Budget 2007

BUDGET NOTES

21 March 2007

Budget Notes contain technical information additional to the press notices issued by HM Treasury with the Budget. They are not the same as press notices, which are primarily used as brief explanations of new policy for the media, but rather contain additional, more detailed information on the finer points and application of taxation changes announced in the Budget. As such they are designed to assist businesses that may be immediately affected by the changes, and to provide more technical information to those with a specialist interest such as tax consultants and advisers, City financial institutions and local HM Revenue and Customs offices. This information is also published on the Treasury and HM Revenue and Customs internet sites.

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GOVERNMENT DEPARTMENT INTERNET SITES

Further information and all published documents relating to the Budget may be found on the Internet at the following addresses:

HM Treasury: www.hm-treasury.gov.uk

HM Revenue and Customs: www.hmrc.gov.uk

MODERNISING THE PERSONAL TAX SYSTEM

Who is likely to be affected?

1. All taxpayers and payers of National Insurance Contributions (NICs).

General description of the measure

2. The basic rate of income tax will be reduced to 20% from 2008-9.

3. The starting rate will be removed for earned income and pensions but will continue to be available for savings income and capital gains. There are no changes to the rates applicable to dividends.

4. Age related Personal allowances for those aged 65 to 74 and 75 and over will be increased by £1180 over indexation. The personal allowance for those aged 75 and over will increase to £10,000 in 2011-12.

5. The Upper Earnings Limit (UEL) for employee's Class 1 NICs for 2008-09 will be increased by £75 pw (£3,900 for the year) above indexation. The Class 4 National Insurance Upper Profits Limit (UPL) for the self employed will also be increased by the same amount.

6. The following year, the Basic Rate Limit will be increased by a further £800 above indexation, and both the UEL and the UPL will be aligned with the new point at which the higher rate of tax becomes payable after personal allowances have been taken into account.

Operative date

7. The changes will come into effect for 2008-09, with the final increase in the BRL and alignment of the UEL/UPL becoming effective from 2009-10. The increase to £10,000 for the personal allowance for those aged 75 and over will be made in 2011-12.

Current law and proposed revisions

8. The basic rate of income tax up to and including 2007-08 is 22%. For 2007-08, it is payable between the starting and basic rate limits of £2,230 and £34,600. The basic rate will be changed to 20% in Finance Bill 2008.

9. The starting rate of income tax is 10% up to and including 2007-08. It is the first rate of income tax charged on all income types after personal allowances have been deducted. The starting rate limit for 2007-08 is £2,230. Finance Bill 2008 will remove the starting rate of tax from earned income and pensions. It will continue to be available for savings income and capital gains. There are no changes to the rates applicable to

dividends.

10. Personal allowances are increased in line with prices inflation each year, unless the increase is overridden in the Finance Act. There are three levels of personal allowance: the basic level for those under 65 and two higher levels, for those aged 65 to 74 and 75 or more. Finance Bill 2008 will increase the amount of the two higher levels by £1180 over the indexation figure. Finance Bill 2011 will increase the personal allowance for those aged 75 and over to £10,000. Indexed rises will be maintained in the intervening two Finance Bills.

11. Current Social Security legislation requires the maximum UEL to be less than seven and a half times the Primary Threshold. The Primary Threshold is the point at which Class 1 NICs become due. Changes to the UEL below this amount are made by Regulations annually. Any change to the UEL above this maximum requires primary legislation in a NICs Programme Bill. The UPL is aligned annually with the UEL by the Rerating Order.

12. The first step in the alignment of the UEL and the UPL with the amount at which higher rate tax is payable will be made in 2008 by Regulations and the Re-rating Order respectively. The second step for the UEL alignment will be made in a NICs Programme Bill in time for a start date of April 2009. The UPL will continue to be aligned with these rates via the annual re-rating process. The amount of the aligned figure for income tax purposes will be achieved for 2009-10 by increasing the amount of the basic rate limit by £800 above indexation in Finance Bill 2009.

Further advice

13. If you have any questions about this change, please contact Barbara Jones on 020 7147 2491 (email: Barbara.e.Jones@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

BUSINESS TAX REFORM PACKAGE

Who is likely to be affected?

1. All businesses.

General description of the package

2. Budget 2007 announces significant reforms of the business tax system. The package has three main elements:
   - changes in the rate of onshore and small companies' corporation tax;
   - changes to the capital allowances regime governed by Parts 2, 3 and 4 of Capital Allowances Act 2001; and
   - increases in the levels of enhanced deductions available to companies in respect of their qualifying expenditure on research and development.

3. These reforms are designed to achieve three main objectives:
   - enhancing the international competitiveness of UK based business;
   - encouraging growth, through investment and innovation; and
   - ensuring fairness across the tax system.

Operative dates

4. The major elements of the package will apply from 2008-09. However, certain measures will take effect from 2007-08, and separate Budget Notes explain these measures in more detail.

Current law and proposed revisions

5. The major elements may be grouped under three main headings as follows:

Corporation tax rates

i) The rate of onshore corporation tax will decrease from 30% to 28% from 2008-09. (See BN03.)

ii) The small companies' rate of corporation tax will increase from 19% to 20% in 2007-08, 21% in 2008-09 and 22% in 2009-10. (See BN04.)

iii) North Sea oil and gas ring fence activities will retain a main corporation tax rate of 30% and small companies' rate of 19%.

Capital Allowances

i) The temporary 50% rate of first-year allowances for small enterprises will be extended for a further 12 months (see BN06).

ii) A new annual investment allowance for the first £50,000 of expenditure on plant and machinery in the general pool will be introduced from 2008-09. The detailed design and scope of this allowance will be the subject of consultation.

iii) From 2008-09 the rate of writing-down allowances for plant and machinery in the general pool will be reduced from 25% to 20%.

iv) From 2008-09 the rate of writing-down allowances on long-life asset expenditure will increase from 6% to 10%.

v) From 2008-09 writing-down allowances on industrial and agricultural buildings will be gradually phased out, with final withdrawal of both regimes by 2010-11. To prepare the way for final abolition, most balancing adjustments, and the recalculation of writing-down allowances on sale, will effectively be withdrawn from 21 March 2007. (For further details see BN07.)

vi) From 2008-09 the rate of writing-down allowances on certain fixtures integral to a building will be set at 10%. The detailed design and scope of the integral fixtures provisions will be the subject of consultation.

vii) From 2008-09 a payable tax credit for losses resulting from capital expenditure on certain designated "green technologies" will be introduced. The detailed design and scope of the tax credit will be the subject of consultation.

viii) North Sea oil and gas ring fence activities will retain their existing capital allowances treatment.

Research and Development tax credits

i) From 2008-09, and subject to state aid approval, the enhanced deduction available to SMEs in respect of qualifying research and development expenditure will increase from 150% to 175%. The value of the payable credit will remain broadly at its current level (24% of qualifying expenditure).

ii) From 2008-09 the enhanced deduction available to large companies in respect of qualifying research and

development expenditure will increase from 125% to 130%.

6. The consultations will commence in the summer and further details will be made available at that time.

Further advice

7. If you have any questions about these changes, please contact
   - Alice Dowswell on 020 7147 2627 for information about Corporation Tax Rates
   - Bob Wightman on 020 7147 2581 for information about Capital Allowances
   - Lynn Carroll on 020 7147 2636 for information about Research and Development tax credits.

   Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CORPORATION TAX MAIN RATES

Who is likely to be affected?

1. Companies with profits above what is deemed the upper relevant maximum amount (URMA) (currently £1,500,000), companies that are part of a group with profits above the URMA, and companies with profits from oil extraction and oil rights in the UK and the UK Continental Shelf (‘ring fence profits’).

General description of the measure

2. The main rate of corporation tax will become 28% from 1 April 2008.

3. The main rate of corporation tax for companies’ ring fence profits will be 30% from 1 April 2008.

Operative date

4. The legislation will set the main rate of corporation tax and the main rate of corporation tax for ring fence profits from the 1 April 2008.

Current law and proposed revisions

5. The various corporation tax rates are to be found in the Income and Corporation Taxes Act 1988 and are maintained yearly through the Finance Act. The current provisions for the charge of corporation tax can be found at sections 24 and 25 of the Finance Act 2006.

6. The current rules at section 24 of the Finance Act 2006 provide that the main rate of corporation tax is chargeable at 30% where a company’s profits are above £1,500,000.

7. This amendment to the current rules will reduce the main rate of corporation tax to 28% from the financial year 2008-09.

8. New rules will be introduced to set the main rate of corporation tax on ring fence profits at 30% from the financial year 2008-09.

Further advice

9. If you have any questions about this measure, please contact your local HMRC office. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CORPORATION TAX SMALL COMPANIES' RATES

Who is likely to be affected?

1. Companies with profits chargeable to corporation tax (CT) lower than the lower relevant maximum amount (LRMA) (currently £300,000), companies with CT profits between LRMA and the upper relevant maximum amount (URMA) (currently £1,500,000), and companies with profits from oil extraction and oil rights in the UK and the UK Continental Shelf ('ring fence profits').

General description of the measure

2. The small companies' rate, for all profits apart from ring fence profits, will become 20% from 1 April 2007 and the fraction used in smoothing the differences between these rates (marginal small companies' relief) will be 1/40. Profit limits will remain the same.

3. The small companies' rate for ring fence profits will remain at 19% from 1 April 2007 and the marginal small companies' relief fraction will be 11/400.

Operative date

4. The legislation will set the small companies' rate of corporation tax from the 1 April 2007.

Current law and proposed revisions

5. The various corporation tax rates are to be found in the Income and Corporation Taxes Act 1988 (ICTA) and are maintained yearly through the Finance Act. The current provisions for the charge of corporation tax (CT) can be found at sections 24 and 25 of the Finance Act 2006.

6. The current rules at section 13 of ICTA 1988 provide that, where a company is not a close investment-holding company and its CT profits are lower than an amount termed the lower relevant maximum amount (LRMA) (currently £300,000), those profits are taxed at the lower rate of CT, known as the 'small companies' rate' (currently 19%).

7. This legislation will amend the small companies' rate to 20% for non-ring fence profits and 19% for ring fence profits from the financial year 2007-08.

8. Section 13(2) of ICTA entitles companies with a profit of between £300,000 and £1.5m to marginal relief ('marginal small companies' relief') from tax computed at the main rate. This relief is fraction used in the calculation is currently 11/400.

9. The changes to the small companies' rate mean that this fraction will be adjusted to 1/40 for non-ring fence profits and remain at 11/400 for ring fence profits.

10. The upper and lower limits for small companies' rate are set at section 13(3) of ICTA. These will remain unchanged.

Further advice

11. If you have any questions about this measure, please contact your local HMRC office. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

EXTENSION OF THE SMALL AND MEDIUM ENTERPRISE (SME) RESEARCH AND DEVELOPMENT TAX RELIEF SCHEME TO INCLUDE MID-SIZED COMPANIES

Who is likely to be affected?

1. Companies making claims to relief under the Research and Development (R&D) tax relief schemes.

General description of the measure

2. The Government intends to increase the support available under R&D tax credits. The rate of relief for large companies will increase to 130% of qualifying R&D expenditure. In the case of the SME R&D tax credit scheme, the rate of relief will increase to 175% for companies claiming enhanced deductions against profits. The value of the payable credit available will remain broadly at its current value (24% of qualifying expenditure). The Government intends to legislate these changes in Finance Bill 2008. Changes to the SME scheme will be subject to state aid approval from the European Commission.

3. Legislation will be introduced in Finance Bill 2007 to extend the support available under the SME R&D relief scheme to companies with fewer than 500 employees.

4. The Government also intends to make a minor amendment to the Vaccine Research Relief scheme in order to correct an unintended error in the legislation.

Operative Date

5. The extension of support available to companies with fewer than 500 employees 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.

6. The amendment to the Vaccine Research Relief Scheme will have effect on and after 1 April 2007.

Current law and proposed revisions

7. Schedule 20 to the Finance Act 2000 provides for tax relief for small and medium companies undertaking qualifying R&D activities. A 50% enhancement of qualifying expenditure can be claimed under the scheme and in some circumstances this can lead to a payable credit. A company

is small or medium if it has fewer than 250 employees and an annual turnover not exceeding €50 million and/or a balance sheet total not exceeding €43 million.

8. Schedule 12 to FA 2002 provides for tax relief for large companies undertaking qualifying R&D activities. Large companies can claim a 25% enhancement of their qualifying expenditure under this scheme.

9. Schedule 13 to FA 2002 provides for tax relief for companies of all sizes carrying out vaccine research (vaccine research relief). The relief is in the form of a 50% enhancement of qualifying expenditure and in the case of small and medium companies can result in a payable tax credit.

10. The new rules, which will be included in Finance Bill 2007, will extend the more generous support available (the 50% enhancement and the payable credit for loss making companies) under the SME scheme to companies with fewer than 500 employees which have an annual turnover not exceeding €100 million and/or who have an annual balance sheet total not exceeding €86 million.

11. In order to ensure that the schemes remain consistent with state aid requirements, there will be a restriction to prevent companies who are not SMEs within the 2003 EC Recommendation from claiming a payable tax credit under both the SME R&D scheme and the vaccines research relief scheme in respect of the same expenditure.

12. The vaccine research scheme is intended to give an additional 50% deduction on top of the normal R&D relief. However, at the moment, the legislation potentially allows relief, under certain limited circumstances, of an additional 150% deduction. This is in excess of the amount intended.

13. The vaccine research legislation at Schedule 13 to FA 2002 will be amended to correct this unintended error.

Further advice

14. If you have any questions about this change, please contact Lynn Carroll on 020 7147 2636 (email: Lynn.Carroll@hmrc.gsi.gov.uk) or Jeremy Sherwood on 020 7147 2589 (email: Jeremy.Sherwood@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

EXTENSION OF INCREASED RATE OF FIRST-YEAR CAPITAL ALLOWANCES FOR SMALL BUSINESSES

Who is likely to be affected?

1. Small businesses investing in plant and machinery.

General description of the measure

2. The temporary 50% rate of first-year capital allowances for small businesses spending on most plant and machinery will be extended for a further period of one year.

Operative date

3. The extension will apply to spending incurred on or after 1 April 2007 for businesses in the charge to corporation tax, and on or after 6 April 2007 for businesses in the charge to income tax.

Current law and proposed revisions

4. Capital allowances allow the cost of capital assets to be written off against a business's taxable profits. They take the place of commercial depreciation charged in commercial accounts. The main rate of capital allowances for general spending on plant or machinery is 25% a year on the reducing balance basis. First-year allowances (FYAs) bring forward the time that tax relief is available for capital spending and allow a greater proportion of the cost of an investment to qualify for tax relief against a business's profits of the period during which the investment is made.

5. The amounts of FYAs are set out in section 52 of the Capital Allowances Act 2001. Small and medium-sized enterprises can normally claim 40% FYAs on their investments in most plant and machinery. There are some exceptions, including spending on long-life assets, cars and assets for leasing.

6. Finance Act 2006 increased the rate of FYAs for small businesses only, from 40% to 50% for a period of one year. This extension for a further year provides an increased cash-flow benefit for small business investments in plant and machinery. The rate of FYAs for medium-sized enterprises remains unchanged at 40%.

