

# PRIVATE COMPANY BUDGET BRIEFING

## Budget of 21 March 2007

This technical note sets out the proposals included in the Chancellor of the Exchequer's Budget report on 21 March 2007 and in the accompanying documents published by the Treasury that we believe will be of most relevance to your business. They are subject to legislation which can be altered during its passage through Parliament and before it is enacted.

### CORPORATION TAX RATES

With limited exceptions the main rate of corporation tax will be reduced from 30% to 28% with effect from 1 April 2008.

For most companies, the benefit is likely to be more than offset by the effect of the changes to the capital allowances legislation.

Also, with limited exceptions the small companies' rate will be increased in three stages to 22% in 2009. The first step will be to increase the small companies' rate to 20% with effect from 1 April 2007.

### CAPITAL ALLOWANCES

The Chancellor introduced a number of changes to the rates at which tax relief can be obtained through writing down allowances on plant and machinery.

The annual rate of writing down allowance on the general pool of plant and machinery is reduced from 25% to 20% with effect from 2008/09.

The writing down allowances on long life assets (assets whose useful life exceeds 25 years) will increase from 6% to 10% from the same date.

There will also be a phasing out of industrial building allowances (IBAs) and agricultural buildings allowances (ABAs) over four years from 2008/2009. The allowances will be removed in successive years reducing from the current 4% over 25 years to 1% and

then be fully withdrawn by 2011. Balancing adjustments on most transfers of these assets will no longer arise.

The Government announced a new 10% rate of writing down allowance from 2008/09 for certain fixtures integral to buildings. The definition of fixtures has not been confirmed but will be subject to consultation. However, it will certainly include items of fixed plant and machinery that currently benefit from writing down allowances at 25% and is likely to have an adverse impact for most property owners and occupants.

All of these changes increase the importance of identifying at an early stage the nature of expenditure carried out by a business. The range of businesses affected by the changes to industrial building and agricultural building allowances is great ranging from manufacturers to hotels.

The Chancellor will extend the 50% rate of first year allowances for small businesses (determined by turnover, balance sheet and number of employees) investing in plant and machinery for a further year from 1 April 2007.

In addition, it is proposed that from 2008/09 first year allowances will be replaced by an 'annual investment allowance' for the first £50,000 of expenditure on plant and machinery in its general pool. The scope of this provision and the companies that will benefit is subject to consultation. This part of the tax system will continue to give some much needed relief to small businesses which need to invest in plant and machinery.

### REPAYABLE TAX CREDITS

After April 2008 companies can qualify for a repayable tax credit on 'environmentally friendly' expenditure and green technology. The specific terms are subject to consultation.

### RESEARCH AND DEVELOPMENT TAX RELIEF

The Chancellor will increase the number of companies which meet the definition of small or medium-sized and are therefore eligible to claim enhanced R&D tax relief. Currently, a company is regarded as small or medium-sized if the number of employees does not breach the 250 threshold and either of the following two requirements are not exceeded:

- ▶ Turnover €50 million;
- ▶ Balance sheet total €43 million.

The Chancellor proposes to double all three limits. This is subject to State Aid approval from the European Commission and will therefore have effect from a date appointed by Treasury Order.

In addition the rate of relief will increase to 175% next year. The rate for large companies will be increased to 130%.

### CAPITAL LOSSES

Legislation will be introduced with effect from 21 March 2007 that prevents certain arrangements being effected which allow companies to circumvent the anti-avoidance legislation restricting the availability of capital losses in acquired companies against subsequent capital gains in an acquiring group.

## **BUSINESS PREMISES' RENOVATION ALLOWANCES**

The Business Premises' Renovation Allowances Scheme will be introduced with effect from 11 April 2007. This provides a 100% allowance for expenditure on conversion or renovation incurred in bringing business premises, vacant for a year, back into business use. Relief is only available to premises located in a designated disadvantaged area of the UK, and the number of qualifying areas has been severely curtailed. Certain businesses are also excluded.

## **BUSINESS RATES ON EMPTY PROPERTY**

There will be reform of business rates on empty property. With effect from 1 April 2008 relief will be limited to three months for offices and shops and six months for factories and workshops. After that period full rates will be payable. Currently, vacant industrial property receives 100% rate relief and retail and office properties pay only 50% after an initial three month exemption.

## **INTERNATIONAL MATTERS**

The Government will issue a consultation document presently dealing with issues such as the taxation of foreign dividends received by UK companies and the Controlled Foreign Company (CFC) rules. It appears that the Government is considering a European style 'participation exemption' for foreign dividends and income-based CFC rules.

There will be a simplification of the procedures that allow UK companies to pay loan interest gross to certain non-residents.

## **EMPLOYEE TAXATION – EMPLOYEE CAR FUEL BENEFITS**

In 2003 the Chancellor introduced new benefit in kind provisions on fuel provided for private motoring. These have been calculated by applying a CO<sub>2</sub> emissions percentage relevant to the car to a fuel multiplier. This multiplier will remain unchanged for 2007/08 at £14,400.

However, the Chancellor has announced a discount of 2% that will apply to the percentage which would otherwise be used in calculating the fuel benefit for cars manufactured to run on E85 environmentally friendly fuel. This will have effect from 6 April 2008.

## **EMPLOYEE TAXATION – MANAGED SERVICE COMPANIES**

From 6 April this year managed service companies that are used to provide services of consultants to clients, where a direct engagement would have amounted to employment will have to apply tax under PAYE and national insurance to all income of the workers who have performed the services (with exceptions for allowable expenses). Also, premises will cease to be regarded as temporary workplaces for travel and subsistence purposes. HMRC will also have power to recover tax and national insurance from certain third parties if these companies fail to comply with their obligations. The legislation is likely to eliminate the use of these companies by workers who want to be treated as self employed.

## **VAT**

From April this year the VAT registration threshold will increase to £64,000 and de-registration threshold will increase to £62,000 taxable turnover.

The basis of calculating fuel scale charges for taxing private use of road fuel has been changed from engine size to CO<sub>2</sub>

emissions. This change brings VAT rules in line with the direct tax rules.

Where there is a transfer of a business as a going concern, the record-keeping requirements have been changed so that other than where the purchaser retains the vendor's VAT registration number, the vendor will now retain the business records.

All businesses with a turnover in excess of £5.6m (and all new businesses) will from April 2008 be required to file their VAT returns online and pay electronically. This will be extended to all businesses with turnover over £100k from April 2010.

This update is a précis of the main provisions. It is for information only and does not constitute professional advice. For advice on particular circumstances or for further information, advice or assistance in relation to any of the matters raised above, please speak to the authors or your usual Dixon Wilson contact.

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