

## **BUDGET 9 APRIL 2003**

# **Introduction**

**Written immediately after the Chancellor of the Exchequer delivered his Budget Speech, this Report covers the principal business and personal taxation announcements.**

Most taxation changes take effect from the start of the financial year, or tax year, but this is not always the case. The Chancellor has also announced changes which will not take effect until 2004, or later. Where relevant, details of these changes have been included in this Report.

Also included throughout this guide to Budget changes are a number of planning pointers. However, tax and financial planning should not be left until the end of the tax or financial year - rather it should be an ongoing process, with your plans being kept under review. With our help, you can plan for a rewarding and financially secure future, reassess your plans regularly, and adapt them as your personal and business circumstances change.

## **How to make the most of our services**

- Please read the Report as soon as possible.
- Keep a copy of the 2003/04 tax calendar. It details many of the key dates and deadlines for the coming year.
- Contact us as soon as possible, before you act not after, to discuss any action you may be considering, and to review your longer term plans. We always welcome the opportunity to help.

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## **Budget Highlights**

**More companies to qualify for first year capital allowances**

**100% IT allowance extended to 31st March 2004**

**Improved credits for research and development**

**Increased relief on commercial property purchases**

**Employee benefit thresholds rise**

## **Brown puts small business at heart of healthy economy**

Gordon Brown demonstrated the significance he attaches to the contribution made by small and medium-sized businesses to the UK's economic strength by announcing a series of measures he claimed will simplify the tax regime and reduce regulation.

In the Chancellor's seventh Budget Speech he identified enterprise, innovation and flexibility as the engines of growth. He argued that the fortunes of the nation hinge on sustained investment and unveiled improvements to the research and development tax credit. More businesses will qualify for 100% first year capital allowances for investment in IT made before April 2004 and there has been an extension of the Small Firms Loan Guarantee scheme.

Mr Brown also revealed plans for Small Business Investment Companies, along the lines of the United States model, to act as a new source of private capital for the SME community.

The threshold for businesses to become eligible for the 40% initial capital allowance will be raised to £20m in the summer, while the VAT registration threshold increases from 10 April 2003 to £56,000. Further VAT reforms should also reduce paperwork, while many more firms will avoid automatic fines for late payment.

The freezing of vehicle excise duty on lorries and the postponement of any duty-driven increase in fuel costs will be welcomed throughout the commercial sector. Corporation tax, capital gains tax, and insurance premium tax rates and the climate change levy are unchanged, although the landfill tax will rise from £14 per tonne in 2003/04 to £15 in 2004/05 and to £18 per tonne in 2005/06.

Mr Brown signalled an intensification of the war on red tape, enlisting the CBI and Institute of Directors to help identify unnecessary regulation. He also promised to improve smaller firms' ability to compete for Government contracts. The Government will also contribute to costs where employers allow time off for training and study.

The Chancellor also introduced a range of measures designed to boost the creation of small businesses throughout the country including 2,000 designated enterprise areas.

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# Business tax and investment incentives

## Corporation Tax

Corporation tax rates and bands are as follows:

| Financial Year to | 31 March 2004 |        | 31 March 2003 |        |
|-------------------|---------------|--------|---------------|--------|
| Taxable Profits   |               |        |               |        |
| First             | 10,000        | 0%     | 10,000        | 0%     |
| Next              | 40,000        | 23.75% | 40,000        | 23.75% |
| Next              | 250,000       | 19%    | 250,000       | 19%    |
| Next              | 1,200,000     | 32.75% | 1,200,000     | 32.75% |
| Over              | 1,500,000     | 30%    | 1,500,000     | 30%    |

Small company's marginal relief fraction

|                       |                  |                  |
|-----------------------|------------------|------------------|
| £10,000 - £50,000     | $\frac{19}{400}$ | $\frac{19}{400}$ |
| £300,000 - £1,500,000 | $\frac{11}{400}$ | $\frac{11}{400}$ |

## Capital allowances

The 100% first year capital allowance available to small enterprises for expenditure on computers and communication technology has been extended until 31 March 2004. This measure will be welcomed by many businesses especially those which will be redesignated as "small" enterprises when the definition is realigned later in the year. The definition of "small and medium sized enterprises" is also set to change, extending the availability of the 40% first year allowance on most plant and machinery. Expenditure incurred on or after 1 April 2003 on specifically defined plant and machinery designed to conserve water and improve its quality will qualify for a new 100% first year allowance.

