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Tax

Tax rates 2008/09

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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 12 March 2008 and have been amended to reflect the Chancellor's statement of 13 May 2008. These may be subject to further amendment during the passage of the Finance Bill through Parliament.

Personal Tax

Income tax rates 2008/09 (2007/08)

Income Band (£)	Dividends (%)	Other Savings Income (%)
Up to 2,320 (2,230)	**10**	**10**
2,321 – 34,800 (2,231 – 34,600)	**10**	**20**
Over 34,800 (34,600)	**32.5**	**40**

Income Band (£)	Other Income (%)	Cumulative Tax (£)
Up to 2,320 (2,230)	**20** (10)	**464** (223)
2,321 – 34,800 (2,231 – 34,600)	**Basic rate: 20** (22)	**6,960** (7,344)
Over 34,800 (34,600)	**Higher rate: 40** (40)	

For 2008/09 the 10% starting rate for other income has been abolished. In addition the 22% basic rate of income tax has been reduced to 20%.

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 2007/2008).

For 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. From 6 April 2008 the non-payable tax credit will be extended to dividends from non-UK companies, provided the investor owns less than a 10% shareholding.

Dividend income of discretionary trusts and accumulation and maintenance trusts is taxed at 32.5% (2007/08 32.5%) (rather than the normal trust income tax rate of 40% (2007/08 40%)), subject to a 'standard rate' band which for 2008/09 is £1,000 (2007/08 £1,000).

Personal allowances

	2008/09 (£)	2007/08 (£)
Basic individual	6,035	5,225
Individual aged 65-74[a]	9,030	7,550
Individual aged 75 and over[a]	9,180	7,690
Married couple (born before 6 April 1935)[a,b,c]	6,535	6,285
Married couple (elder aged 75 and over)[a,b,c]	6,625	6,365

a. Reduced by £1 for each £2 of income (less deductions) which exceeds £21,800 (£20,900 for 2007/08). 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 £2,540 (£2,440 for 2007/08).

Income tax reliefs and incentives

Annual limits	2008/09 (£)
Enterprise Investment Scheme (EIS) (maximum)[a]	500,000
Venture Capital Trust (VCT) (maximum)[b]	200,000
Individual Savings Account (ISA)	
– total investment (maximum)[c]	7,200
– stocks and shares ISA (maximum)[c]	7,200
– cash ISA (maximum)[c]	3,600

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 will be 30%.

c. In each tax year, you can invest in one cash ISA, or one stocks and shares ISA, or one of each, subject to the overall maximum limits. Detailed conditions and additional restrictions may apply.

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 (£235,000 for 2008/09) 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 (£1.65 million for 2008/09) 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 making these transitional relief claims 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	117,600[a]	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 (CO_2) emissions as follows:

- Car emitting 139 or less CO_2 g/km – 15%.
- For each additional 5 CO_2 g/km – add 1%.
- Maximum benefit where CO_2 at least 235 g/km – 35%.

A 3% supplement applies to most diesel cars, up to the maximum charge of 35% of list price. Hybrid cars and those which can run on Liquid Petroleum Gas (LPG) attract discounts of 3% and 2% respectively.

From 6 April 2008 there is a new 2% reduction for cars able to run on E85 fuel, a mixture of 85% bio-ethanol and 15% unleaded petrol. Also there is a new 10% band for cars with CO_2 emissions of exactly 120g/km or lower. These cars are 'qualifying low emissions cars' or QUALECs. The diesel supplement applies to QUALECs, but no reduction which is available on other cars applies.

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.

The private use of vans attracts a scale charge of £3,000 pa, regardless of the age of the vehicle. In addition, if free or subsidised fuel is provided for private use in a company van, a taxable fuel benefit will arise (£500 for 2008/09).

Fuel benefit for cars is calculated by applying the relevant car CO_2 emissions percentage to a pre-set figure (£16,900 for 2008/09).

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)

From 6 April 2008 a flat rate of capital gains tax of 18% applies to all disposals except for those that qualify for the new entrepreneurs' relief (see below). The indexation allowance and taper relief have both been abolished.

The annual exemptions for individuals and trusts still apply. For 2008/09 they are £9,600 (2007/08 £9,200) and up to £4,800 (2007/08 £4,600) respectively. A chattels exemption applies for proceeds up to £6,000.

Entrepreneurs' relief takes effect from 6 April 2008. It allows the first £1 million of gains arising on certain disposals in 2008/09 or later years to be charged to CGT at an effective rate of 10%.

The relief applies (subject to conditions) where:

- an individual makes a material disposal of business assets;
- there is a disposal of qualifying business assets held by certain qualifying trustees; or
- an associated disposal is made by an individual.

The £1 million limit is a lifetime limit affecting disposals from 6 April 2008.

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 2008/09 the first £312,000 (£300,000 for 2007/08) of cumulative chargeable transfers are exempt. Over this nil rate band 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. When a surviving spouse or civil partner dies after 9 October 2007, relief is due on that death in respect of any unused proportion of the nil rate band of the spouse or civil partner who died first. This is in addition to any unused nil rate band of the survivor.

Indirect taxes

Value Added Tax (VAT)

From 1 April 2008, VAT registration is required where taxable supplies exceed £67,000 (previously £64,000) for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold is increased to £65,000 (previously £62,000).