7. There are various reforms to the capital allowances system proposed for 2008-09 (see BN02) including the replacement of FYAs for small and medium-sized businesses by an annual investment allowance of £50,000 a year.

Further advice

8. If you have any questions about this change, please contact your local HM Revenue and Customs office. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

INDUSTRIAL BUILDINGS ALLOWANCES AND AGRICULTURAL BUILDINGS ALLOWANCES

Who is likely to be affected?

1. All businesses claiming industrial buildings allowances (IBAs) or agricultural buildings allowances (ABAs).

General description of the measure

2. The Chancellor announced today a major business tax reform package, including reform of capital allowances to promote more efficient investment (see BN02). The reforms simplify the structure of capital allowances and remove outdated and unjustified distortions. The package includes the gradual withdrawal of IBAs and ABAs, which will be phased-out over four years.

3. To prepare the way for final abolition, this measure withdraws balancing adjustments and the recalculation of writing-down allowances in respect of balancing events occurring on or after 21 March 2007, unless
   - In pursuance of a relevant pre-commencement contract or
   - In respect of qualifying enterprise zone expenditure.

4. This measure is intended to ensure a smooth transition in cases where industrial or agricultural buildings change hands or cease to qualify for these allowances in the period between the Budget and final withdrawal. It will also ensure that purchases and sales of properties in this period are not unduly affected by tax considerations.

Operative date

5. The measure will apply to those balancing events affected (that is, excluding those in pursuance of a “pre-commencement contract” or in respect of qualifying enterprise zone expenditure) occurring on or after 21 March 2007.

Current law and proposed revisions

Industrial Buildings Allowances

6. IBAs are available under Part 3 of the Capital Allowances Act 2001 (CAA 2001). They replaced the old mills and factories allowance and were introduced in 1945 to encourage post-war reconstruction by productive industry. The broad framework from 1945 remains unchanged, but the scope of IBAs has become much wider and includes buildings and structures like tunnels, bridges, foreign plantations, highway concessions, qualifying hotels and commercial buildings in Enterprise Zones.

Agricultural Buildings Allowances

7. ABAs are available under Part 4 of CAA 2001. Whilst the two regimes are very similar they are not identical. For example, ABAs are only available where the first use of the building is for the purpose of husbandry, and balancing adjustments (see paragraph 9 below) only occur when the party or parties make an election. Where a relevant interest changes hands and no election is made then the new holder inherits the old holder's WDA entitlement.

Writing-down allowances (WDAs)

8. In general, the annual rate of writing-down allowances (WDAs) for a person who constructs an industrial or agricultural building, or buys it unused, is 4% of the qualifying expenditure (the construction cost or purchase price) on a "straight-line" basis. There is an exception for qualifying expenditure on buildings in enterprise zones, which qualifies, under Part 3 of CAA 2001, for an initial allowance of 100% and, where the full initial allowance has not been claimed, a WDA of 25% of any unrelieved expenditure. The allowances are given to the holder of the "relevant interest" who has incurred the qualifying expenditure on the building.

Balancing adjustments

9. When a person ceases to have the relevant interest in an industrial or agricultural building (typically when the building is sold or a leasehold interest comes to an end) there is a balancing event. Currently, this normally gives rise to a balancing adjustment based on any difference between the residue of qualifying expenditure ('RQE' – the cost less allowances claimed) and the proceeds from the event. Broadly speaking, there will be a balancing allowance where the sale proceeds are less than RQE, and a balancing charge where the sales proceeds exceed RQE.

Recalculated WDAs

10. Currently, the new owner on a purchase within 25 years of first use of an industrial building is entitled to a recalculated WDA. Comparable rules apply in the case of an agricultural building, but only if there is an election (see above, at paragraph 6). The recalculated WDA is based on the RQE after the sale, divided by the length of time between the date of sale and the end of the period of 25 years.

Proposed revisions

11. This measure withdraws balancing adjustments and the recalculation of writing-down allowances in respect of balancing events occurring on or after 21 March 2007, unless -
    - in pursuance of a relevant pre-commencement contract or
    - in respect of qualifying enterprise zone expenditure (see paragraphs 6 and 8).

For the new holder of the relevant interest, the WDAs will be based on the previous owner's RQE.

Transitional Provisions

12. A contract is a “relevant pre-commencement contract” if it is:
    - in writing and made before 21 March 2007,
    - unconditional, or its conditions have been satisfied before that date,
    - no terms remain to be agreed on or after that date, and
    - the contract is not varied in a significant way on or after that date.

Further advice

13. If you have any questions about this change, please contact Joy Guthrie on 0207 147 2610 (email: Joy.Guthrie@hmrc.gsi.gov.uk) or Malcolm Smith on 0207 147 2555 (email: Malcolm.Smith3@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CAPITAL ALLOWANCES: BUSINESS PREMISES RENOVATION ALLOWANCE

Who is likely to be affected?

1. Any individual or company, who incurs capital expenditure on bringing qualifying business premises (owned or let) back into business use.

General description of the measure

2. Finance Act 2005 introduced a scheme enabling people or companies, who own or lease property that has been vacant for a year or more in designated disadvantaged areas of the UK, to claim full tax relief on their capital spending on the conversion or renovation of the property, in order to bring it back into business use. The legislation in FA 2005 provided that implementation was to take place from an appointed day. A Treasury Order has today been laid and the scheme will come into effect from 11 April 2007.

Operative date

3. The legislation will have effect for qualifying expenditure incurred on and after 11 April 2007.

Current law and proposed revisions

4. Capital allowances enable the costs of capital assets to be written off against a business's taxable profits. BN02 and BN06 set out the Government's changes to the capital allowance regime.

5. Business Premises Renovation Allowance (BPRA) will provide 100 per cent initial allowance for capital expenditure on the renovation or conversion of business properties that have been vacant for a year or longer in designated disadvantaged areas of the UK. It will provide an enhanced rate of allowance for expenditure that currently qualifies for capital allowances, and new relief for renovation expenditure on commercial buildings (such as offices and shops), which does not currently qualify for any capital allowances. BN07 sets out the Government's changes to the industrial buildings allowance regime and the agricultural buildings allowance regime from 2008.

6. Since the scheme was first announced two changes have been made. Disadvantaged areas are now defined by reference to the Assisted Areas Order 2007. Secondly, excluded from scheme are any premises that are refurbished by, or are intended to be used by, businesses engaged in the following trades:
   - Fisheries and aquaculture
   - Shipbuilding

- The coal industry
- The steel industry
- Synthetic fibres
- The primary production of certain agricultural products; and
- The manufacture of products which imitate or substitute for milk or milk products

Further advice

7. If you have any questions about this change, please contact Nicholas Williams on 020 7147 2541 (email: Nicholas.Williams@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CORPORATE CAPITAL LOSS AND GAIN BUYING

Who is likely to be affected?

1. Groups of companies engaged in buying and selling companies in order to secure a tax advantage through gaining access to their capital losses and gains.

2. Certain companies with qualifying losses arising from deemed disposals prior to 2005 Pre-Budget Report (PBR) under the de-grouping rules.

General description of the measure

3. Legislation will be introduced in Finance Bill 2007 to stop schemes which exploit an exception provided within one of the targeted anti-avoidance rules (TAARs) introduced in December 2005.

4. It will also simplify the conditions that need to be met for relief granted under sections 70(9) and 70(10) of Finance Act 2006 (FA 2006) for certain companies with pre 2005 PBR qualifying losses arising from de-grouping deemed disposals.

Operative date

5. The legislation will apply to losses or gains accrued or realised on or after 21 March 2007.

Current law and proposed revisions

6. One of the targeted anti-avoidance rules introduced at 2005 PBR is intended to prevent groups of companies securing a tax advantage in situations where a company changes ownership and one of the main purposes of the arrangements is that the new owners might gain access to capital losses or gains realised by that company.

7. The current rules in sections 184A and 184B Taxation of Chargeable Gains Act 1992 (TCGA) provide that:

    - whenever there is a change of company ownership as a consequence of arrangements, the main purpose or one of the main purposes of which is to secure a tax advantage involving the deduction of a capital loss from any chargeable gains, then that loss may not be deducted from a gain unless both the gain and the loss arise from assets within the same ownership before the change.

8. The current rules in sections 70(9) and 70(10) FA 2006 provide that:

    - where, prior to 2005 PBR, companies had realised a loss on certain

deemed disposals of assets by de-grouping, these losses can be set against gains accruing on other pre-change assets owned by the company holding those assets or any other company that was in the same group as it prior to the de-grouping.

9. Amendments will be made to the current rules to ensure that:

   - arrangements involving the purchase of a company together with its subsidiary companies in order to gain access to their losses or gains will not sidestep the rules in sections 184A and 184B TCGA; and,

   - relief provided by sections 70(9) and 70(10) FA06 is available after the amendments to sections 184A and 184B TCGA and the conditions attaching to that relief are also simplified so that companies do not necessarily lose the relief following a takeover of the original group, or where the company that incurred the loss is sold or liquidated.

Further advice

10. Draft legislation and an explanatory note for these changes are published on 21 March 2007.

11. If you have any questions about this change, please contact Phil Donlan on 020 7147 2633 (email: philip.donlan@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

LOSS-BUYING

Who is likely to be affected?

1. Companies seeking to buy tax losses from loss-making corporate members of the Lloyd's insurance market who are ceasing their underwriting activities.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to prevent companies buying the trading losses of corporate members of Lloyd's who are leaving the market and with which they have no previous economic connection.

3. The measure will stop companies gaining access to group relief where there is a change in the group relationship after the losses are known but before they are recognised for tax purposes.

Operative date

4. This measure will have effect for changes in the ownership of the loss-making company taking place on or after the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

5. Group relief rules in Chapter 4 of Part 10 Income and Corporation Taxes Act 1988 allow one company that makes a trading loss to surrender it to another within the same group of companies or within a consortium framework. These losses must be current. They cannot be carried forward or back and then group relieved, and the necessary relationship must exist at the time that they arise.

6. A special accounting system used at Lloyd's recognises the profits or losses of, say, underwriting year 2005 in the calendar year 2008. The tax rules, which for corporate members of Lloyd's are in Chapter 5 of Part 4 of Finance Act 1994, follow the accounting rules so a loss of the underwriting year 2005 will arise for tax purposes in 2008. This enables the group relationship to be changed in the interim with the benefit of foresight of relievable losses, contrary to group relief principles.

7. This measure will require the relationship on which the claim depends to be maintained between the last day of the underwriting year in which the insurance business giving rise to the loss claimed was written, and the first day of the year in which the loss is recognised, or "declared".

Further advice

8. If you have any questions about this change, please contact Simon Claydon, 020 7147 2545 (email: simon.claydon@hmrc.gsi.gov.uk) or Victor Baker, 020 7147 2616 (email: victor.j.baker@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

FILM TAX REGIME: EXCLUDING NON-CINEMA PRODUCTION

Who is likely to be affected?

1. Companies incurring expenditure on the production of films other than for the cinema (for example, television productions).

General description of the measure

2. Finance Act 2006 (FA 2006) introduced new tax rules for the production of films by companies. Legislation will be introduced in Finance Bill 2007 to allow companies to opt out of these rules and into general tax treatment. A company will be able to make an election that it is not a film production company in respect of any future films and of all films that started principal photography in the previous two years.

Operative date

3. The measure will allow elections to be made on or after the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

4. FA 2006 sets out rules for the taxation of companies making films both for the cinema and for other media (such as television). It sets out a set of basic tax rules for films in Schedule 4 to the Act, treating each "film" as a separate trade, and brings into account the costs and income of the film. Schedule 5 then provides additional tax relief (film tax relief) to production companies making British cinema films

5. The new rules enable companies (including those not making films for the cinema and therefore not entitled to the additional Schedule 5 relief) to elect not to be within the FA 2006 rules, but to be taxed instead according to general tax rules. A company will be able to do this by making an election in its tax return. Once made, such an election will apply to films starting principal photography in the period to which the return relates, as well as any later films. It will not be possible to reverse an election after the time limit for amending the return has passed.

Further advice

6. If you have any questions about this change, please contact David Harris 020 7147 2562 (email: david.harris@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

SALE OF LESSOR COMPANIES ANTI AVOIDANCE

Who is likely to be affected?

1. Companies carrying on a trade of leasing plant or machinery.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to counteract various arrangements that are designed to reduce or cancel the effect of the Sale of Lessor Companies legislation introduced in Finance Act 2006.

Operative date

3. The measure will counteract some schemes with effect from 22 November 2006 and other schemes with effect from 21 March 2007.

Current law and proposed revisions

4. Legislation introduced in Schedule 10 to Finance Act 2006 was intended to deter the sale of a lessor company when the sale was tax motivated by bringing into charge an amount of income and an expense calculated by reference to the balance sheet value of the leased asset where a change in the ownership or control of a lessor company occurred. The income amount is brought into charge in the selling group and the expense benefits the buying group.

5. HM Revenue & Customs have received disclosures which reveal that groups have been undermining the effect of the Schedule by either:
   - exploiting a mismatch between two concepts of control, that used in Schedule 10 and that used in section 343 Income and Corporation Taxes Act 1988, allowing groups to transfer a leasing business outside the Schedule 10 grouping while enjoying the benefits of tax neutrality under section 343; or
   - manipulating the accounting value of leased assets to reduce or eliminate the charge.

6. The Government announced on 22 November 2006 that it would take action to prevent this with immediate effect.

7. Draft legislation was published at 2006 Pre-Budget Report to ensure that:
   - section 343(2) will not apply to the transfer of assets as part of the transfer of a business or part of a business of leasing, unless the predecessor and successor companies share the same principal company for the purposes of Schedule 10; and
   - contrived changes to balance sheet values will be prevented from affecting the operation of the Schedule.

8. This restriction on the effect of section 343(2) was confined to companies that are 75% subsidiaries. Information received subsequently by HM Revenue & Customs has indicated that artificial structures involving lessor companies owned by consortia and companies carrying on a leasing business in partnership are also being created to take advantage of mismatches in these definitions of control.

9. A new draft of the legislation is published today which deals with consortium companies and partnerships. The effect of the changes to the draft ensures that section 343 will not apply where:
   - either of the predecessor or successor companies is a consortium company carrying on a leasing business, unless the principal companies and the interests they hold in the companies are exactly matched; and
   - the predecessor or successor company carries on a leasing business in partnership unless the transfer is a transfer of the whole of a leasing business carried on by the predecessor company in partnership.

10. These changes will be brought into effect from today. The counter-measures announced on 22 November will continue to have effect from that date.

Further advice

11. Draft legislation and an explanatory note are published today and are available on the HM Revenue & Customs website at www.hmrc.gov.uk.

12. If you have any questions about this change, please contact Jo Brindley on 020 7147 2571 (email: jo.brindley@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

SECURITISATION COMPANIES

Who is likely to be affected?

1. Large companies involved in securitisations or issuance of debt.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to amend legislation in Finance Act (FA) 2005 relating to the taxation of securitisation companies.

Operative date

3. The measure will have effect for periods of account ending on or after the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

4. Section 83 FA 2005 allows securitisation companies to be taxed on the basis of accounting standards in force before the introduction of International Accounting Standards, for periods of account ending before 1 January 2008. This measure will allow for the regime to be extended by regulation.