Pointer

**Interest on borrowing for business purposes usually qualifies for a 100% tax write-off. Personal borrowing qualifies for none. Consider borrowing first for business purposes, and when times are better repaying personal borrowings first. You also need to compare interest rates and early redemption terms.**

An anti-avoidance measure has also been introduced to prevent businesses claiming excessive

balancing allowances on the disposal of assets on which capital allowances had been claimed, by entering into artificial transactions at below market value. The provision applies to industrial buildings, mineral extraction, flat conversions, agricultural buildings and assured tenancies. Since this measure was publicised in the Pre-Budget Report, it will apply to events occurring on or after 27 November 2002.

## **Extension of IR35 to all domestic workers**

It has been possible for people such as nannies and gardeners working for private individuals to set up service companies and thus avoid PAYE and NI by paying themselves via a dividend. This created an anomaly in that individuals supplying such services to a business would have been caught under IR35. The Chancellor has announced measures which broadly speaking will bring such individuals within the IR35 regime. The new rules would apply to services provided after 9 April 2003.

## **Employee share schemes and benefit trusts**

In the Pre-Budget Report, an anti-avoidance provision had been announced to prevent employers obtaining a corporation tax deduction for contributions made to an employee benefit trust, until payments are made to employees which are liable to income tax and National Insurance contributions. This measure is backdated to 27 November 2002. Further anti-avoidance measures have been introduced in respect of company share option plans which allow employees to exercise options within three years of grant. The new measures will effectively treat such plans as though they were unapproved share option schemes. National Insurance contributions will also become payable on the exercise of options under these plans which had been granted prior to April 1999 and where there was evidence of manipulation of the share values. These measures come into operation on 9 and 10 April 2003 respectively. Further announcements include the removal of the "second three year rule", for company share option plans which prevented tax free exercise of an option within three years of a previous exercise. Employees who leave a company share option plan through no fault of their own, such as injury, will now be allowed the same favourable treatment as those under save as you earn and share incentive plans. These two changes take effect from Budget Day. There are also a number of other measures dealing with the definition of "market value" and "material interests" in company share option plans.

Pointer

**Watch the timing of capital expenditure, as this will affect the timing and extent of tax reliefs and your VAT recovery.**

## **Research and development (R&D) tax credits**

A number of amendments are proposed to the current rules for claiming R&D tax credits. These include:

- The de minimis level of qualifying R&D expenditure to claim R&D tax credit is reduced from £25,000 to £10,000 for an accounting period.
- Qualifying expenditure on staffing costs is extended to include workers paid through a third party and not employed by the R&D company.
- Previously, costs for staff working less than 20% of the time on R&D did not qualify for

relief and staff working more than 80% of the time qualified for 100% relief. With effect from a date to be confirmed, staff costs can simply be apportioned.

- SMEs receiving grants or other state aid towards an R&D project are prevented from receiving SME R&D tax credit on the project. In certain circumstances, SMEs have been able to claim the large company R&D tax credit (not a state aid). From a date to be announced, SMEs will be able to claim large company R&D tax credit in the circumstances outlined.

For large companies the changes apply from 9 April 2003. For SMEs, the rules are dependent on approval from the European Commission and will commence from a date to be announced.

A consultation document to be issued by the DTI and Treasury is to review the definition of research and development and will consider the development end of R&D, innovative elements of design, the uniqueness of the R&D being undertaken, software development and the definition of consumable stores. The consultation document will also review the extension of R&D tax credit relief to software licences in respect of short life, advanced software.

## **General measures to support business**

The Chancellor has announced a number of consultations aimed at helping business, including access to capital for small businesses, reducing regulation and compliance costs by reducing accounting and reporting requirements for small companies and raising the audit threshold. Other areas which will come under review are regulatory enforcement, reducing the burden of statistical surveys, simplifying compliance with the Data Protection Act and reforming the construction industry scheme.

Pointer

**Current tax and NIC rates are an incentive for a small business to trade as a limited company. There are problems as well as advantages, not all tax related, so seek advice before acting.**

## **Tax rules during insolvency**

New tax rules will apply to companies in liquidation and administration under the insolvency measures in the Enterprise Act 2002. The rules will come into effect on the same date as the company law changes come into effect. For any liquidation ending on or after that date, if the company ceases to be in liquidation without being wound up, an accounting period will end on the date of ceasing to be in liquidation. Where a company goes into administration or leaves administration, this will now result in the commencement of a new accounting period.

During the administration of a company, the administrator of the company will now, under the new rules, be the "proper officer".

The special rules allowing liquidators to settle company liabilities early under self assessment are to be extended to companies in administration.