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.

From 1 October 2007 new zero-carbon homes (including flats) costing up to £500,000 benefit from an exemption from SDLT. This relief is time limited and will expire on 30 September 2012. Where the purchase price exceeds £500,000 the SDLT otherwise due is reduced by £15,000.

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. From 13 March 2008 there is an exemption from stamp duty for transfers that would have previously attracted stamp duty (fixed or ad valorem) of no more than £5.

National insurance contributions 2008/09

Class 1 (employees and employers)

Weekly earnings (£)	Employees	Employers
90.00 or less[a]	–	–
90.01 – 105.00[b]	0%	–
105.01 – 770.00	11%	12.8%
Over 770.00[c]	£73.15 plus 1% on earnings over £770 pw	12.8%
Contracted out – salary related		
90.00 or less[a]	–	–
90.01 – 105.00[b]	0%	–
105.01 – 770.00[d]	9.4%	9.1%
Over 770.00[c,d]	£62.51 plus 1% on earnings over £770 pw	£60.51 plus 12.8% on earnings over £770 pw
Contracted out – money purchase		
90.00 or less[a]	–	–
90.01 – 105.00[b]	0%	–
105.01 – 770.00[d]	9.4%	11.4%
Over 770.00[c,d]	£62.51 plus 1% on earnings over £770 pw	£75.81 plus 12.8% on earnings over £770 pw

a. Monthly and annual lower earnings limits are £390 and £4,680 respectively.

b. A zero rate of NIC applies to earnings between the lower earnings limit of £90 pw and the earnings threshold of £105 pw to protect employees' contributory benefit entitlements. Monthly and annual thresholds are £453 and £5,435 respectively. A contracted out rebate is due at the relevant rate (not shown in table on these earnings).

c. Monthly and annual upper earnings limits are £3,337 and £40,040 respectively.

d. Contracted out rebates apply to the difference between the upper earnings limit and the lower earnings limit (not the earnings threshold).

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.

Looking forward to 6 April 2009, the upper earnings limit (UEL) will be aligned with the higher rate tax threshold for income tax. At the same time, the upper accrual point (UAP), a new lower end point for earnings related state second pension (S2P) accruals, will be introduced. Employers and employees who have contracted out of the S2P will only receive contracted out rebates on earnings between the lower earnings limit (LEL) and UAP and will pay NIC at the contracted in rates between the UAP and UEL. It has been announced that for 2009/10 the UAP will be £770 pw.

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	£2.30
Small earnings exception (annual)	£4,825
Class 3 (voluntary)	
Weekly rate	£8.10
Class 4 (self-employed)	
Lower limit of profit or gains	£5,435
Upper limit of profit or gains	£40,040
Rate on profits between lower and upper limits	8%
Rate on profits above £40,040	1%

Business tax

Corporation tax rates

	Year ended 31 March 2009	2008
Normal main rate	28%	30%
Small companies' rate[a,b]	21%	20%
Fraction for 'lower' marginal relief	7/400	1/40

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 29.75%.

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	100%[a]	20% reducing balance[b]
Long-life assets[c] and integral features[d]	–	10% reducing balance[e]
Cars	100%[f]	20% reducing balance[g]
Industrial/agricultural buildings, hotels	–	3% on cost[h]
Research and development (R&D)	100%	–

a. First £50,000 of expenditure per business or group of companies only. Before April 2008 first allowance were available only to small businesses (50%) and medium sized businesses (40%).

b. The rate was 25% before April 2008. For pre-existing expenditure a hybrid rate will be used for transitional periods relating to the proportion of a chargeable period falling before or after April 2008.

c. Applies to businesses spending more than £100,000 pa on certain assets with a useful life of 25 years or more. The rate was 6% before April 2008. For pre-existing expenditure a hybrid rate will be used for transitional periods relating to the proportion of a chargeable period falling before or after April 2008.

d. A new concept from April 2008.

e. Expenditure incurred from April 2008 on long-life assets and integral features will receive the full 10% WDA for the chargeable period in which it is incurred.

f. 100% first-year allowance for cars with CO_2 emissions not exceeding 110g/km;

g. A rate of 20% applies to cars with CO_2 emissions exceeding 110g/km unless their cost exceeds £12,000 in which case each such car goes into a separate pool and the writing down allowance for each such pool is capped at £3,000 per annum.

h. These allowances are being phased out. The rate before April 2008 was 4%. The rate declines 1% per annum after then so that no relief is due after March 2011.

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. From April 2008 payable ECAs will allow loss-making companies to surrender the element of their losses attributable to their qualifying expenditure in return for a cash payment from Government. The rate of payable ECAs will be 19%, but subject to a cap on the level of a company's PAYE and NI liabilities of £250,000, whichever is the greater.

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 75% 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 30% deduction on their qualifying costs. For large companies the increase in deduction to 30% (from 25%) applies from 1 April 2008. The SME rate increase to 75% (from 50%) will apply from a date to be set following EC approval.

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 not exceeding €50m **or** total assets not exceeding €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 40% (previously 50%) deduction from taxable profits for both SMEs and large companies (Vaccine Research Relief). Large companies are required to make a declaration concerning the incentive effect of the relief they are claiming under this relief.

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