5. Section 84 FA 2005 introduced a regulation-making power to enable permanent tax rules for securitisation companies to be introduced at a later date. This measure will modify this regulation-making power to cover a wider range of securitisations.

Further advice

6. If you have any questions about this change, please contact Tony Sadler on 020 7147 2608 (email: Tony.Sadler@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CHANGES TO THE VENTURE CAPITAL SCHEMES AND ENTERPRISE MANAGEMENT INCENTIVES

Who is likely to be affected?

1. Investors under the Enterprise Investment Scheme (EIS), the Corporate Venturing Scheme (CVS) and the Venture Capital Trust (VCT) scheme, companies attracting investment under those schemes, VCTs and companies using Enterprise Management Incentives (EMI).

General description of the measure

2. For EIS, VCTs and CVS: New qualifying company rules will set limits on the numbers of employees allowed and the amount of capital a company can raise in any 12 month period. A change will also be made to extend the meaning of a “qualifying 90% subsidiary”.

3. For VCTs: A change will be made to the 70% qualifying holdings condition to deal with cash realisations. Also, provision will be made for Regulations on ‘inadvertent’ breaches of the VCT approval conditions.

4. For EIS: The investment period in which a manager has to invest 90% of the funds raised by an approved EIS fund is extended from 6 months to 12 months.

5. For EIS, VCTs, CVS and EMI: A change will be made to allow the transfer of the qualifying trade of exploiting relevant intangible assets (RIAs) around a group of companies.

Operative date

6. The measures will have effect on or after 6 April 2007 except that:
   - The change to the investment period for EIS approved funds will apply for funds that closed after 6 October 2006.
   - The employee test and investment limits will not apply in relation to investments made out of funds raised by VCTs before 6 April 2007, nor to EIS or CVS shares issued before the date on which the Finance Bill receives Royal Assent.

Current law and proposed revisions

EIS, VCTs, CVS: The employee test

7. Under current rules there is no restriction on the number of employees of a company raising money under the venture capital schemes (EIS, VCT and CVS).

8. New rules will require that a company (or group of companies) raising money under the schemes must have no more than 50 full-time employees (or their equivalents) at the date on which the relevant shares or securities are issued.

EIS, VCTs, CVS: The investment limit

9. A new investment limit will apply to a company raising money under the venture capital schemes. For an "investment" to qualify for relief under the EIS or CVS, or be treated as a qualifying holding of a VCT, the company (or group of companies) must have raised no more than £2 million under any or all of the schemes in the 12 months ending on the date of the relevant investment.

10. If the limit is exceeded, none of the shares or securities within the issue that causes the condition to be breached will qualify for relief under the EIS or CVS, or rank as a qualifying holding for a VCT.

11. For the purpose of this test an "investment" will be any investment made by a VCT from funds raised on or after 6 April 2007. For EIS and CVS the new limit will apply to shares issued after the date on which the Finance Bill receives Royal Assent.

EIS, VCTs, CVS: 90% subsidiaries

12. Current rules require that where a qualifying trade is carried on by a subsidiary company that company must be a direct qualifying 90% subsidiary of the parent company.

13. Changes will be introduced to allow a qualifying trade to also be carried on by subsidiaries that are 100% subsidiaries of direct 90% subsidiaries of the parent, or 90% subsidiaries of direct 100% subsidiaries. This change will have effect on or after 6 April 2007.

VCTs: The 70% qualifying holdings rule

14. Section 274 of the Income Tax Act 2007 (ITA) imposes a requirement that a VCT must at all times have at least 70% by value of its investments in qualifying holdings to retain approval. In some cases a VCT may be unable to dispose of a holding without breaching this condition.

15. A new rule will be introduced so that when, on or after 6 April 2007, a VCT makes a cash realisation on the disposal of an investment that has been part of its qualifying holdings for at least 6 months, the disposal will be ignored for the next 6 months for the purpose of the 70% test. This will give the VCT up to 6 months to reinvest or distribute the disposal proceeds.

VCTs: Non-withdrawal of approval

16. Section 274 ITA requires a VCT to meet various conditions in order to gain and retain approval. The tax reliefs available to investors in VCTs are dependent on approval being retained.

17. A new power will be introduced to enable HM Revenue & Customs to make Regulations in respect of the non-withdrawal of approval in certain circumstances where those conditions are not met. These Regulations will be laid before Parliament and will replace the current "inadvertent breach" guidance.

EIS: Approved funds

18. If an EIS fund is approved under section 251 ITA investors can claim EIS income tax relief on their subscriptions as if those subscriptions had been made on the date the fund closed. Under current rules this is conditional on funds being at least 90% invested within 6 months of the closing date.

19. For approved funds with a closing date on or after 7 October 2006 this 6 month period will be extended to 12 months.

EIS, VCTs, CVS and EMI: Relevant intangible assets

20. The current rules restrict the transfer of a qualifying trade of exploiting relevant intangible assets (RIAs) around a group of companies.

21. New rules will be introduced to align the rules relating to the transfer of that trade with those currently relating to other qualifying trades so that RIAs can be moved around within groups without investors losing tax relief and EMI companies losing their qualifying status. This change will take effect from 6 April 2007.

22. Legislation to achieve all of these changes will be introduced in Finance Bill 2007.

Further advice

23. If you have any questions about the changes to the venture capital schemes please contact Malcolm White on 020 7147 3175 (email: malcolm.white@hmrc.gsi.gov.uk), or for EMI contact Chris Murricane on 020 7147 2818 (email: chris.murricane@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

SALE AND REPURCHASE AGREEMENTS ("REPOS")

Who is likely to be affected?

1. Large companies within the financial sector and other large companies that use sale and repurchase agreements ("repos") as a means of financing.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to establish a new corporation tax regime for repos to replace and simplify the existing rules.

Operative date

3. The legislation will not come into force until the current round of consultation with businesses and representative bodies involved in this specialised area of taxation is completed. The legislation will apply in relation to repos entered into on or after an appointed day. This will allow maximum time to consult to ensure that the introduction of the legislation does not have unforeseen consequences.

Current law and proposed revisions

4. The current legislation in section 730A and section 737C of Income and Corporation Taxes Act 1988 is intended to tax repos in accordance with their economic and accounting substance as financing transactions, but has been exploited in recent years in a number of arrangements involving tax avoidance.

5. The new rules will introduce a simpler accounts-based regime where profits and losses made by companies from their repo transactions will be taken directly from entries in accounts prepared under generally accepted accounting practice. This is subject to any adjustment that would ordinarily be required under the rules for taxing corporate debt (the loan relationship rules in Chapter 2 of Part 4 Finance Act 1996).

Further advice

6. If you have any questions about this change, please contact Richard Rogers on 020 7147 2625 (email: richard.rogers@hmrc.gsi.gov.uk) or Richard Thomas on 020 7147 2558 (email: richard.thomas@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk.

ALTERNATIVE FINANCE ARRANGEMENTS

Who is likely to be affected?

1. Individuals and companies wishing to invest in, and companies wishing to raise funds through, alternative finance arrangements that are similar to debt securities ("sukuk").

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to provide new rules on the taxation of certain types of investment bonds, known as "sukuk", which satisfy the Shari'a law prohibition on paying or receiving interest. These products replicate the economic effect of debt securities on which interest is payable, and the measure will ensure that they are taxed on a par with equivalent conventional securities.

3. The measure will also make a small change to previous legislation on alternative finance, to put the tax treatment of profit share agency arrangements beyond doubt.

Operative date

4. The changes will apply to arrangements entered into on or after 6 April 2007 for income tax purposes and 1 April 2007 for corporation tax purposes. For companies, they will also apply to profits or losses arising on or after 1 April 2007 from existing investment bonds within the statutory definition. For income tax payers, they will apply to amounts received or paid on or after 6 April 2007 in relation to arrangements entered into before that date.

Current law and proposed revisions

5. Finance Act 2005 and FA 2006 introduced legislation to enable finance arrangements that are structured so that they do not involve the payment or receipt of interest, to be taxed in a similar manner to those involving interest.

6. The new provisions build on the legislation in FA 2005 and FA 2006 by providing for alternative financial arrangements involving the issue of certain types of investment bonds ("sukuk") that are broadly equivalent to debt securities, to be taxed in a similar manner to such securities.

7. The new rules will provide that where the arrangements meet certain conditions, amounts paid by the issuer to the holders of such bonds will be deductible under the tax rules on loan relationships in the hands of the issuer, and taxable as if they were interest where the holder is subject to

income tax, or under the loan relationships rules where the holder is subject to corporation tax. A gain on disposal of a bond by a person other than a company will be taxable under capital gains tax rules, except where the bond will be treated under the new rules as a qualifying corporate bond, and will come with the loan relationships rules in the case of a company. Bonds that are convertible into, or exchangeable for, shares will be taxed in the same way as conventional convertible or exchangeable securities.

8. The legislation will also make a small amendment to section 49A of FA 2005 to make it clear that in alternative finance arrangements involving a profit share agency, the agent is treated, for all tax purposes, as entitled to the profits taxable under that section.

Further advice

9. Draft legislation and an explanatory note have been published today and are available on the HM Revenue & Customs website.

10. If you have any questions about this change, or any comments on the draft legislation, please contact Tony Sadler on 020 7147 2608 (email: tony.sadler@hmrc.gsi.gov.uk) or Lesley Hamilton on 020 7147 2564 (email: lesley.hamilton@hmrc.gsi.gov.uk). A Regulatory Impact Assessment on these changes, together with other information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

PENSION TAX: TECHNICAL IMPROVEMENTS

Who is likely to be affected?

1. Members, beneficiaries and administrators of registered pension schemes, their ex-employers and sponsoring employers.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to the pension tax rules. Minor benefits provided by former employers for retired former employees will be excluded from taxation. The inheritance tax (IHT) pension rules will be amended to allow the exemption from IHT charges to operate within the same time frame as permitted by the rules of a registered pension scheme for payment of lump sum benefits following the death of a scheme member. Two anti-avoidance rules will be introduced. The first will ensure that the payment of unauthorised member and employer payments cannot be structured to reduce the overall tax charge on the scheme and the member or employer. The second will ensure that flexibilities which are being introduced in Finance Bill 2007 on scheme pensions paid early on ill-health grounds do not prevent the existing anti-avoidance arrangements from applying.

Operative date

3. The change to the pension tax rules will have effect on and after 6 April 2006. The IHT change will have effect for lump sum death benefits paid from registered pension schemes or section 615(3) scheme on or after 6 April 2006.

Current law and proposed revisions

<u>Non-cash benefits</u>

4. Former employers may make provision for retired former employees which takes a form other than cash and these non-cash benefits may be provided together with a pension or entirely separately.

5. Prior to 6 April 2006 these benefits were not taxable if only non-cash benefits were provided but were taxable if provided together with taxable cash benefits. This anomaly was rectified from 6 April 2006 by the new pensions legislation which ensured that most non-cash benefits received by former employees were taxable. This brought more closely into line the taxation on non-cash benefits received by pensioners with those received by employees. A de minimis limit was also introduced for benefits which did not exceed £100 in the relevant tax year.

6. The Government announcement on 6 December 2006 included an announcement that HMRC would discuss with interested parties concerns raised over the tax charge and administrative burden involved in the non-cash benefits that former employers provide to pensioners.

7. To ensure that the exemptions from tax work as intended, the group of “excluded benefits” on which there is no tax charge will be expanded to include a number of exemptions similar to those received by employees.

8. Broadly, the additional exclusions will relate to continued provision of accommodation and related removal expenses, welfare counselling, recreational benefits, annual parties and similar functions, equipment for disabled former employees, which, with necessary differences to reflect the situation of retired people, mirror exemptions conferred on employees. Exclusions will also relate to the writing of wills and benefits which were first provided before 6 April 1998.

9. Once the regulations take effect, the exclusions will be backdated to apply with effect from 6 April 2006. These additional exclusions will be set out in regulations.

Unauthorised payments

10. Section 160 of Finance Act 2006 introduces the payments which a registered pension scheme is authorised to make to members and sponsoring employers. All other payments are either unauthorised member or employer payments.

11. The changes will introduce changes to section 160 which define the amount of the unauthorised payment and prevent reductions in tax charges through manipulation of the way payments are made.

Ill-health

12. PBRN 14 announced the proposed changes to the payment of ill-health pensions. The existing anti-avoidance legislation at Schedule 28 paragraph 2A(4) will be amended to include reductions of ill-health pensions that are permitted under the revised paragraph 2(4)(a) where that reduction is part of “avoidance arrangements”.

IHT rules

13. Where a member of a pension scheme assigns the benefits payable in the event of their death to scheme trustees and the benefits are then payable at the trustees discretion then the pension scheme is a discretionary trust for IHT purposes. Without the specific provisions in section 58(1)(d) of the Inheritance Act 1984 (IHTA) the IHT trust charges on "relevant property" in sections 64 to 69 would have effect during the member’s lifetime.

14. Under the pre-6 April 2006 pension tax rules schemes were allowed a period of up to two years from the date of the member’s death in which to

pay out the death benefits. HMRC's IHT practice recognised this rule so provided the benefits were paid out within the same timeframe no IHT charges were taken on the trust property. The pension tax rules for registered pension schemes will be amended so that the time allowed for payment will run from the date on which the scheme is notified or if earlier, the date the scheme could have reasonably been aware of the member's death.

15. This timing will be mirrored for IHT in Finance Bill legislation so that provided lump sums are paid within the time allowed by the pension scheme rules on or after 6 April 2006 the scheme funds will not attract charges under sections 64 to 69 of IHTA. Failure to meet the deadline will have the effect, as before, that the protection from the IHT charges will have ceased at the date of death of the scheme member. Similarly, the same IHT treatment will apply to section 615(3) schemes which pay lump sums death benefits within the same time frame as registered pension schemes.

Further advice

16. If you have any questions about these changes, please contact the Pensions Helpline on 0115 974 1600. These changes are covered in the regulatory impact assessment entitled "Tax Relief for Pensions". Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

TAX RELIEF ON PERSONAL TERM ASSURANCE

Who is likely to be affected?

1. Scheme administrators, members of registered pension schemes and their dependants, insurance companies and financial advisers.

General description of the measure

2. The measure removes an individual's entitlement to tax relief on any pension contributions they pay that are used to fund personal term assurance policies. It does not affect the relief available for contributions paid by employers.

Operative date

3. For contributions under occupational registered pension schemes, this measure will have effect for all contributions made on or after 1 August 2007 in respect of personal term assurance policies, unless the insurer received the application for the policy before 29 March 2007 and the policy was taken out as part of the pension scheme before 1 August 2007.

4. For contributions under other registered pension schemes, it will take effect for all contributions made on or after 6 April 2007 in respect of personal term assurance policies, unless the insurer received the application for the policy before 14 December 2006 and the policy was taken out as part of the pension scheme before 6 April 2007.

5. Where relief remains available for contributions paid on or after 1 August 2007 (for occupational schemes) or on or after 6 April 2007 (for other schemes), the individual will cease to be entitled to relief if the policy to which the contribution relates is varied outside its original terms so as to increase the sum assured or lengthen the term. However, if there is an option under the policy which is then exercised this will not affect the relief due.

