Capital Research & Development Allowances is set out in the DTI guidelines issued on 5 March 2004.

In addition to the above, qualifying R&D expenditure 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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Notes

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