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Tax

Tax rates 2005/06

Making sense of the numbers!

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Contents

These tables are a summary and do not cover all situations. They are based on information in the Budget announcements made on 16 March 2005. 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 2005/06 (2004/05)

Income band (£)	**Dividends (%)**	**Other savings income (%)**	**Capital gains (%)**
Up to 2,090 (2,020)	10	10	10
2,091 – 32,400 (2,021-31,400)	10	20	20
Over 32,400 (31,400)	32.5	40	40

Income band (£)	**Other income (%)**	**Cumulative tax (£)**
Up to 2,090 (2,020)	Starting rate:10	209 (202)
2,091 - 32,400 (2,020-31,400)	Basic rate: 22	6,877 (6,666)
Over 32,400 (31,400)	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 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% (2004/05 32.5%) (rather than the normal trust's income tax rate of 40% (2004/05 40%)).

Personal allowances

	2005/06 (£)	2004/05 (£)
Basic individual	4,895	4,745
Individual aged 65-74 [a]	7,090	6,830
Individual aged 75 and over [a]	7,220	6,950
Married couple (born before 6 April 1935) [a,b,c]	5,905	5,725
Married couple (elder aged 75 and over) [a,b,c]	5,975	5,795

a. Reduced by £1 for each £2 of income (less deductions) which exceeds £19,500 (£18,900 for 2004/05). 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 £2,280 (£2,210 for 2004/05).

Income tax reliefs and incentives

Annual limits	2005/06 (£)
Enterprise Investment Scheme (EIS) (maximum) [a]	200,000
Venture Capital Trust (VCT) (maximum)	200,000
Individual Savings Account (ISA)	
– total investment (maximum) [b]	7,000
– stocks and shares component (maximum) [b]	7,000
– cash component (maximum) [b]	3,000

a. Income tax relief restricted to 20%. Capital gains tax deferral relief is also available.
b. These limits will apply until 5 April 2010. 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 two mini ISAs in each tax year.

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 £105,600 for 2005/06 (£102,000 for 2004/05).

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 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.

The pensions regime will be fundamentally changed from 6 April 2006.

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 144 or less CO_2 g/km – 15%.
- For each additional 5 CO_2 g/km – add 1%.
- Maximum benefit where CO_2 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. 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 2005/06).

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] % of gain chargeable	Business assets [a] Effective tax rate (%) [b]	Non-business assets % of gain chargeable	Non-business assets 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 2005/06 is £8,500 (£8,200 2004/05) and for trusts up to £4,250 (£4,100 2004/05). 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 2005/06 the first £275,000 (£263,000 for 2004/05) 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 2005, VAT registration is required where taxable supplies exceed £60,000 (previously £58,000) for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold is increased to £58,000 (previously £56,000).

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 land tax (SDLT)

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

The appropriate rate of SDLT for the **grant** of a lease is 1%. The rate is applied to the net present value of the rental stream, after deducting the first £60,000 in the case of residential properties and £150,000 in the case of non-residential properties.

Relevant consideration (£) – residential	Rate (%)	Relevant consideration (£) – non-residential or mixed	Rate (%)
0 – 120,000	0	0 - 150,000	0
120,001 – 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 cancels the parallel charge to stamp duty reserve tax.

National insurance contributions 2005/06

Class 1 (employees and employers)

Weekly earnings (£)	Employees	Employers
82.00 or less [a]	–	–
82.01 – 94.00 [b]	0%	–
94.01 – 630.00	11%	12.8%
Over 630.00 [c]	£58.96 plus 1% on earnings over £630 pw	12.8%
Contracted out – salary related		
82.00 or less [a]	–	–
82.01 – 94.00 [b]	0%	–
94.01 – 630.00 [d]	9.4%	9.3%
Over 630.00 [c,d]	£50.19 plus 1% on earnings over £630 pw	£49.43 plus 12.8% on earnings over £610 pw
Contracted out – money purchase		
82.00 or less [a]	–	–
82.01 – 94.00 [b]	0%	–
94.01 – 630.00 [d]	9.4%	11.8%
Over 630.00 [c,d]	£50.19 plus 1% on earnings over £630 pw	£63.13 plus 12.8% on earnings over £630 pw

a. Monthly and annual lower earnings limits are £356 and £4,264 respectively.

b. A zero rate of NIC applies to earnings between the lower earnings limit of £82 pw and the earnings threshold of £94 pw to protect employees' contributory benefit entitlements. Monthly and annual thresholds are £408 and £4,895 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 £2,730 and £32,760 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 Inland Revenue authorised mileage rate of 40p per mile.

For contracted out – money purchase schemes, in addition to the flat-rate abatement shown above, the Inland Revenue 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	£2.10
Small earnings exception (annual)	£4,345
Class 3 (voluntary)	
Weekly rate	£7.35
Class 4 (self-employed)	
Lower limit of profit or gains	£4,895
Upper limit of profit or gains	£32,760
Rate on profits between lower and upper limits	8%
Rate on profits above £32,760	1%

Business tax

Corporation tax rates

	Year ended 31 March 2006	2005
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 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 c 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	40% [a]	25% reducing balance
Long-life assets [b]	–	6%
Cars [c]	–	25% reducing balance
Industrial/agricultural buildings, hotels	–	4% on cost
Research and development (R&D)	100%	–

a. Only available to small or 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.
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/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 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 (except for subcontractor or subsidised projects where the rate is 25%). For this purpose the latest definition of SMEs (effective from 1 January 2005) requires a company, together with certain related companies, to have fewer than 250 employees and either turnover up to €50m or total assets up to €43m.

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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