Current law and proposed revisions

6. Term assurance policies are life insurance policies that only pay benefits on the death or critical illness of insured persons. When taken out outside a pension, there is no tax relief on premiums and no tax to pay on lump sum benefits.

7. As part of pensions tax simplification, the previous limits on the provision of death benefits through registered pension schemes were removed from 6 April 2006. This enabled a term assurance policy to be sold with pension tax relief so long as the policy terminated before the 75th birthday of the

insured individuals.

8. The member gets tax relief on contributions under the scheme that are used to pay for the term assurance policy but if the member dies and the insurance policy pays out the death benefits these will not normally be taxable but may be subject to the lifetime allowance charge if, when aggregated with other benefits from registered pensions schemes, the lump sum death benefit exceeds £1.5m in 2006-07 (£1.6m in 2007-08).

9. The change to be introduced in Finance Bill 2007 will mean that individuals will no longer get tax relief on pension contributions that are used to pay premiums under personal term assurance policies. A term assurance policy will be regarded as personal to the individual if it terminates the first time an insured person dies, as with all single life policies and most joint life policies, or if all the insured individuals are members of the same family.

10. The Finance Bill legislation will also provide new powers to pass secondary legislation which will enable the Government to act quickly to remove relief from new products sold with a view to avoiding the new restrictions on tax relief. This supplements existing powers that provide for specified types of payment by registered pension schemes to be treated as unauthorised payments.

11. The Government is happy to hold further discussions with the industry between publication and Finance Bill Committee Stage about the detail of the draft legislation in order to ensure that the measure only affects the policies and contributions it is intended to catch.

Further advice

12. These changes are included in the full Regulatory Impact Assessment published today. This is available on the HMRC website at www.hmrc.gov.uk

13. If you have any questions about this change, please contact the Pensions Helpline on 0115 974 1600. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CHANGES TO ALTERNATIVELY SECURED PENSION RULES AND CONSULTATION ON INHERITING TAX-RELIEVED PENSION SAVINGS

Who is likely to be affected?

1. Members of registered pension schemes, their dependants and beneficiaries, scheme administrators, insurance companies and financial advisers.

General description of the measure

2. Legislation will be included in Finance Bill 2007 to tighten up the provisions for the operation of members' and dependants' alternatively secured pension (ASP) funds. This includes the introduction of a requirement to draw a minimum income from an ASP fund and a tax charge where ASP funds remaining on the death of a member are transferred to the pension funds of other members in the scheme. The Finance Bill measures will also include provisions for schemes with members with money purchase arrangements that they have been unable to trace by age 75.

Operative date

3. The measures to be included in Finance Bill 2007 will have effect on and after 6 April 2007. The unauthorised payment charges to be introduced on the transfers of funds to other members of the scheme on the death of the ASP member (i.e. the removal of the transfer lump sum death benefit facility) will not have effect where the member or dependant died on or before 5 April 2007. This is a change from the draft legislation published at Pre-Budget Report, which disapplied the changes where the member died on or before 6 December 2006.

Current law and proposed revisions

4. Finance Bill 2007 will include legislation to implement the proposals on ASP set out in PBRN 13, subject to the following additions and changes.

<u>Alternatively secured pension changes</u>

Pension tax rules

5. For providers that have been using the ASP measures as a means to hold in suspense the funds of members that they have been unable to trace by age 75, alternative provisions will be included in Finance Bill 2007. Schemes will need to take reasonable steps to trace a member. Providing schemes do not know the whereabouts of the member, then the funds, (which through the operation of paragraph 8(2) of Schedule 28 to Finance

Act 2004 are deemed to be designated into unsecured pension) will on their 75th birthday effectively become held in suspense, and will not become ASP funds.

6. There will be no requirement to operate a minimum income on these pension arrangements, while the member can't be traced. But where members are subsequently traced then the member will have the choices available at age 75, and if they don't make a decision within 6 months of being traced then the minimum income requirement will start to apply. Where the pension scheme becomes aware that the member has died (after age 75), then the remaining funds can be paid to charity or as a pension for a financial dependant, without attracting unauthorised payment or inheritance tax charges. If the fund is in those circumstances reallocated to the pension pots of other members then there will be an unauthorised payment charge. More details about how IHT will apply are set out below.

7. For schemes with members over the age of 75 where the pension pots are currently held under the ASP provisions because they have been unable to trace the member, they will on and after 6 April 2007 cease to be held as ASP funds and instead be held under the separate provisions for untraced members. This will be subject to the scheme having taken reasonable steps to trace the member.

8. In response to representations made in the consultation process the level of the minimum income for an ASP will be set at 55% of the annual amount of a comparable annuity (for a 75 year old).

9. Section 268(6) FA 2004 will also be amended to ensure, for example, that the scheme sanction charge may be discharged where it would not be just and reasonable to apply it in certain circumstances where there has been a failure to operate the minimum income requirement.

Inheritance tax (IHT) rules

10. Associated changes will be made to the ASP provisions in sections 151A to 151C of the Inheritance Act 1984 (IHTA) arising from the unauthorised payments pension charges on ASP funds. The basis of the IHT charges in sections 151A and 151C will be changed so that for deaths on or after 6 April 2007, IHT will be calculated on the basis that the IHT nil-rate band will be set in priority against the estate of the deceased excluding ASP funds. And each of these sections will be further modified to introduce a special calculation for cases where there is an amount of nil-rate band available to off-set against the value of the ASP funds. How this works is explained in more detail below.

11. There is no change to the timing of the IHT charges. The amount of the ASP funds charged to IHT differs depending on whether or not the unauthorised payment charges have arisen before or after the IHT due date. Where the unauthorised payment charges have been deducted before IHT is due then IHT is calculated by reference to the net value of the ASP funds. And conversely where IHT is due before the unauthorised

payment charges are made then IHT is calculated by reference to the gross value of the ASP funds with an adjustment to the unused nil-rate band to set against the ASP funds.

Interaction with the IHT nil-rate band

12. Where there is an unauthorised payment charge and an IHT charge on the ASP funds the aggregate of the two tax charges is the same in whichever order the two taxes are charged. But a special IHT provision is being made to cater for cases where a person with an ASP dies leaving property chargeable to IHT net of their ASP that is worth less than the IHT nil-rate band (£300,000 on and after 6 April 2007). This will apply where the IHT charge arises before any unauthorised payment charge and provides for the amount of any unused IHT nil-rate band to be grossed up. The ASP funds will be charged to IHT on the excess over the "grossed up nil-rate band". This approach recognises that the gross ASP funds will be subject to subsequent unauthorised payment charges of up to 70 per cent.

13. The section 151B charge arises on left-over ASP funds once a relevant dependant's pension benefits cease and the rates of tax are those applying at the date of that event rather than as at the date of death of the scheme member. This rule will be modified so that if the IHT nil-rate band was not fully used when the original 'owner' of the ASP died then the same proportion that was unused will be applied to the amount of the nil–rate band in force at the date of the later event and be available against the ASP.

14. There will be no change to HMRC's present procedures for calculating and notifying scheme administrators of the IHT due on ASP funds. Moving to one basis of IHT charge as described in paragraph 10 will mean some streamlining of the existing administrative procedures for scheme administrators. HMRC will work closely with scheme administrators to ensure that the impact will be kept to a minimum.

Untraceable members: death after age 75.

15. As mentioned in paragraph 6 above those whom a scheme cannot trace at age 75 will be brought within the IHT framework. The value of the remaining funds on death of the scheme member will be treated as part of their IHT chargeable estate. Where the funds are paid as pension benefits to a relevant dependant (i.e. a spouse, civil partner or financial dependant) any IHT charge on any remaining funds on will be deferred to the date of cessation of those pension benefits. Funds paid to charity will be exempt from IHT.

16. Where there is an unauthorised payment charge on the remaining funds then the mechanics of the IHT charge will work in broadly the same way as described in paragraphs 12 – 14 above. Scheme administrators will be liable and accountable for any IHT. In these cases schemes may not be aware of the death of a scheme member until long after the event so instead of the usual IHT timing rules the scheme administrators will have six months from end of the month in which they were notified of the death

to meet their accounting obligations.

Preventing inheritance of tax-privileged pension savings

17. It has been announced today that there will be a consultation on measures that will be introduced to prevent ways of inheriting tax-privileged pension savings. Further details can be found in the consultation paper 'Tax Relief for Pensions - Rules to prevent inheriting tax-privileged pension savings', which is available on the HMRC website.

Further advice

18. If you have any questions about this change, please contact the Pensions Helpline on 0115 974 1600. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

STAMP TAXES RELIEFS FOR EXCHANGE INTERMEDIARIES

Who is likely to be affected?

1. Intermediaries on securities exchanges who qualify for relief from stamp duty and stamp duty reserve tax (SDRT) on the purchase of UK shares, or for repurchases and stock lending.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to bring the reliefs into line with the Markets in Financial Instruments Directive (MiFID) which will come into effect on 1 November 2007.

Operative date

3. The measure will have effect on and after 1 November 2007

Current law and proposed revisions

4. Currently share purchases by intermediaries must be carried out on or reported to an exchange or multilateral trading facility of which the intermediary is a member in order to be relieved from stamp duty and SDRT. In future, transactions in shares that are admitted to trading on a regulated market under MiFID will no longer need to be reported to that market, nor will intermediaries need to be members of that market, in order for intermediaries to qualify for relief.

5. The rules under which regulations may be made removing stamp duty and SDRT from transactions involving investment exchanges and clearing houses will also be changed to bring them into line with the markets that are defined in MiFID.

Further advice

6. Draft legislation was published by HM Revenue & Customs on 20 February 2007 and is available on the HM Revenue & Customs website.

7. If you have any questions about this change, please contact Ian Burton on 020 7147 2788 (email: ian.burton@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

STAMP DUTY LAND TAX: EXCHANGES OF PROPERTY BETWEEN CONNECTED PERSONS

Who is likely to be affected?

1. Individuals who exchange property, especially those who are married or related to each other.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to amend the stamp duty land tax (SDLT) treatment of exchanges of property by providing that, where an exchange of property takes place between ‘connected persons’, the two legs are not ‘linked’ with each other for determining the rate of SDLT.

Operative date

3. The new treatment will apply where any land transaction which is part of an exchange takes place on or after the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

4. The normal rule is that an individual who acquires property in the UK is charged SDLT by reference to what he or she pays for the property, regardless of any connection between him or her and the vendor, and regardless of the market value of the property.

5. But if there is an exchange of property the rule is different. In this case, any money moving between the two parties is ignored and stamp duty land tax is charged by reference to the market value of the property acquired. This measure does not make any change to this rule.

6. However if the parties are ‘connected persons’, for example as husband and wife or brother and sister, there is a further rule because the two legs of the exchange are ‘linked transactions’. This means that the market values are aggregated and the *rate* of stamp duty land tax is that applicable to the aggregate. So if property worth £300,000 is exchanged for property worth £220,000 the rate of SDLT on both legs is 4%, the rate applicable to £520,000.

7. This measure will provide that the two legs of an exchange will not be linked with each other. So in the example above there will be a charge at 1% on the acquisition of the property worth £220,000 and a charge at 3% on the acquisition of the property worth £300,000.

Further advice

8. If you have any questions about this change, please contact the Stamp Taxes Helpline, 0845 603 0135. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

STAMP DUTY LAND TAX: ANTI-AVOIDANCE MEASURES

Who is likely to be affected?

1. Parties to schemes designed to avoid stamp duty land tax (SDLT).

General description of the measure

2. Finance Bill 2007 will include provisions replacing, with amendments, the Stamp Duty Land Tax (Variation of the Finance Act 2003) Regulations 2006 (2006 SI No 3237)

Operative date

3. This change will have effect for any transaction the “effective date” of which is on or after the date on which Finance Bill 2007 receives Royal Assent. The effective date is normally the date of completion, not the date of exchange, of contracts. However, the effective date may be earlier than the date of completion if the contract is “substantially performed”, for example, if the purchaser takes possession or pays the purchase price in advance of completion. Most residential contracts will not be “substantially performed” in advance of completion.

Current law and proposed revisions

4. On 6 December 2006 HM Treasury made the Stamp Duty Land Tax (Variation of the Finance Act 2003) Regulations 2006 (2006 SI No 3237) to counter SDLT avoidance schemes. The Regulations were approved by the House of Commons on 15 January 2007. However the Regulations have effect only for 18 months from the date they were made.

5. The Government has therefore decided to replace the Regulations by permanent provision in Finance Bill 2007.

6. The Finance Bill provision will incorporate a number of changes to the Regulations. These take account in particular of representations made on the Regulations.

Further advice

7. If you have any questions about this change, please contact Michael Lyttle on 020 7147 2792, (email: michael.lyttle@hmrc.gsi.gov.uk) Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

STAMP DUTY LAND TAX: RELIEF FOR SHARED OWNERSHIP TRUSTS

Who is likely to be affected?

1. Individuals seeking affordable housing, especially those trying to buy properties that are in commonhold provided by qualifying bodies (see paragraph 9 below).

General description of the measure

2. Legislation included in Finance Bill 2007 will extend the same tax benefits for stamp duty land tax that are currently available for shared ownership leases to shared ownership trusts.

Operative date

3. The relief will apply to all transactions involving shared ownership trusts provided by qualifying bodies the "effective date" of which is on or after the date on which Finance Bill 2007 receives Royal Assent. The effective date is normally the date of completion, not the date of exchange, of contracts. However, the effective date may be earlier than the date of completion if the contract is "substantially performed", for example, if the purchaser takes possession or pays the purchase price in advance of completion. Most residential contracts will not be "substantially performed" in advance of completion.

Current law and proposed revisions

4. Currently Government offers support to those seeking to buy affordable housing through tax reliefs to some structures that help provide more affordable housing such as "shared ownership leases". Shared ownership leases provided by qualifying bodies receive favourable treatment for SDLT.

5. Tax relief for shared ownership leases works as follows – if a property is purchased by instalments, SDLT is payable on each instalment. However, with a shared ownership lease only the first and last instalments are normally chargeable. So if the buyer initially buys a 25% share the cost of this is chargeable to SDLT. But the buyer can then make capital payments to increase their share to 80% without incurring any further charge. Once the buyer's share goes beyond 80% SDLT is again chargeable. In practice, however, it is rare for buyers to staircase above 80%. Alternatively, purchasers can elect to pay SDLT once and for all on the market value of the property or on the maximum share which can be purchased.

6. Shared ownership trusts have developed out of an interest in trying to use "commonhold" as a way of providing affordable housing. Commonhold is an alternative to leaseholds and has come into existence recently following the Commonhold and Leasehold Reform Act 2002.

7. Unfortunately shared ownership leases are not feasible for commonholds and therefore a new structure (shared ownership trusts) has had to be developed to make them an attractive option to those seeking affordable housing. With a shared ownership trust legal ownership is vested in trustees. There is a declaration of trust which gives the purchaser a beneficial share in the property, and the exclusive right to occupy the property in return for making regular payments. The purchaser can make capital payments to increase their beneficial share and so reduce their regular payments.

8. This relief extends the tax treatment set out in paragraph 5 above to shared ownership trusts. Establishing shared ownership trusts might appeal to those who wish to purchase types of housing where commonhold rather than traditional leases were being offered.