For any company in liquidation, the special rules applying to loan relationships between connected companies are overridden. This override will, for liquidations in place on or after 9

April 2003, only apply to the period whilst the company remains in liquidation.

### **Tax relief for interest on overdue tax**

The tax rules for deduction of interest paid on overdue tax and NI by employers and contractors in the construction industry are to be codified to reflect current and accepted practice for accounting periods ending on or after 9 April 2003.

### **Loan relationships and derivative contracts**

Amendments are proposed to the rules with effect from 9 April 2003 governing the transfer of loan relationships and derivative contracts between group companies to prevent profits falling out of charge to tax when mark to market accounting is used. Other rule amendments are proposed in connection with intra-group novated contracts and the connected party rules to prevent deduction for interest (or discount) accrued but never paid.

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# **Capital Taxes**

## **Capital gains tax (CGT)**

The annual exemption has been increased for 2003/04 to £7,900 (2002/03 £7,700) for individuals and to £3,950 (2002/03 £3,850) for most trusts. The rates of tax remain unchanged.

## **Taper relief**

The business assets rate of taper relief has been relaxed so that a wider range of assets will qualify. These provisions will apply to periods of ownership from, and disposals on or after, 6 April 2004.

## **Asset sales**

Where an asset is disposed of wholly or partly for a right to unascertainable deferred consideration the market value of the right at the time of disposal is included in the calculation of the chargeable gain arising on the disposal of the asset. Where the right is itself disposed of in a later tax year and a loss arises (by reference to the original market value of the right) the loss cannot normally be set off against the gain on the original asset. From 10 April 2003, it will be possible to set off such losses against the original gain made on the sale, subject to certain conditions. The main conditions are:

- the loss must arise on a disposal of a right to unascertainable deferred consideration
- the person must not have acquired the right second-hand
- a disposal of the original asset for which the right was received must have given rise to a chargeable gain; and
- the person must have had a CGT liability for the tax year in which that disposal was made.

## **Reversal of rule on earn outs**

For earn outs conferred up to 9 April 2003 the rule is that on application the earn out right will be treated for CGT purposes as a security, and in consequence any gain which would otherwise be treated as crystallising at the point of exchange will not do so. For earn outs conferred on or after 10 April 2003 the rule is reversed and treatment of the right as a security is automatic unless an election is made to the contrary.

## **Share options**

For options exercised on or after 10 April 2003 the method of computing chargeable gains or losses is restored to that which was generally thought to apply before the judgement in *Mansworth v Jelley*.

## **Offshore trusts**

Further anti-avoidance measures have been introduced regarding capital payments made by trustees of offshore trusts to UK resident and domiciled beneficiaries from 9 April 2003, to prevent payments avoiding the charge to CGT.

## **Second-hand life insurance policies**

It has been possible to dispose of a second-hand life insurance policy and generate either a tax free capital gain or a tax deductible capital loss. For disposals on or after 9 April 2003, any capital loss generated will be restricted to the amount of any real economic loss. Gains will only remain tax free in certain circumstances.

## **Life insurance policies**

From 9 April 2003, a number of tax anomalies and loopholes relating to life insurance policies have been ended. These remove tax charges on certain group life policies and policies held by charitable trusts and other persons. They also close loopholes in connection with policies held on trust and the misuse of the 5% withdrawal rules.

## **UK-authorized collective investment funds**

Changes which apply from 16 October 2002 will make it easier for foreign investors to receive interest from AUTs and OEICs gross and will remove a potential IHT charge.

## **Treasury shares**

Companies have previously had to cancel any of their own shares which they have repurchased. From a date to be announced, quoted and AIM companies will be able to retain rather than cancel any shares they repurchase, and (if they wish) resell them. Such shares are known as "treasury shares".

## **Simplification of the 2004 tax return**

With effect from the 2004 tax return (gains, year ended 5 April 2004) it will not be necessary to complete the capital gains pages of the self assessment tax return if the gains for the year, net of taper relief, do not exceed the annual exemption (£7,900 for 2003/04) unless either proceeds from non-exempt disposals in the year exceed four times the annual exemption or losses are set against the gains.

## **Inheritance tax (IHT)**

The main change the Chancellor announced is an increase in the nil rate band to £255,000 (2002/03 £250,000)

## **Duties**

## **Vehicle excise duty (VED) and road fuel duty**

VED for lorries and motorcycles is frozen, while rates for cars and vans are increased by £5 from 1 May 2003.