9. For the purposes of qualifying for reliefs from stamp duty land tax the following are considered to be qualifying bodies:

- a local housing authority
- a housing association
- a housing action trust
- the Northern Ireland Housing Executive
- the Commission for the New Towns
- a development corporation

Further advice

10. If you have any questions about this change, please contact the Stamp Taxes Helpline, 0845 603 0135. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

STAMP DUTY LAND TAX: PAYMENT OF TAX AND SELF-CERTIFICATE

Who is likely to be affected?

1. Purchasers of freehold or leasehold property, solicitors and licensed conveyancers.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to provide that payment of the amount of stamp duty land tax self-assessed in a land transaction return will no longer be required to accompany the return. The tax will still have to be paid by the filing date for the return.

3. Provision will also be made for the SDLT self-certificate to include a declaration by the agent submitting the self-certificate on the purchaser's behalf.

Operative date

4. The measure will be operative from the date on which Finance Bill 2007 receives Royal Assent and the provision about payment will apply to any transaction which takes place on or after that date. Inclusion of the agents' declaration and electronic submission of the self-certificate will be subject to regulations to be made by HM Revenue and Customs at a later date.

Current law and proposed revisions

5. Sections 76, 80, 81 and 81A and Schedules 10 and 17A to Finance Act 2003 provide that a land transaction return must be accompanied by the amount of tax self-assessed in the return. Section 86 of Finance Act 2003 further provides that tax must be paid at the same time as the return is made.

6. Finance Bill 2007 will include clauses abolishing these requirements and replacing them with a requirement that the tax must be paid on or before the filing date for the return (that is, 30 days from the effective date of the transaction, which in most cases is the date of completion).

7. Paragraph 2 of Schedule 11 to Finance Act 2003 provides HMRC with powers to prescribe the form and content of the self-certificate. At present this must include a declaration by the purchaser that the self-certificate is to the best of his knowledge correct and complete.

8. Finance Bill 2007 will include clauses allowing HMRC to provide that, in

appropriate cases, the self-certificate may alternatively include a declaration by an agent authorised by the purchaser to complete the self-certificate, or by the relevant Official Solicitor. These will be similar to the equivalent provisions for land transaction returns at paragraphs 1A and 1B of Schedule 10 to Finance Act 2003.

9. A Regulatory Impact Assessment for this measure will be published when regulations are made.

Further advice

10. If you have any questions about this change, please contact the Stamp Taxes Helpline, 0845 603 0135. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk.

STAMP DUTY LAND TAX: SURPLUS SCHOOL LAND

Who is likely to be affected?

1. Governing bodies, foundation bodies and trustees of foundation, voluntary and foundation special schools, local education authorities (LEAs) and their agents.

General description of the measure

2. Repeal of obsolete stamp duty and stamp duty land tax relief for transfers of surplus school land. A Treasury Order will be made to bring such transfers within the general stamp duty land tax relief for statutory reorganisations.

Operative date

3. Repeals will be operative from the date on which Finance Bill 2007 receives Royal Assent. The Order will come into force on 25 May 2007, in line with amended provisions for transfers of surplus school land introduced by the Education and Inspections Act 2006.

Current law and proposed revisions

4. Schedule 22 to the Education and Inspections Act 1998 makes various provisions for transfers of surplus school land between governing bodies, foundation bodies, trustees and LEAs. Section 79 of that Act provides stamp duty relief, and section 79A provides stamp duty land tax (SDLT) relief, for these transfers.

5. The stamp duty relief is now obsolete. Part 1 of Schedule 4 to the Education and Inspections Act 2006 amends various provisions of Schedule 22 to the 1998 Act and section 27 of the 2006 Act introduces a new provision for transfers in connection with the removal of a foundation. The SDLT relief at section 79A of the 1998 Act will not cover these amended and new provisions.

6. All of these transactions can potentially qualify for SDLT relief under the general provision for statutory reorganisations at section 66 of Finance Act 2003. Some transfers will qualify automatically, while others will qualify if the statutory provisions under which they are made are prescribed by Treasury Order under section 66(2).

7. Finance Bill 2007 will include clauses repealing sections 79 and 79A of the 1998 Act. A Treasury Order will be made in early May under powers in section 66(2) of Finance Act 2003 to bring transfers under the amended provisions of Schedule 22 to the 1998 Act, and regulations made under section 27 of the 2006 Act, fully within the relief at section 66 of Finance

Act 2003.

Further advice

8. If you have any questions about this change, please contact the Stamp Taxes Helpline, 0845 603 0135. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

STAMP DUTY LAND TAX: RELIEF FOR NEW ZERO CARBON HOMES

Who is likely to be affected?

1. The relief will benefit most buyers of new zero carbon homes from 1 October 2007.

General description of the measure

2. As announced in the 2006 Pre-Budget Report, a regulation-making power will be introduced in Finance Bill 2007 to bring in a new time limited relief from stamp duty land tax (SDLT) for the vast majority of new zero carbon homes in the UK.

3. Qualifying criteria for the relief, which will be set out in regulations to be laid before Parliament by the end of the Summer Recess, will require zero carbon emissions from all energy use in the home over a year. To achieve this, the fabric of the home will be required to reach a very high energy efficiency standard and to be able to provide onsite renewable heat and power.

4. There will be a certification process for all new homes and qualification for the exemption which will be dependant on homebuyers having a certificate. Detailed arrangements for the certification process will be issued in due course.

Operative date

5. The measure will have effect on and after 1 October 2007. The relief will be time limited for 5 years and will therefore expire on 30 September 2012.

Current law and proposed revisions

6. Legislation for SDLT is in Finance Act 2003. Finance Bill 2007 will contain a regulation-making power to bring a new relief to provide for zero carbon homes.

<u>Form of relief</u>

7. New homes which are liable to SDLT on the first sale will be eligible to qualify. The relief will provide complete removal of SDLT liabilities for all homes up to a purchase price of £500,000. Where the purchase price of the home is in excess of £500,000 then the SDLT liability will be reduced by £15,000. The balance of the SDLT will be due in the normal way.

Detail of qualifying criteria

8. The aim of the relief is to ensure that on average over the course of a year the homes are zero carbon. In other words, they will not be required to be zero carbon the whole time, but the import of grid power and export of renewable power should at least balance over the course of a year.

9. This standard will be measured by use of the Government's Standard Assessment Procedure for the energy rating of dwellings (SAP).

10. SAP is a comprehensive tool used throughout the UK for calculating energy costs and carbon emissions of homes, and has been developed by the Buildings Research Establishment (BRE) on behalf of the Government. The latest published edition is SAP 2005. It can be found on the BRE website at the following address, www.bre.co.uk/sap2005. SAP will be required for Energy Performance certificates. In England and Wales it is used to compute the energy efficiency of dwellings within Part L of the Building Regulations 2000, and the Code for sustainable homes.

Fabric of the building standard

11. It will also be necessary to ensure that the fabric of the building significantly exceeds the standards currently required by Part L of the Building Regulations 2000 (as amended).

12. The requirement will be that the "Heat Loss Parameter" (covering the walls, windows, air tightness and other elements of the building design) is no more than 0.8W/m²K. This standard will mean that space heating requirements are no more than 15kWh/m² per annum.

Heat and power generation

13. The SAP computation takes into account energy consumed through heating, lighting and hot water provision. The homes will have to reach zero carbon for these factors using the SAP computation.

14. Heat and power for this element must be generated either in the home or on the development or through other local community arrangements (including district heat and power) and must be renewable (i.e. non-fossil fuel) energy.

Additional power for appliances

15. A zero carbon home is also required to have zero carbon emissions from use of appliances in the homes (on average over a year). SAP does not contain any provision for energy consumption of appliances but will be updated to do so in due course.

16. Until SAP is updated the appliances element of the qualification will be that each home must provide an amount of renewable electricity equal to a specified amount of kWh per metre squared of floor space in addition to

that required to meet zero carbon in the SAP 2005 to approximate to the average appliance energy consumption. This will depend on the floor area of the home as indicated in the following table:

Total floor area m²	kWh/m² per year
Up to 89	24.97
90-99	23.53
100-109	22.10
110-119	20.76
120-129	19.53
130-139	18.42
140-149	17.43
150+	16.54

17. This additional power must be renewable power produced either within the area of the building and its grounds, elsewhere in the development, or elsewhere as long as the developer has entered into arrangements to ensure that the renewable generation is additional to existing plans.

18. The amount of such additional power can be reduced by any surplus from the arrangements to meet zero carbon on heating, hot water and lighting.

Micro generation equipment

19. Later in 2007, the Department of Trade and Industry will launch a scheme which will approve micro generation equipment. Use of approved equipment will be a requirement of the exemption.

Gas mains connection

20. Qualifying homes will not be permitted to be connected to the gas main.

Wind power generation

21. SAP currently does not take account of micro wind generation. A modification to take this into account is expected later in 2007

New homes

22. The relief will be available for most new homes when sold for the first time. These will be defined as dwellings which are first occupied for residential purposes at the time of the transaction which leads to the stamp duty land tax charge.

23. Relief will not be available on second and subsequent sales nor on existing homes.

Linked transactions

24. In SDLT, consideration for more than one transaction as part of a single

arrangement, scheme or series of transactions is aggregated to arrive at the total consideration due and therefore the rate of tax. Where the home qualifies for the zero carbon homes relief this aggregation will be modified so that each home purchased at the same time will be treated as a separate purchase and can therefore qualify for the relief of up to £15,000.

Operational issues

25. The new relief, in common with other reliefs, will be claimed on a land transaction return form.

26. Certification of the exemption will be provided as part of the building control process and will not be provided by HMRC. In due course certification will be part of the energy performance certificate process.

27. Regulations will cover further definition and administrative matters.

Further advice

28. If you have any questions about the various aspects of this change, please contact the relevant government department.
    - the definition of zero carbon home: Tony Verran, HM Treasury, on 020 7270 6041 (e-mail Tony.Verran@HM-Treasury.gsi.gov.uk).
    - the certification process: Mickey Green, Department for Communities and Local Government, on 020 7944 8790 (e-mail Mickey.Green @communities.gsi.gov.uk)
    - SDLT issues other than the definition, certification process and SAP: Michael Lyttle, HMRC, on 020 7147 2792 (e-mail; michael.lyttle@hmrc.gsi.gov.uk)

    A Regulatory Impact Assessment for this measure and information about other Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

STAMP TAXES RECONSTRUCTION RELIEFS

Who is likely to be affected?

1. Companies acquiring either the whole or part of a business of another company or the entire share capital of another company where either company has purchased and holds some of its own shares.

General description of the measure

2. The effect of the measure will be that a company that holds some of its own shares will in future be able to claim relief from stamp duty and stamp duty land tax in respect of certain reconstructions and acquisitions without the need to cancel those shares.

Operative date

3. This measure will have effect from the day after the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

4. Sections 75 to 77 of Finance Act (FA)1986 and Schedule 7 to FA 2003 relieve from stamp duty and stamp duty land tax certain company reconstructions and acquisitions where there is no real change of ownership. The reliefs require that the same persons own the company or business after the transaction and that the proportion of the company or business that is owned by each shareholder remains unchanged.

5. Following the introduction of this measure, a company that has purchased its own shares and holds them, will no longer be regarded as a shareholder for the purpose of the overall ownership test.

6. This will mean that companies that hold their own shares will no longer need to cancel them, or accept shares in the acquiring company, in order to qualify for relief.

Further advice

7. If you have any questions about this change, please contact Ian Burton on 020 7147 2788 (email: ian.burton@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

PRE-OWNED ASSETS: LATE ELECTIONS

Who is likely to be affected?

1. Individuals who are liable for the income tax charge on “pre-owned assets” (POA), defined by Schedule 15 to Finance Act 2004.

General description of the measure

2. Where someone benefits from assets that are subject to the POA income tax charge, they can elect instead for those assets to be treated as forming part of their estate for inheritance tax (IHT) purposes. Legislation being introduced in Finance Bill 2007 will allow HMRC to accept elections for IHT treatment that would otherwise be too late.

Operative date

3. The measure will take effect from 21 March 2007 but, because it enables late elections to be accepted from that date, it may also apply to elections that were late before then.

Current law and proposed revisions

4. Schedule 15 to FA 2004 introduced an income tax charge from 6 April 2005 on the benefit people derive from having free or low-cost enjoyment of assets they formerly owned or they provided the funds to purchase.

5. As an alternative to the charge, taxpayers can elect for IHT treatment on the relevant property in due course. The time limit for electing is the same as the Self Assessment deadline for making a return for the tax year in which an individual is first liable for the POA charge. So for individuals who are liable from 2005/06 (the first year of the charge), the deadline was 31 January 2007.

6. Legislation in the Finance Bill will allow HMRC to accept elections made after that deadline. The legislation will apply in relation to the 31 January 2007 deadline for 2005/06 cases and to future deadlines where a liability to the POA charge first arises in a later year.

Further advice

7. If you have any questions about this change, please contact the Probate/IHT Helpline on 0845 3020 900. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CHANGES TO THE OFFSHORE FUNDS REGIME

Who is likely to be affected?

1. Offshore collective investment schemes ("offshore funds") and UK investors in those funds.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to remove a restriction in the offshore funds regime on the structure of multi-tiered funds and to make three minor changes to assist the application of the regime. The changes will include amending the definition of an offshore fund, the treatment of losses on disposal of units or shares in non-qualifying funds and the meaning of eligible income for approved investment trusts.

Operative date

3. The changes for multi-tiered funds of funds and to the offshore fund definition will have effect for account periods beginning on or after 1 January 2007. The loss relief change will have effect for losses arising on or after 6 April 2007 for income tax payers, and on or after 1 April 2007 for corporation tax payers. The change for investment trusts will have effect from the date the Finance Bill receives Royal Assent.

Current law and proposed revisions

The multi-tier test

4. Section 760(3)(a) Income and Corporation Tax Act 1988 (ICTA) provides that an offshore fund (A) will not be certified as a distributing fund if more than 5%, by value of the assets of the fund, consist of interests in other offshore funds. In considering that test, paragraph 6 Schedule 27 ICTA provides that if a fund into which A invests is, or could be, a distributing fund without the aid of paragraph 6 then that investment shall not be regarded as an offshore fund for A's test. It will, however, still feature in determining the total value of A's assets. This effectively limits distributing offshore fund of fund structures to two layers.

5. The effect of the change will be that in determining A's status as a distributing fund, every fund in the structure below it will be able to rely on the wording in paragraph 6, thereby effectively removing the restriction to two layers in any fund of fund structure.

Definition of offshore fund

6. For offshore funds that are companies, the tax regime applies to UK investors if the fund meets the Financial Service Authority's (FSA) regulatory definition of an open-ended investment company (OEIC). This includes a condition that an investor is able to realise their investment within a reasonable period. The FSA takes the view that a reasonable period for these purposes should not exceed six months.

7. The offshore fund regime charges any gain as income when an investor disposes of a material interest in a non-distributing offshore fund. An interest is defined in section 759(2) ICTA as material if the investor can reasonably expect to realise their investment within a reasonable period. For the purpose of this test, in contrast to the FSA's view for OEICs, the period is seven years.

8. The change will mean that a seven year reasonable period to realise the investment will apply to decide if an open-ended company is within the regime.

Loss on disposal of units

9. Paragraph 3(5) Schedule 28 ICTA provides that where the computation of a gain under Schedule 28 would give rise to a loss, the gain on the disposal is deemed to be nil and, for the purposes of the offshore fund rules, no loss arises on the disposal. The loss has always been considered to be a capital loss which can be utilised under the rules in the Taxation of Chargeable Gains Act 1992 (TCGA).

10. However, section 392 (income tax) and section 396 (corporation tax) of ICTA could potentially allow claims for the loss computed under Schedule 28 to be set against profits under provisions listed in section 836B of ICTA (income tax) and profits under Schedule D Case VI (corporation tax). This measure will make it clear that such a loss can only be a capital loss.

Approved investment trusts

11. To be approved as an investment trust, a company's income must be derived wholly or mainly from shares or securities (section 842(1)(a) ICTA). Tax Bulletin 79 announced a change of interpretation, which meant that offshore income gains would no longer count for the purposes of meeting that condition.

12. This measure will exclude offshore income gains from this test. Offshore income gains will, however, remain taxable as income in the hands of approved investment trusts.

Further advice

13. If you have any questions about this change, please contact David Moran on 020 7147 2612 (email: david.moran@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue and Customs website at www.hmrc.gov.uk

CAPITAL GAINS TAX: A TARGETED ANTI-AVOIDANCE RULE

Who is likely to be affected?

1. Persons who take part in contrived schemes or arrangements to obtain a tax advantage from capital losses, including companies, individuals, trustees and personal representatives.

General description of the measure

2. A targeted anti-avoidance rule (TAAR) will be introduced in Finance Bill 2007 to counter schemes to create and use artificial capital losses to avoid tax. The measure will ensure that allowable capital losses are restricted to those arising from genuine commercial transactions.

Operative date

3. The changes will take effect in relation to capital losses arising on disposals on or after 6 December 2006, except in relation to corporation tax where an equivalent rule already has effect.

Current law and proposed revisions

4. The Taxation of Chargeable Gains Act 1992 (TCGA) provides that, unless there is an express rule to the contrary, a capital loss is computed in the same way as a capital gain, and a loss will be an “allowable loss” if a gain arising on the same transaction would have been a chargeable gain (section 16 TCGA).

5. An express exception to this general TCGA rule was introduced in Finance Act 2006. A loss accruing to a company is not an allowable loss if it arises as part of arrangements which have a tax advantage as their main purpose, or one of their main purposes (section 8 TCGA). The intention of that provision is to deter the creation and use of artificial capital losses by companies liable to corporation tax on their chargeable gains.

6. This measure will extend that anti-avoidance rule for companies to persons liable to capital gains tax (individuals, trustees and personal representatives). Where a person has entered into arrangements, and a main purpose of those arrangements is to gain a tax advantage by creating an artificial capital loss, any resulting loss will not be an allowable loss for the purposes of capital gains tax, income tax or corporation tax.

7. The measure will introduce, in the new section 16A TCGA, a general rule covering capital gains tax, income tax and corporation tax, and hence replaces the corporation tax provisions introduced into section 8

TCGA by Finance Act 2006, without changing their effect.

Further advice

8. Draft legislation was published at Pre-Budget Report 2006, along with an explanatory note, draft guidance, and a statement of principle. The legislation and associated documents have been the subject of consultation with interested parties, and revised guidance is being issued today taking account of issues raised during the consultation process.

9. If you have any questions about these changes, or comments on the legislation or guidance, please contact Roger Willoughby on 0131 777 4143 (email: Roger.Willoughby@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

INSURANCE PREMIUM TAX (IPT): AMENDMENT TO THE DEFINITION OF A PREMIUM

Who is likely to be affected?

1. Insurers asserting that certain payments received in respect of taxable insurance contracts do not fall within the IPT definition of "premium".

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to clarify that the IPT definition of "premium" includes payments received by, or on behalf of, an insurer for a right to require the insurer to provide cover under a taxable contract of insurance.

Operative date

3. The measure will have effect on and after 22 March 2007.

Current law and proposed revisions

4. IPT is charged as an inclusive amount within the premium for a taxable insurance contract. Section 72 of Finance Act 1994 defines "premium" for IPT purposes as any payment received under a contract of insurance and certain specified payments related to it.

5. This measure will insert a new subsection 1B in section 72 to make it clear that the definition in that section includes any payment received in respect of a right to require an insurer to provide, or offer to provide, cover under a taxable contract of insurance.

Further advice

6. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

LIFE INSURANCE COMPANIES : CONSULTATION OUTCOMES

Who is likely to be affected?

1. Life insurance companies and friendly societies writing life assurance business.

General description of the measures

2. In May 2006, HM Revenue & Customs (HMRC) published "Life Assurance Company Taxation: A Technical Consultative Document" to solicit views on how to simplify certain aspects of the tax law relating to life insurance companies. The consultation was divided into five strands and for each of them a working group was established consisting of HMRC officials and representatives from the insurance industry and its advisers. The measures announced today are further products of that work. Consultation continues on the detail of these measures as well as the measures announced at 2006 Pre-Budget Report and on other issues identified by the consultation process.

3. Legislation will be introduced in Finance Bill 2007 to:

    - set out the circumstances in which the profits of a life insurance company will be charged to corporation tax under Case I of Schedule D, rather than under the “I minus E” basis normally applying to such companies;
    - modify the treatment of structural assets held by life insurance companies;
    - remove restrictions on the utilisation of allowable losses where a life insurance company disposes of units in authorised investment funds (AIFs) to a connected AIF manager; and
    - allow tax exemption to be retained after the transfer of existing tax exempt business which is not life assurance business from friendly societies to life insurance companies.

Operative date

4. The transfer of friendly society business measure will have effect where a transfer takes place on or after the date that Finance Bill 2007 receives Royal Assent. The remaining measures will have effect for periods of account beginning on or after 1 January 2007.

Current law and proposed revisions

5. Currently HMRC has the right to choose (the "Crown option") to require a life insurance company to return its profits for tax purposes computed in accordance with the provisions of Case I of Schedule D or in accordance with the so called I minus E basis. In practice most life insurers are taxed on the I minus E basis, with the Case I basis being invoked only in exceptional circumstances or for insurers only writing certain classes of business, for example pension business, for which the I minus E is not appropriate.

6. In response to concerns raised by the insurance industry, the Crown option will be replaced with new rules to be set out in Finance Bill legislation which will make it certain when life insurance companies will be assessed on a Case I basis. There will also be changes to the I minus E basis which will ensure that tax is always paid on the higher of the profit computed on a Case I basis and that computed under the I minus E basis. The difference will be added to the I minus E basis profit. Other changes will ensure that the tax treatment applying when a company moves in future from one basis to the other (whether as a result of the changes to the Crown option or otherwise) is consistent and results in losses and other amounts not being permanently lost.

7. "Structural" assets are assets which are part of a life insurer's infrastructure rather than assets held to be turned over in the course of the insurer's trade. Examples include subsidiaries of a life insurance company which themselves write insurance business. However many structural assets are held in a life insurer's long-term insurance fund (LTIF) and in consequence are taxed as if they are trading assets rather than structural assets. This has the result that dividends from such subsidiaries of life insurers are charged to corporation tax, whereas dividends from structural subsidiaries of other financial traders would be exempt. On the other hand, life insurers can claim tax relief for write-downs in the value of structural assets which arise from the prudent valuation rules used for regulatory purposes, and which do not represent an economic loss.

8. Accordingly the treatment of structural assets held in the non-profit fund of the LTIF will be modified to remove income and changes in value from a computation of profits in accordance with the provisions of Case I of Schedule D. Structural assets will be defined in Finance Bill 2007 to include insurance dependents. The inclusion of a regulation-making power in Finance Bill legislation will allow further types of asset to be added by regulations, as required. The descriptions of assets to be included by regulations will be discussed with the insurance industry. There will be transitional rules to prevent write-downs made before periods beginning on or after 1 January 2007 having permanent effect for tax purposes.

9. Where a loss results from the disposal of an asset by one company to another connected company, relief for the loss against chargeable gains, under the Taxation of Chargeable Gains Act 1992, is restricted to set off against gains arising on disposals between the same connected parties. This is an anti-avoidance rule which recognises that connected parties

may have scope to manipulate the circumstances of a disposal. However this rule can operate unfairly for life insurers where they dispose of units in authorised unit trusts and OEICs managed by a company which is a member of the same group. Such disposals must take place at fair value for regulatory reasons. In addition a life insurer is treated as disposing each year, for their market value, of its holdings in unit trusts and OEICs. Because of this it is unfair to restrict the losses arising. Accordingly the restrictions on losses arising in these circumstances will be removed.

10. Currently if a friendly society transfers tax exempt business which is not life assurance business, for example permanent health insurance or sickness business, to an insurance company, tax exemption is lost in respect of the transferred business. This can act as a disincentive to consolidation, inhibiting efficiency gains and policy holder benefit improvements within the sector. Accordingly the law will be changed to permit tax exemption to be maintained if a friendly society transfers its existing tax exempt non-life business to an insurance company. However the exemption will be lost if there is any increase in the scale of benefits offered after transfer. Also the law will be relaxed to prevent the loss of tax exemption where premium limits are unwittingly breached, for example following assignment of policies on divorce.

Further advice

11. If you have any questions about these changes, please contact Richard Thomas on 020 7147 2558 (richard.thomas@hmrc.gsi.gov.uk) or Colin McHardy on 020 7147 2614 (colin.mchardy@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

LIFE INSURANCE COMPANIES: FINANCING ARRANGEMENTS

Who is likely to be affected?

1. Life insurance companies entering into financing arrangements such as contingent loans and financial reinsurance contracts.

General description of the measure

2. Life insurance companies have requirements for capital which cannot normally be met by straightforward borrowing. Instead life insurance companies have used a variety of more complex arrangements including contingent loans and financial reinsurance contracts to meet these requirements. Legislation will be introduced in Finance Bill 2007 to simplify and strengthen the tax law relating to some of these arrangements, and discussions will continue about others in the course of ongoing consultation on life assurance company taxation.

Operative date

3. The new rules will have effect for periods of account beginning on or after 1 January 2007.

Current law and proposed revisions

4. Some financing arrangements have been seen by HM Revenue and Customs which have been used to generate profits without tax being paid on them, instead of contributing to working capital.

5. Legislation introduced in Finance Act (FA) 2003 sought to give an appropriate tax treatment for contingent loans, one of these types of arrangement. The legislation, in section 83ZA FA 1989, is complex and mechanical in seeking to distinguish cases where there is tax avoidance from those where there is not. A flaw in this legislation has come to light as a result of disclosures under the legislation in Part 7 of FA 2004. In addition other legislation, in section 82C FA 1989 and elsewhere, sought to distinguish the use of financial reinsurance contracts for avoidance purposes but may have had the effect of discouraging them for normal financing purposes.

6. Legislation will be introduced in Finance Bill 2007 to reform the treatment of contingent loans. It will impose a tax charge only when the arrangements are used to generate a transfer of surplus to shareholders which would not have existed without the arrangements, or which exceeds 125% of the mean of transfers in the three previous periods. It will also recognise that where such surplus is generated and brought into account for tax, a compensating adjustment may be needed in later periods. This

change will rectify the flaw in section 83ZA FA 2004. In addition there will be consultation on the possibility of giving other types of financing arrangements such as financial reinsurance and capital contributions the same tax treatment as contingent loans.

Further advice

7. If you have any questions about this change, please contact Richard Thomas on 020 7147 2558 (richard.thomas@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

THE TAX TREATMENT OF GENERAL INSURERS' RESERVES

Who is likely to be affected?

1. General insurers, including general insurance companies, firms carrying on general insurance business which operate in the UK through a branch, controlled foreign companies that carry on general insurance business, and Lloyd's members and syndicate managing agents.

General description of the measure

2. As announced in 2006 Pre-Budget Report, legislation will be introduced in Finance Bill 2007 to repeal the current rules dealing with the tax treatment of general insurers' reserves. Repeal will be subject to a short transitional provision.

3. The measure will introduce, in place of the current legislation, a narrowly targeted rule to protect the Exchequer against tax loss. The Government will continue informal consultation with industry on the replacement rule, some elements of which will be provided by regulations made under the new measure.

Operative date

4. The existing rules will be repealed for, and the new rules will have effect for, periods of account ending on or after the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

5. The current tax rules are in section 107 of Finance Act 2000 and Statutory Instrument No. 1757 of 2001. They were introduced to limit any tax advantage if general insurers set aside ("reserved") more funds than were necessary to meet claims by policyholders.

6. The rules require general insurers to compare the amount that they originally reserved to pay claims made by policyholders with the later cost of settling those claims, and make a tax adjustment if there is a difference.

7. The rules contain an election ("the disclaimer election"), the intention of which was to enable general insurers to mitigate the effect of the tax adjustment that would otherwise arise. The disclaimer election has also been used to accelerate the use of tax losses in groups of companies, which causes a significant loss of tax.

8. Following an announcement at Budget 2006, the Government informally consulted industry on a review of the rules dealing with the tax treatment

of general insurers' reserves. The review concluded that the current rules are disproportionately complex for the tax risk that they seek to address.

9. The Government proposes therefore to repeal in Finance Bill 2007 all of the current tax rules dealing with the tax treatment of general insurers' reserves, subject to a transitional provision which will allow a limited disclaimer election to be made for the first period of account ending after Royal Assent.

10. The tax treatment of general insurers' reserves will then follow the commercial accounting treatment subject to a new measure that the Government proposes to introduce, which will be narrowly targeted, proportionate and better focussed on protecting the Exchequer against tax loss.

11. The new measure will limit the amount of a general insurer's reserves that is allowed for tax purposes to an appropriate amount.

12. This limit will not interfere with a commercially driven estimate of future insurance liabilities and will therefore have no effect on the reserves of the great majority of general insurers. In the exceptional case, however, it will enable HM Revenue & Customs effectively to counter over-stated reserves.

13. To ensure these twin aims are met, the precise definition of the "appropriate amount", which will be in regulations made under the new measure, will be the subject of further consultation with industry.

Further advice

14. If you have any questions about this change, please contact Simon Claydon 020 7147 2545 (email: simon.claydon@hmrc.gsi.gov.uk). A full Regulatory Impact Assessment on this change, together with other information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

LIFE INSURANCE POLICIES AND COMMISSION ARRANGEMENTS

Who is likely to be affected?

1. Persons who invest premiums exceeding £100,000 in any year into short to medium-term life insurance policies, capital redemption policies or life annuity contracts where commission is passed on or reinvested in the policy by an intermediary.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to clarify that, where a policy or contract is held for less than a specified period, the amount of premium allowed in calculating gains on these large, short-term, policies and contracts is restricted to the true cost to the policyholder, taking into account the benefit to the policyholder of any commission rebate.

3. Legislation will be introduced in Finance Bill 2007 to clarify that, where a policy or contract is held for less than a specified period, the amount of premium allowed in calculating gains on these large, short-term, policies and contracts is restricted to the true cost to the policyholder, taking into account the benefit to the policyholder of any commission rebate.