The annual increases in the main road fuel duties are deferred until 1 October 2003. New rates will be introduced for sulphur free petrol and diesel from 1 September 2004. Reduced rates for Bioethanol used for road fuel will also be introduced from 1 January 2005.

## **Other duties or levies**

Rates of insurance premium tax, climate change levy, airport passenger tax and aggregates levy remain unchanged, although anti-avoidance measures are to be introduced against protected cell companies. Landfill tax rates increase by £1 per tonne from 1 April 2003 and similarly from 1 April 2004, and then £3 per tonne from 1 April 2005 and will do so each year to a maximum of £35 per tonne.

## **Stamp duty**

From 10 April 2003 relief from duty is introduced on non-residential property transactions of a value of less than £150,000 in enterprise areas. With effect from 1 December 2003 the zero rate band will be increased to £150,000 for commercial property transfers and leases, whilst VAT will be excluded from treatment as consideration for a new lease provided the landlord has not opted to tax. Also from 1 December 2003 changes will be made to alternative finance arrangements to avoid double duty. Anti-avoidance measures applicable from 15 April 2003 will affect group and acquisition relief clawbacks, with further measures likely from 1 December 2003 relating to leases or rentals.

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# Income Tax and Personal Savings

### Income Tax Rates

Rates announced for 2003/04 are as follows:

|                                  | 2003/04        | 2002/03        |
|----------------------------------|----------------|----------------|
| <b>Starting rate band to</b>     | <b>£1,960</b>  | <b>£1,920</b>  |
| Tax rate (all income)            | 10%            | 10%            |
| <b>Basic rate band - next</b>    | <b>£28,540</b> | <b>£27,980</b> |
| Non-savings income tax rate      | 22%            | 22%            |
| Savings income tax rate          | 20%            | 20%            |
| UK dividend income tax rate      | 10%            | 10%            |
| <b>Higher rate - income over</b> | <b>£30,500</b> | <b>£29,900</b> |
| Tax rate excluding UK dividends  | 40%            | 40%            |
| UK dividend rate                 | 32.5%          | 32.5%          |

### Personal Allowances

Rates announced for 2003/04 are as follows (ages are as at the end of the tax year):

|  |              | 2003/04  | 2002/03  |
|--|--------------|----------|----------|
| <b>Allowances that reduce taxable income</b> |              | <b>£</b> | <b>£</b> |
| Personal allowance                           | under 65     | 4,615    | 4,615    |
|  | 65 to 74*    | 6,610    | 6,100    |
|  | 75 and over* | 6,720    | 6,370    |
| <b>Allowances that reduce tax</b>            |              |          |          |
| Married couple's allowance                   |              |          |          |
| Age of elder spouse                          | under 75*    | 556.50   | 546.50   |
|  | 75 and over* | 563.50   | 553.50   |
|  | minimum      | 215.00   | 211.00   |

\* Higher allowances for those aged 65 or more are scaled back when income exceeds £18,300 (2002/03, £17,900). MCA is only available where at least one spouse was born before 6 April 1935.

## **Tax credits**

Two new credits - child tax credit and working tax credit - replace the children's tax credit and working families' tax credit and disabled person's tax credit from April 2003.

Rates vary, but people on middle-incomes may qualify, especially where they are paying for childcare. To see if you might qualify, visit the Inland Revenue's Tax Credit website at [www.taxcredits.inlandrevenue.gov.uk/Home.aspx](http://www.taxcredits.inlandrevenue.gov.uk/Home.aspx).

Pointer

**Make sure you pay your tax on time, otherwise interest and 5% surcharges may be due.**

## **Pensions**

The Chancellor announced that the earnings cap, by reference to which contributions to occupational, stakeholder and personal pension schemes are limited, is increased for 2003/04 from £97,200 to £99,000. The limitation applies to personal pension contributions by both employers and employees (a point to be "put beyond doubt" by legislation effective from 9 April 2003).

## **Employee benefits**

A number of changes have been announced to the rules applying to some minor employee benefits:

- the limit on meals provided to employees on official "cycle to work" days, currently standing at six, is to be removed,
- the value of long service awards which can be made tax free after a minimum of 20 years service is to be increased from the current £20 for each year of service to £50 for each year of service,
- there is currently no tax charge on an annual party if the cost to the employer does not exceed £75 per head. That limit is to be increased to £150,
- gifts (but not cash) worth up to £150 from a third party are currently free of tax. That limit is to be increased to £250.

The date on which these changes will be operative has not yet been announced.

Pointer

**Despite recent turmoil in the pensions industry, the basic concept of saving for retirement is still valid and sensible, with tax relief on contributions, pension funds largely tax-exempt, and perhaps the ability to minimise risk by holding funds in cash.**

## **Homeworking**

Where employees work at home and the employer contributes to additional household costs, that contribution would be taxable.

With effect from 6 April 2003 a payment at a rate of up to £2 per week can be paid tax free, without any requirement for evidence. A higher rate can be paid, but this will only be free of tax in cases where evidence can be produced to prove the additional costs.

## **Lloyd's underwriters**

The current rules on the carry forward of trading losses and the reliefs on capital gains on incorporation are perceived to place obstacles in the path of underwriting members of Lloyd's wishing to convert to limited liability status.

It is intended that legislation will be introduced in the 2004 Finance Bill to remove those obstacles.

## **Charitable donations from self assessment repayments**

As announced on 17 April 2002, the 2004 self assessment tax return will include an option for taxpayers who are due tax repayments to nominate a charity to receive all or a specified amount of the repayment. The Inland Revenue will make the donation direct to the charity.

The donor will also be able to claim that the donation is to be made under the Gift Aid rules.

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# Value Added Tax

| <b>From</b>   | <b>10th April 2003</b> | <b>25 April 2002</b> |
|---|------------------------|----------------------|
| <b>Standard rate</b>                                      | 17.5%                  | 17.5%                |
| <b>VAT fraction</b>                                       | 7/47                   | 7/47                 |
|   | <b>Turnover</b>        | <b>Turnover</b>      |
| <b>Registration</b> - last 12 months or next 30 days over | £56,000                | £55,000              |
| <b>Deregistration</b> - next 12 months under              | £54,000                | £53,000              |
| <b>Cash accounting scheme</b> - up to                     | £600,000               | £600,000             |
| <b>Optional flat rate scheme</b> - up to                  | £150,000               | £100,000             |

## Removal of automatic penalties

In addition to confirming measures to prevent automatic penalties being imposed on small businesses with a turnover below £150,000 for failure to submit returns or payments due on time, further incentive measures are being introduced. These relate to businesses that trade above the VAT registration limits but fail to register. An amnesty is being declared between 10 April and 30 September 2003 to allow those to register and avoid the imposition of belated notification penalties of between 5% and 15% of the tax due.

## Simplified import VAT accounting

Measures reported in Budget 2002 to reintroduce deferred accounting for compliant importers have been confirmed for implementation from 1 December 2003. For those not eligible, they will be able to reduce the level of their guarantee under the Duty Deferment Guarantee Scheme from the full amount of VAT and duty due each month to zero in some cases.

## E-Commerce measures

Measures already published to attempt to bring non-EU based businesses providing electronically supplied services to individuals or non-business organisations based in the EU into VAT registration within the EU from 1 July 2003, have been extended in the UK. Such businesses can choose which Member State they wish to register in and then account for VAT in that state for all their EU supplies.

## Anti-avoidance measures

Several new measures are being introduced, amongst which are extensions of powers to demand security from a business believed to be involved in false use of VAT registration numbers, missing traders, or deliberate or persistent insolvency. Additionally, for those involved in chain transactions of goods or services, where VAT is evaded by a member or members of the chain, frequently referred to as Carousel fraud, members of the chain may be held jointly and severally liable for unpaid VAT. Both measures come in from 10 April 2003. From 16 April 2003 Customs will require higher standards of evidence for input tax deduction in respect of certain categories of goods such as alcohol, road fuel, telephones and computers.

Further measures include the imposition of tax points in respect of continuous supplies of services between connected parties from 1 August 2003, a requirement from 9 April 2003 to carry out apportionment at source of input tax where land and buildings are used both for business and non-business purposes, and additional measures regarding the sale of new freehold commercial buildings.

## **Company Cars**

The tax payable on your company car is governed by four factors:

- the list price of the car, on the day before it was first registered, plus certain accessories,
- the rate at which the car emits carbon dioxide (CO<sub>2</sub>),
- the fuel type, (for most types of car, this is all the information you need to work out the taxable benefit)
- your highest rate of income tax.