4. The legislation targets policies that are used in schemes to avoid tax on investment income. The legislation will give HM Treasury the power to change the premium limits and the specified holding period through Treasury Orders.

Operative date

5. The measure has effect for all policies and contracts made on or after 21 March 2007. It also applies to all existing policies and contracts into which a policyholder chooses to pay further premiums on or after 21 March 2007.

Current law and proposed revisions

6. The chargeable events legislation, which applies to certain life insurance policies and contracts is contained in Chapter 9 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 and Chapter 2 of Part 13 of the Income and Corporation Taxes Act 1988. In calculating a gain on the surrender, maturity or assignment for money or money's worth of a life insurance policy, capital redemption policy or life annuity contract, the legislation allows for a deduction for "premiums paid". The meaning of "premium" is not defined in the legislation.

7. This measure will make clear that, for policies and contracts within its

scope, the amount of premium that will be allowable in calculating any gain on these chargeable events

- is reduced by the amount of any commission which is passed on to a policyholder or connected person by an intermediary such as a financial adviser
- does not include any amount of commission waived by an intermediary that is reinvested in the policy, for instance by enhancement of units.

8. Subject to the commencement rule and an anti-fragmentation rule, this measure will apply to any policy or contract on which a person is potentially liable for chargeable event gains where
   - the premiums paid under the policy or contract exceed £100,000 in any given tax year, and
   - the policy or contract is surrendered, matures or is assigned for money or money's worth before the end of the third tax year after that in which the premium threshold is crossed.

9. The measure will apply to
   - policies and contracts made on or after 21 March 2007, and
   - existing policies and contracts where the benefits secured are increased on or after that date, either by a variation of the policy or contract, or by the exercise of an option in the policy or contract

10. The measure will ensure that where commission is passed on by an intermediary, the insurer is required only to report to the policyholder and to HMRC the amount of any chargeable event gain calculated under the existing reporting rules. This is because the insurer is unlikely to be aware of any such rebate. The person liable to pay tax on the gain must add the amount of rebate to any gain reported on the certificate to arrive at the amount to include in their self-assessment return.

Further advice

11. Draft legislation is available on the HM Revenue and Customs website.

12. If you have any questions about this change, please contact Daniel Berry on 020 7147 2574 (email: daniel.berry@hmrc.gsi.gov.uk) or Steve Gilbody on 020 7147 2606 (email: steve.gilbody@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

PURCHASED LIFE ANNUITIES

Who is likely to be affected?

1. Insurance companies, friendly societies, and annuitants.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to repeal the requirement that an Officer of HM Revenue and Customs must determine the tax-exempt capital element of a Purchased Life Annuity (PLA), calculated by the insurer. This will clear the way for a re-write of the PLA regulations.

Operative date

3. The measure will have effect on or after a date to be appointed by Treasury Order, to enable consultation with the industry about a rewrite of the PLA regulations during the course of 2007. The appointed date will coincide with revised PLA regulations taking effect.

Current law and proposed revisions

4. The requirement for the determination by an Officer of HMRC of the exempt capital amount of a PLA is in the Income and Corporation Taxes Act 1988, for companies, and the Income Tax (Trading and Other Income) Act 2005 for other persons.

5. This measure will repeal and amend the sections in both Acts that relate to the determination.

Further advice

6. If you have any questions about this change, please contact Steven Gilbody on 020 7147 2606 (email: steve.gilbody@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

RECOGNITION OF STOCK EXCHANGES AND DEFINITION OF "LISTED" FOR TAX PURPOSES

Who is likely to be affected?

1. Operators of investment exchanges that are, or may in the future be, recognised by the Financial Services Authority (FSA).

2. Shareholders who may qualify for any of the reliefs that depend on whether shares are listed or dealt in on a recognised stock exchange (such as ISA-eligibility or employee share acquisitions) or are not listed (for example Enterprise Investment Scheme or Capital Gains Tax business asset taper relief).

General description of the measure

3. Legislation will be introduced in Finance Bill 2007 to allow HM Revenue & Customs to designate as a recognised stock exchange for tax purposes any investment exchange designated as a recognised investment exchange (RIE) by the FSA. This will ensure equal tax treatment for FSA-listed shares, regardless of which RIE is used as the primary market for the shares.

4. At the same time, the measure will put in place a definition of the term "listed", and update references used in conjunction with "listed" and "stock exchange" to reflect regulatory and market changes.

Operative date

5. The measure will have effect on and after the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

6. Section 1005 of Income Tax Act 2007 (ITA) classifies the London Stock Exchange as a recognised stock exchange for income tax purposes. The same definition is applied by section 841 Income and Corporation Tax Act 1988 for corporation tax purposes, and by section 288 Taxation of Chargeable Gains Act 1992 for capital gains purposes. No other UK stock market is recognised.

7. There are also powers in section 1005 of ITA for the Commissioners for HM Revenue & Customs to designate, by order, overseas stock exchanges as recognised. There are no provisions to recognise any UK stock market apart from the London Stock Exchange. A list of overseas exchanges that are recognised is available on the HM Revenue & Customs web site at http://www.hmrc.gov.uk/fid/rse.htm

8. There is no explicit statutory definition of the terms “listing” and “listed”. HM Revenue & Custom’s interpretation of them is set out in a press release dated 28 November 2001. This is that in EU countries (and Iceland, Liechtenstein and Norway), it denotes listing by a competent authority and admission to trading on a recognised stock exchange. Outside those countries, where there is no system directly analogous to the EU listing regime, the phrases denote admission to trading by a recognised stock exchange.

9. The listing of shares on a recognised stock exchange is a requirement for receipt of a number of tax reliefs, for example shares held in an ISA must meet this condition. Equally, a number of tax reliefs are available only where the shares are not listed on a recognised stock exchange, such as Capital Gains Tax business asset taper relief.

10. This measure will allow the Commissioners of HM Revenue & Customs to designate as a recognised stock exchange any UK investment exchange that is designated an RIE by the FSA. The power to designate overseas exchanges will not be changed by this measure.

11. The measure will also define the term “listed” as meaning listed by the country’s listing authority and admitted to trading on a regulated market (for countries covered by the EU listing regime). Elsewhere, it will mean listed on the local equivalent of an official list and admitted to trading on a market which is the local equivalent of a regulated market.

12. For EU countries and elsewhere, for shares to be “listed on a recognised stock exchange”, the market on which the shares are admitted to trading must be one which will be designated by HM Revenue & Customs as a recognised stock exchange.

13. At the same time, the measure will update references in provisions that use terms that are no longer current in the market, such as “the Official List of the Stock Exchange” and the “Unlisted Securities Market”’.

Further advice

14. If you have any questions about this change, please contact Marion Williams on 020 7147 2553 (email: marion.williams@hmrc.gsi.gov.uk) or David Moran on 020 7147 2612 (email: david.moran@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

TAX AVOIDANCE USING EMPLOYER BENEFIT TRUSTS

Who is likely to be affected?

1. Employers who make a deduction against taxable profits with respect to employee benefit contributions.

General description of the measure

2. The measure restricts the amount which an employer can deduct for tax purposes to the level actually paid to an employee in a taxable form within nine months of the end of the relevant accounting period.

Operative date

3. The measure will have effect for any action undertaken with the effect of creating or increasing the value of employee benefit contributions on or after 21 March 2007.

Current law and proposed revisions

4. Anti-avoidance provisions in Schedule 24 to the Finance Act 2003 and sections 38 to 44 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) prevent employers from making a deduction against their taxable profits to which they are not entitled.

5. These provisions restrict the value of any deduction in respect of an employee benefit contribution to the amount that is actually paid or transferred to the employee within 9 months of the end of the relevant accounting period in a form which gives rise to an income tax and to a National Insurance Contribution charge.

6. Schemes have been developed which attempt to side-step these rules. Rather than making a payment to an intermediary, such as an Employee Benefit Trust, employers declare a trust over assets which they already control, such as funds held in a bank account, and subsequently make a tax deduction to the value of that declaration.

7. Legislation will be introduced in Finance Bill 2007 to put beyond doubt that such self-declared contributions to employee benefit trusts are within the scope of Schedule 24 and its counterpart in ITTOIA. The legislation will also have effect where other arrangements have been made with the effect of creating or enhancing the value of employee benefit contributions.

8. The effect of the legislation will be to prevent an employer making a deduction for tax purposes in respect of any such contributions until they are paid to employees within 9 months of the end of the relevant

accounting period in a form on which income tax and national insurance is due.

Further advice

9. Draft clauses and explanatory Notes are published today.

10. If you have any questions about this change, please contact Craig Mason on 020 7147 2599 (email: Craig.Mason@hmrc.gsi.gov.uk) or Ruth Curtice on 020 7147 2602 (email: Ruth.Curtice@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

INDIVIDUAL SAVINGS ACCOUNTS: INCREASED SUBSCRIPTION LIMITS

Who is likely to be affected?

1. All subscribers and providers of Individual Savings Accounts (ISAs)

General description of the measure

2. The changes increase the amount that you can subscribe to an ISA. You will be able to subscribe up to £3600 per tax year to a cash ISA, and up to £7200 per tax year into a stocks and shares ISA, subject to an overall annual subscription limit of £7200 to both ISAs.

Operative date

3. The increased limits will have effect from 6 April 2008

Current law and proposed revisions

4. At the moment an individual can subscribe:
   - £3000 per tax year to a cash mini ISA
   - £4000 per tax year to a stocks and shares mini ISA

With the same or different providers. Or:
   - £7000 to a maxi ISA with a single provider, of which up to £3000 may be in cash.

5. In April 2008 the ISA will be restructured to remove the distinction between mini and maxi ISAs, as set out in the Pre-Budget Report document: “Individual Savings Accounts: Proposed reforms”. After this date an individual will be able to subscribe to either a cash ISA, a stocks and shares ISA or both. Draft regulations are published today.

6. From 6 April 2008 the subscription limits to the ISA will also be increased, which will mean that an individual can subscribe:
   - up to £3600 per tax year to a cash ISA
   - and up to £7200 per tax year into a stocks and shares ISA

   subject to an overall limit of £7200 subscribed to both ISAs in a tax year.

Further advice

7. Draft regulations are published today on other aspects of the ISA that will change from April 2008, following the document that was published at the Pre-Budget Report 2006: “Individual Savings Accounts: Proposed Reforms” (available from the Treasury website at www.hm-treasury.gov.uk)

8. If you have any questions about this change, please contact Anna Caffyn on 020 7147 2855, email Anna.Caffyn@hmrc.gsi.gov.uk. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

TAXATION OF PERSONAL DIVIDENDS

Who is likely to be affected?

1. Individuals in receipt of dividends from non-UK resident companies.

General description of the measure

2. Legislation will be introduced in Finance Bill 2008 to simplify the system of taxation for individuals who own foreign shares.

3. Individuals in receipt of dividends from UK-resident companies are entitled under current law to a non-payable dividend tax credit. From 2008 individuals in receipt of dividends from non UK-resident companies will also be entitled to a non-payable dividend tax credit, subject to certain conditions.

Operative date

4. These changes will have effect from 6 April 2008.

Current law and proposed revisions

5. Dividends received by individual shareholders are taxed at rates of 10%, 10% and 32.5% for lower rate, basic rate and higher rate taxpayers respectively.

6. When dividends from UK-resident companies are charged to tax, shareholders are entitled to a non-payable tax credit of one ninth of the distribution under the provisions of section 397 (1) of the Income Tax (Trading and Other Income) Act 2005. Because tax is charged on the gross dividend received, including the tax credit, this lowers the effective rates of tax on these dividends at the personal level to 0%, 0% and 25%.

7. The proposed changes will from 6 April 2008 extend the non-payable tax credit of one ninth of the distribution to individuals in receipt of dividends from non UK-resident companies, subject to certain conditions. A person will qualify for the non-payable dividend tax credit if they own less than a 10% shareholding in the distributing non UK-resident company, and in total they receive less than £5,000 of dividends a year from non UK-resident companies.

8. The Government is also considering whether it is possible to deliver a more general extension of the non-payable tax credit for the small minority of individuals in receipt of dividends from non UK-resident companies who do not meet the conditions outlined above, and if so how to effect that.

Further advice

9. If you have any questions about this change, please contact Andrea Pierce on 020 7147 2591 (email: andrea.pierce@hmrc.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

RELIEF FROM THE 40% TRUST RATE OF TAX FOR SERVICE CHARGES AND SINKING FUNDS IN THE PRIVATE SECTOR

Who is likely to be affected?

1. Private sector landlords with service charges and sinking funds held on trust.

General description of the measure

2. Legislation included in Finance Bill 2007 will extend to all landlords, an existing relief from the special trust rate of tax, for service charges and sinking funds held on trust by Registered Social Landlords and other social landlords. The extension of the relief will apply to income arising on service charges and sinking funds held on trust by private sector landlords in respect of properties situated in the United Kingdom.

Operative date

3. The change will take effect for income arising on or after 6 April 2007.

Current law and proposed revisions

4. Most landlords, be they individuals, partnerships or companies, are required to hold service charge and sinking fund payments, made by tenants and leaseholders, on trust. These funds are commonly invested in interest bearing accounts or other similar investments, and the income arising is chargeable to tax at the special trust rate of 40%.

5. Paragraph 4 (1) (b) of Schedule 13 to Finance Act 2006 provided for an exemption from the full rate of 40% for the first £1,000 of trust income. The exemption was intended to benefit small trusts including service charges and sinking funds held on trust, so where the income from the investment of these funds does not exceed £1,000, it is taxable at the lower rate of 20% instead, with any excess chargeable at 40%. Section 90 of Finance Act 2006 also excluded from the trust rate of 40% income arising from service charges and sinking funds held on trust, in the social housing sector, so that all the income from the investment of service charges and sinking funds is taxable at 20%.

6. The effect of this measure will be to extend the relief currently available to social landlords to all landlords in the United Kingdom holding service charges and sinking funds on trust. Such funds are commonly held on bank deposits and the interest arising will be taxed at the lower rate of 20%. Because most forms of investment income are taxed at source, no further tax will be payable.

7. The Finance Act 2006 provision for registered social landlords was introduced by amending section 686 Income and Corporation Taxes Act 1988. Section 686 has now been replaced by sections 479 and 480 of the Income Tax Act 2007. This replacement legislation will be amended by Finance Bill 2007 to provide for the extension of the relief to private sector landlords.

Further advice

8. The Department for Communities and Local Government, the Scotland Office, the Scottish Executive, the Northern Ireland Office and the Northern Ireland Executive have been consulted on this measure.

9. If you have any questions about this change, please contact Elspeth Fearn on 020 7147 2759. (email: elspeth.fearn@hmrc.gsi.gov.uk). A Regulatory Impact Assessment for this measure is available on the HMRC website. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

AMENDING LEGISLATION FOR TRUST MODERNISATION

Who is likely to be affected?

1. Trustees receiving certain types of capital receipts which, for tax purposes, are treated in their hands as income.

General description of the measure

2. Legislation forming part of the Trust Modernisation programme was included in Finance Act 2006. Two minor omissions in this legislation have since come to light and therefore rectifying legislation will be included in Finance Bill 2007.