You can find your 2003/04 taxable percentage of the list price using the following table:

| CO <sub>2</sub> in g/km | Taxable % |        | CO <sub>2</sub> in g/km | Taxable % |        | CO <sub>2</sub> in g/km | Taxable % |        |
|-------------------------|-----------|--------|-------------------------|-----------|--------|-------------------------|-----------|--------|
|                         | Petrol    | Diesel |                         | Petrol    | Diesel |                         | Petrol    | Diesel |
| Less than 160           | 15%       | 18%    | 190 to 194              | 22%       | 25%    | 225 to 229              | 29%       | 32%    |
| 160 to 164              | 16%       | 19%    | 195 to 199              | 23%       | 26%    | 230 to 234              | 30%       | 33%    |
| 165 to 169              | 17%       | 20%    | 200 to 204              | 24%       | 27%    | 235 to 239              | 31%       | 34%    |
| 170 to 174              | 18%       | 21%    | 205 to 209              | 25%       | 28%    | 240 to 244              | 32%       | 35%    |
| 175 to 179              | 19%       | 22%    | 210 to 214              | 26%       | 29%    | 245 to 249              | 33%       | 35%    |
| 180 to 184              | 20%       | 23%    | 215 to 219              | 27%       | 30%    | 250 to 254              | 34%       | 35%    |
| 185 to 189              | 21%       | 24%    | 220 to 224              | 28%       | 31%    | 255 and over            | 35%       | 35%    |

How to find out how much CO<sub>2</sub> your company car emits – see:

- the car's V5 registration document
- your dealer
- the data pages of car magazines (current models)
- the Vehicle Certification Agency – [www.vca.gov.uk](http://www.vca.gov.uk)
- the website of the Society of Motor Manufacturers and Traders - [www.smmt.co.uk/co2/co2search.cfm](http://www.smmt.co.uk/co2/co2search.cfm)

Reliable emissions data is not widely available for cars registered before 1 January 1998. For them, the following taxable percentages of the list price apply, regardless of fuel type:

| Engine capacity | Taxable % |
|-----------------|-----------|
| Up to 1400cc    | 15%       |
| 1401 - 2000cc   | 22%       |
| Over 2000cc     | 32%       |

Remember, too, that the rate of the taxable benefit will rise next year - for the comparative rates, simply deduct 10 from all the CO<sub>2</sub> figures in the table – and may well rise again in 2005.

## **The "greener" alternatives**

Starting from the emissions-based taxable benefit rate (15% or more – see the table), the taxable benefit is then discounted by:

- cars running on electricity only, 6% (so, emissions being zero, the percentage of list price chargeable to tax is 9%)
- for petrol/battery hybrids, 2% plus a further 1% for each 20g/km by which the CO<sub>2</sub> emissions are less than 159
- for diesels meeting Euro IV standards, 3% (that is, the 3% diesel supplement is waived for these cars)
- for cars running on gas, 1%, plus a further 1% for each 20g/km by which the CO<sub>2</sub> emissions are less than 159
- for gas/petrol hybrids the discount varies – the discount is as for cars running on gas, alone, if the car was built after 31 December 1999 to run on both petrol and gas; for cars registered before 1 January 2000, the discount will be calculated by first taking the petrol emissions rate, then discounting by 1%, then ignoring any premium charged by the manufacturer over the equivalent petrol model; for cars converted from petrol to petrol/gas hybrid running, the petrol rate is discounted by 1% and the conversion costs are ignored.

Pointer

**Employers and employees need to select their cars carefully, as the tax system favours cars with lower CO2 emissions. This can greatly reduce the amount of National Insurance contributions payable by the employer and the amount of benefit on which the employee or director has to pay income tax.**

## Vans

The Chancellor announced that the Government will begin a period of consultation on reform of the system for taxing company vans.

At present vans (including double cab pick-ups with a payload of no less than one tonne) attract a tax liability of no more than £200.

## Mileage rates

Mileage rates, for business travel, paid at the following rates will not attract a charge to tax or NICs:

| Vehicle    | First<br>10,000<br>miles | Thereafter | Car – fuel only advisory rate |        |        |     |
|------------|--------------------------|------------|-------------------------------|--------|--------|-----|
|            |                          |            | Engine capacity               | Petrol | Diesel | Gas |
| Car        | 40p                      | 25p        | up to 1400cc                  | 10p    | 9p     | 6p  |
| Motorcycle | 24p                      | 24p        | 1401 - 2000cc                 | 12p    | 9p     | 7p  |
| Bicycle    | 20p                      | 20p        | Over 2000cc                   | 14p    | 12p    | 9p  |

The Inland Revenue advisory rates can be applied as a tax-free maximum rate for employees claiming for petrol used on business journeys and for employees re-imbursing their employers with the cost of petrol used for private journeys. The Inland Revenue will consider claims for a higher maximum rate, if it can be demonstrated that it is **necessary** for an employee to use a car with higher than average fuel costs.

## Car fuel benefits

If the employee pays for the full cost of all fuel for private journeys (usually including home to work) there will be no car fuel benefit. In **all** other cases the full tax charge will be due.

The taxable car fuel benefit for 2003/04 is calculated by multiplying £14,400 by the same percentage as applies (or would apply) for the car benefit.

**Example:** A company car driver has a car which, on the day before it was first registered, had a list price of £18,000. It runs on petrol, and emits 182 g/km of CO<sub>2</sub>.

If we assume the driver pays tax at 40%, the annual tax bill on the car is: £18,000 x 20% x

40% = £1,440

If the employer provides any fuel used for private journeys and is not re-imbursed for the cost, the 2003/04 tax bill for the fuel is: £14,400 x 20% x 40% = £1,152.

### **VAT scale charge for quarters commencing on or after 1 May 2003**

| Engine size   | Petrol | Diesel |
|---------------|--------|--------|
| Up to 1400cc  | £35.29 | £33.51 |
| 1401 – 2000cc | £44.68 | £33.51 |
| Over 2000cc   | £65.82 | £42.14 |

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# National Insurance

2003/2004 National Insurance Contributions (NICs)

|   | <b>Employer</b> | <b>Employee</b> |
|---|-----------------|-----------------|
| <b>Class 1</b> - not contracted out       |                 |                 |
| Weekly earnings bands payable on earnings |                 |                 |
| Up to £89                                 | Nil             | Nil             |
| £89.01 - £595                             | 12.8%           | 11%             |
| Over £595                                 | 12.8%           | 1%              |
| Men 65 and over and women 60 and over     | as above        | Nil             |
| <b>Class 1A</b> On relevant benefits      | 12.8%           | Nil             |
| <b>Class 2</b> Self employed              | £2.00 per week  |                 |
| Limit of net earnings for exception       | £4,095 pa       |                 |
| <b>Class 3</b> Voluntary                  | £6.95 per week  |                 |
| <b>Class 4*</b> Self employed on profits  |                 |                 |
| £4,615 - £30,940                          | 8%              |                 |
| Over £30,940                              | 1%              |                 |

\*Exemption applies if state retirement age was reached by 6 April 2003

Pointer

**Have you prepared for the rise in NICs? With a typical business employing say 25 workers on average pay of £15,000pa, the 1% increase will cost £7,500 in total, half each payable by employer and employees.**

## **BUDGET 9 APRIL 2003**

# **Other measures announced**

## **Tax relief for foster carers**

A new tax relief will be introduced for foster carers with effect from 6 April 2003. Gross receipts from foster care will be exempt from income tax up to an individual limit. The individual limit will consist of two amounts:

- a fixed amount per residence of £10,000 for a full year, and
- an additional amount per child for each week, or part week, that the individual provides foster care. That amount will be £200 per week for a child under eleven and £250 a week for a child of eleven or over.

The exemption will only apply to income from the provision of foster care. If the gross receipts from foster caring exceed the individual limit, the foster carer has two alternatives:

- to compute their business profit under the usual rules, or
- to treat the excess above the individual limit as the assessable profit.

## **Tax treatment of financial support to adopters**

An extra statutory concession currently exempts adoption allowances from tax, however, this exemption will not apply to financial support being paid under the Adoption and Children Act 2002. As a result, adoption support payments by local authorities or adoption agencies are to be made specifically exempt from tax with effect from 6 April 2003. The Treasury will also be able to exempt from tax any payments to adopters that may be subsequently introduced.

## **Registered social landlords**

Registered social landlords, including housing associations, are to benefit from a stamp duty exemption in respect of tenancy agreements entered into with local authorities to house the homeless. The legislation will be retrospective and will apply to agreements entered into since 1 January 2000.

## **Admissibility of evidence**

The Chancellor recently issued a statement on the policy of the Inland Revenue regarding prosecutions for tax evasion, and the wording of the statement is to be introduced into the legislation. Taxpayers who are suspected of serious tax evasion will continue to be offered the Hansard procedure, which is a civil rather than a criminal settlement offered by the Inland Revenue. As a quid pro quo, the taxpayer has to make a full disclosure of the tax position.

Pointer

**If events of the last couple of years have reminded you of your own mortality, consider with us the compilation of a personal and business disaster plan – a structure which can be immediately implemented if the unthinkable happens.**

**We trust you will find the tax calendar helpful**

Don't forget to check the tax calendar on page 16 for a selection of filing, issuing, and payment deadlines. Remember, under self assessment late payment or filing can cost you dearly in penalties, surcharges and interest.

**and finally...**

We end on a lighter note with a comment from one of Hollywood's actors. "Last year I had difficulty with my income tax. I tried to take my analyst off as a business deduction. The Government said it was entertainment. We compromised finally and made it a religious contribution." **Woody Allen**

## **2003/04 Tax Calendar**

- [April](#)
- [July](#)
- [October](#)
- [January\(04\)](#)
- [May](#)
- [August](#)
- [November](#)
- [February](#)
- [June](#)
- [September](#)
- [December](#)
- [March](#)

### **April 2003**

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- 5 Last day of 2002/03 tax year  
Deadline for paying retirement annuity premiums to be carried back to 2001/02 and for 2002/03 ISAs
- 14 Due date for income tax for the CT61 period to 31 March 2003
- 19 Quarter 4 2002/03 PAYE remittance due
- 20 Interest will begin to accrue on unpaid PAYE/NI for 2002/03
- 30 Normal annual adjustment for VAT partial exemption calculations (monthly returns)

### **May 2003**

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- 3 Last day for notifying car changes in quarter to 5 April – P46 (Car)
- 19 Last day for filing forms P14, P35, P38, and P38A – 2002/03 PAYE returns, without incurring penalties. Also last day for filing contractors returns, including CIS36.
- 31 Last day to issue 2002/03 P60s to employees

### **June 2003**

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- 30 End of CT61 quarterley period  
Last day for UK businesses to reclaim EC VAT chargeable in 2002  
Annual adjustment for VAT partial exemption calculations (March VAT year end)

### **July 2003**

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- 6 Last day to file Taxed Award Scheme Returns, file P11Ds, P11DBs and P9Ds. Issue copies of P11Ds or P9Ds to employees.  
Deadline for relevant third parties to give non-employees information on benefits/ expenses they have provided to them in 2002/03
- 14 Due date for income tax for the CT61 period to 30 June 2003

- 19 Quarter 1 2003/04 PAYE remittance due  
Final date for payment of 2002/03 Class 1A NICs on relevant benefits provided to employees
- 31 Second self assessment payment on account for 2002/03  
Annual adjustment for VAT partial exemption calculations (April VAT year end)  
Liability to 2nd £100 penalty arises for 2002 Tax Return still not filed  
5% surcharge on any tax unpaid for 2001/02

### **August 2003**

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- 2 Last day for notifying car changes in quarter to 5 July – P46 (Car)
- 31 Annual adjustment for VAT partial exemption calculations (May VAT year end)

### **September 2003**

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- 30 Deadline for submission of the 2003 tax return if you wish the Inland Revenue to calculate the tax or, if you are an employee, you wish to have a 2002/03 balancing payment of less than £2,000 collected through your 2004/05 PAYE code  
End of CT61 quarterly period

### **October 2003**

[Top](#)

- 1 Due date for payment of Corporation Tax for period ended 31 December 2002
- 5 Individuals/trustees must notify the Revenue of new sources of income/chargeability in 2002/03 if a tax return has not been received
- 14 Due date for income tax for the CT61 quarter to 30 September 2003
- 19 Quarter 2 2003/04 PAYE remittance due

### **November 2003**

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- 1 Please ensure you are retaining your documents for the 2004 tax return.
- 2 Last day for notifying car changes in quarter to 5 October – P46 (Car)

### **December 2003**

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- 31 Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2003  
End of relevant year for taxable distance supplies to UK for VAT registration purposes  
End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes  
End of CT61 quarterly period  
Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2002

### **January 2004**

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- 1 Due date for payment of Corporation Tax for period ended 31 March 2003
- 14 Due date for income tax for the CT61 quarter to 31 December 2003
- 19 Quarter 3 2003/04 PAYE remittance due

- 31 Balancing payment – 2002/03 income tax/class 4 NICs
  - Capital gains tax payment for 2002/03
  - First self assessment payment on account for 2003/04
  - Last day to file the 2003 tax return
  - Last day to pay personal pension premiums and elect for carry back to 2002/03

## **February 2004**

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- 1 £100 penalty if 2003 tax return not yet filed
- 2 Interest starts to accrue on 2002/03 tax not yet paid
  - Last day for notifying car changes in quarter to 5 January – P46 (Car)
- 28 Last day to pay any balance of 2002/03 tax to avoid an automatic 5% surcharge

## **March 2004**

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- 31 End of corporation tax financial year
  - End of CT61 quarterly period
  - Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2003