3. The first omission relates to payments received by trustees, following the purchase by a company of its own shares.

4. The second omission concerns the interaction of trustees' tax pools with payments received by trustees which are chargeable event gains on certain life assurance policies. Both types of payment are treated as income in the hands of the trustees.

Operative date

5. The first omission will be rectified with effect on or after 6 April 2006. Rectification of the second omission will take effect on or after 6 April 2007.

Current law and proposed revisions

6. Paragraph 3 of Schedule 13 to Finance Act 2006 extended section 686A Income and Corporation Taxes Act 1988 (ICTA - this has now been replaced by section 481 and 482 of the Income Tax Act 2007 (ITA)). It provided a common mechanism to charge income tax at the special trust rates on the various types of capital receipt which are assessable to income tax in the hands of the trustees receiving them. Income tax is payable by trustees at the rate applicable to trusts (40%) or the dividend trust rate (32.5%).

7. There is however an omission in the wording of the revised section 686A. This means for a company buying back its own shares, that trustees who are shareholders would be charged tax on the entire payment received, rather than on the amount in excess of the original subscription price. Section 686A of ICTA will therefore be amended by Finance Bill 2007 to rectify this. The replacement legislation in ITA will also be amended by Finance Bill 2007.

8. The second omission also relates to payments within section 686A, as

extended. These are payments received by trustees which are chargeable event gains on certain types of life insurance policy, capital redemption policy or life annuity contract. This omission concerns interacting legislation for trustees' tax pools. The tax pool is a statutory mechanism for ensuring that tax credits given to beneficiaries of a discretionary trust are covered by the tax paid by the trustees. There is a notional tax credit of 20% on chargeable event gains from some of these policies which should not enter the tax pool. However the legislation relating to the tax pool – section 687 ICTA - was not amended at the time of Finance Act 2006 to ensure that this notional tax credit did not do so.

9. Section 687 ICTA has been replaced by section 498 of ITA and therefore this replacement legislation is being amended to correct the omission. There will be no need to amend section 687 itself because the rectifying legislation will take effect on or after 6 April 2007, when section 687 will no longer have effect.

Further advice

10. The intention to legislate to rectify the first omission was announced in a Ministerial Written Statement by the Paymaster General on 9 October 2006. Draft legislation for both this omission and the second omission was issued for consultation on 9 February 2007.

11. If you have any questions about these changes, please contact Paul Phillips on 020 7147 2761 (email: paul.phillips1@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CHARITIES: INCREASE TO GIFT AID BENEFIT LIMITS

Who is likely to be affected

1. Charities and Community Amateur Sports Clubs (CASCs) who provide benefits to recognise donations in excess of £1,000 and the individuals and companies who make those donations.

General description of the measure

2. For donations to charities to remain eligible for Gift Aid tax relief, there are proportional and overriding limits on the value of benefits that individuals and companies may receive as a result of making those donations. Legislation will be introduced in Finance Bill 2007 to double the proportional limit for donations in excess of £1,000, subject to the overriding limit which will also be doubled.

Operative date

3. The new measures have effect on and after 6 April 2007.

Current law and proposed revisions

Gift Aid for individuals

4. Chapter 2 Part 8 of Income Tax Act 2007 (ITA) allows donations by individuals to qualify for Gift Aid tax relief where the value of any benefit that may be received by the donor as a consequence of making the donation does not exceed certain proportional limits, subject to an overriding limit of £250.

5. Under section 418 of ITA, the current limits on the value of benefits received relative to donations are;
   - 25% of the value of the donation, where the donation is less than £100
   - £25, where the value of the donation is between £100 and £1,000
   - 2.5% of the value of the donation, where the donation exceeds £1,000

6. For donations of more than £1,000, the limit on the value of benefits received will be increased from 2.5% to 5% of the donation, subject to the overriding limit (below).

7. The overriding limit on the value of benefits received by a donor in a tax year as a consequence of donations to a charity, will increase from £250 to £500

8. These new limits will come into effect for benefits received as a consequence of donations made on or after 6 April 2007.

Community Amateur Sports Clubs (CASCs)

9. For the purposes of Gift Aid, Para 9(1) of Schedule 18 to Finance Act 2002 treats registered CASCs as if they are charities so that donations by individuals to CASCs qualify for gift aid reliefs. The increase to the Gift Aid benefit limits will apply equally where individuals receive benefits as a consequence of making donations to CASCs.

10. These new limits will come into effect for benefits received as a consequence of donations made on or after 6 April 2007.

Gift Aid for companies

11. Section 339(3B) to section 339(3DD) of Income and Corporation Taxes Act 1988 replicate some of the provisions in Chapter 2 Part 8 ITA that are applicable for individuals and apply these to donations made by companies. The limits on benefits will be similarly increased to stay the same as those applicable for individuals.

12. These new limits will come into effect for benefits received as a consequence of making donations in an accounting period ending on or after 6 April 2007.

Further advice

13. If you have any questions about this change, please contact Jon Prothero on 020 7147 2785 (email: Jon.Prothero@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CHARITABLE LOTTERY TAX RELIEF: GAMBLING ACT 2005 CONSEQUENTIALS

Who is likely to be affected?

1. Charities which raise funds by holding charitable lotteries.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to ensure that charities continue to benefit from the existing relief from tax on the profits from certain lotteries in a new regulatory framework.

3. Certain lotteries are exempt from tax when the profits accrue to a charity. This relief is given in tax law by reference to the Lotteries and Amusements Act 1976 (LAA). The relevant provisions of that Act will shortly be repealed by the Gambling Act 2005. The Finance Bill legislation will amend tax law to refer to the equivalent sections of the 2005 Act.

4. The 2005 Act brings in a new licencing regime for some large lotteries. Where this licencing regime applies, relief will not be given for lotteries which do not have the required licence, as the lottery would be unlawful.

Operative date

5. This measure is effective from 1 September 2007, the date from which the relevant sections of the Gambling Act 2005 come into force.

Current law and proposed revisions

6. Section 505(1)(f) of the Income and Corporation Taxes Act 1988 (ICTA) gives tax relief for lotteries promoted and conducted in accordance with section 3 or 5 of the LAA, if the profits are applied solely to the charity's purposes. These are small lotteries run incidental to other events (such as fetes, bazaars and similar entertainments) and society lotteries run for charitable purposes.

7. This section will be amended to refer to Part 1 and Part 4 of Schedule 11, and Part 5, of the Gambling Act 2005. These sections refer to the same kinds of lotteries referenced above, in a slightly different format necessitated by the new licencing regime. Large society lotteries now require a licence under the 2005 Act.

8. Previously Section 505 (1)(f) has applied to both charitable trusts and charitable companies; following the passage of the Income Tax Act 2007 (ITA) (see below) that section, and any amendment to it, will only apply to charitable companies.

9. Section 530 (2) of ITA amends ICTA so that section 505(1)(f) only refers to charitable companies. The law allowing relief for charitable trusts is at section 530 of the ITA. This measure will amend section 530 (2) of that Act so that the law for charitable trusts is exactly equivalent to the law for charitable companies.

10. Both of these amendments will be activated by Treasury Order on 1 September 2007 so that they may come into force on the same day as the relevant provisions of the Gambling Act 2005.

Further advice

11. If you have any questions about this change, please contact the HMRC Charities helpline on 0845 302 0203. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

SECONDMENTS TO CHARITIES AND EDUCATIONAL INSTITUTIONS

Who is likely to be affected?

1. Employers liable to pay income tax who second employees to charities or educational institutions on a temporary basis.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to ensure that the correct amount of salary costs are deducted when an employer seconds an employee to a charity or educational institution.

Operative date

3. The measure will apply to salary costs paid on or after 6 April 2007.

Current law and proposed revisions

4. Under section 74 of the Income and Corporation Taxes Act 1988 (ICTA), expenses incurred by an employer can be deducted in calculating profits if they are incurred 'wholly and exclusively' for the purposes of a trade, profession or vocation.

5. This rule is relaxed in cases where an employer seconds an employee to a charity or educational institution on a temporary basis. By virtue of section 86 ICTA, salary costs can continue to be deducted from profits as if the employee were still working for the employer.

6. Both these rules are, however, subject to provisions in section 43 of the Finance Act 1989 and Schedule 24 to the Finance Act 2003 which prevent an employer from making a deduction for remuneration where such costs are not paid within nine months of the end of the relevant accounting period.

7. This legislation has been rewritten for income tax purposes by the Income Tax (Trading and Other Income) Act 2005 (ITTOIA). However, the redrafting in ITTOIA inadvertently disapplied the provisions in section 43 of the Finance Act 1989 and Schedule 24 to the Finance Act 2003. This measure will restore the position. It will do so by amending the relevant sections of ITTOIA to ensure that the legislation operates as intended.

Further advice

8. If you have any questions about this change, please contact Craig Mason on 020 7147 2599 (email: Craig.Mason@hmrc.gsi.gov.uk) or Ruth Curtice

on 020 7147 2602 (email: ruth.curtice@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

MANAGED SERVICE COMPANIES

Who is likely to be affected?

1. Individuals providing their services through Managed Service Companies (MSCs), the providers of MSCs, and persons who actively encourage, facilitate or are otherwise actively involved in individuals' provision of their services through MSCs.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to define a "Managed Service Company". It will deem income received by individuals providing their services through MSCs, not already treated as employment income, to be employment income. The consequence of this will be that MSCs will have to operate Pay As You Earn (PAYE) income tax and Class 1 National Insurance contributions on all payments received by individuals in respect of services provided through such companies.

3. Where an MSC incurs a PAYE / Class 1 National Insurance debt, and that debt cannot be recovered from the company, HM Revenue and Customs (HMRC) may transfer the debt to specified persons. These will primarily be the MSC's director and the person who provided the company to the individual (the MSC Provider.) Subject to certain restrictions, an MSC's debt can also be transferred to persons who encourage, facilitate or are otherwise actively involved in individuals' provision of their services through MSCs.

Operative date

4. MSCs will be required to operate and account for PAYE on all payments received by individuals providing their services through MSCs, where such payments are received on or after 6 April 2007. The requirement to operate Class 1 National Insurance will be due from a date specified in Social Security regulations to be laid shortly after the date on which the Finance Bill receives Royal Assent.

5. Provided Royal Assent takes place before 6 August 2007, the transfer of debt provision will have effect on and after that date, and will relate to debts incurred for directors or office holders of MSCs and MSC providers (and associates of those persons), and to debts incurred on or after 6 January 2008 for other persons.

Current law and proposed revisions

6. Managed Service Companies (MSCs) are mass marketed service companies provided by MSC providers to large numbers of individuals.

They are intermediaries and as such they fall within the scope of Chapter 8 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) and section 4A of the Social Security Contributions and Benefits Act 1992 (SSCBA)/Social Security Contributions and Benefits (Northern Ireland) Act 1992. This legislation treats payments received by individuals providing their services through intermediaries (primarily service companies) to be earnings from employment where certain conditions are met. These conditions are that if the intermediary is ignored, the terms under which the individual provides services to the client are such that the individual would be regarded as an employee of the client. Tax and National Insurance contributions are calculated after the end of the tax year in which the payments were received by the individual.

7. Whether Chapter 8 of ITEPA does or does not apply is considered on a contract by contract basis. Where therefore either an individual has a number of contracts throughout the year, or large numbers of individuals work through such intermediaries, large numbers of engagement terms must be considered to determine whether or not Chapter 8 applies.

8. Chapter 8 of ITEPA also provides that in calculating travelling expenses which are not subject to tax, the individual is deemed to be employed by the intermediary. The effect of this is that the cost of travel to each engagement is an allowable expense and is deducted before calculating the sum (the “deemed employment payment”) on which PAYE must be applied.

9. Chapter 8 of ITEPA is now disapplied in respect of Managed Service Companies. The new Chapter 9 of ITEPA (and in due course mirroring National Insurance legislation) will apply to intermediaries which are “Managed Service Companies” (MSCs).

10. Rather than look at individual engagement terms between individuals and clients as in Chapter 8 of ITEPA, Chapter 9 of ITEPA defines an MSC by reference to certain criteria. These relate both to the characteristics of the company and the characteristics of the business of the MSC provider

11. Whether Chapter 9 applies will be determined largely by reference to the MSC provider. Where a person is determined to be an MSC provider, Chapter 9 will apply to all service companies made available by that person. Broadly, an MSC provider includes businesses which are involved in promoting or facilitating the use of companies to provide the services of individuals.

12. There will be exclusions from Chapter 9 for employment agencies and employment businesses which do not influence or control the finances of the companies or the way in which payments to individuals are paid. There will also be an exclusion for people providing professional accountancy and legal services. In addition, a power is being taken to exclude through regulations other people from being an MSC provider where a case can be made. This power will enable the legislation to be adapted where necessary to reflect commercial developments.

13. Where a company is within the definition of an MSC, all payments

received by an individual providing their services through the company, which are not already treated as employment income, are deemed to be employment income. Chapter 9 of ITEPA (and in due course mirroring National Insurance legislation) provide for how an MSC must calculate a "deemed employment payment" in order to arrive at the sum to be subject to PAYE. The deemed employment calculation and the operation of PAYE must be undertaken when an individual receives a payment and not after the end of the year as with Chapter 8.

14. Unlike Chapter 8 of ITEPA, in Chapter 9 of ITEPA, the individual will be treated, in calculating travelling expenses which can be paid without deduction of tax, as if they were employed by the client. The effect of this will be that the cost of travel to each engagement is not an allowable expense and cannot be deducted before calculating the sum on which PAYE must be applied.

15. A new section 688A will be inserted in ITEPA enabling PAYE regulations to provide for the recovery from specified persons set out in the section, of any amount of PAYE that an officer of HMRC considers should have been deducted by the MSC. The persons are: the director or office holder of the MSC, the MSC Provider, or any person who directly or indirectly has encouraged, facilitated or otherwise been actively involved in the provision of the services of individuals through MSCs. PAYE regulations will be laid providing the statutory mechanism for how MSCs debts that cannot be recovered from MSCs are transferred to those persons specified in section 688A.The regulations also provide appeal provisions. Mirroring Social Security Regulations will provide for the transfer of Class 1 National Insurance debts of MSCs to the same specified persons.

16. Consequential changes will be made to provide for the rules relating to the calculation of profits of Managed Service Companies. Changes will be made to the Income Tax (Trading and Other Income) Act 2005 for the purpose of calculating, for income tax, the profits of an MSC. Changes will be made to Schedule 12 of the Finance Act 2000 for the purposes of calculating, for corporation tax, the profits of an MSC.

17. The relevant National Insurance Contributions legislation in the SSCBA will be amended to mirror the relevant Income Tax treatment.

18. The new legislation will provide interpretations, particularly the definition of "associate".

Further advice

19. If you have any questions about this change, please contact either HMRC North Service Company Unit on 0114 296 9430, or HMRC South Service Company Unit on 01823 358 437. A full Regulatory Impact Assessment for this measure will be published alongside the Finance Bill. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

INVESTMENT MANAGERS' EXEMPTION: CARBON TRADING

Who is likely to be affected?

1. UK investment managers that act for non-resident companies and individuals such as offshore collective investment funds.

General description of the measure

2. Regulations will be made by the Treasury to extend the type of business that investment managers can undertake on behalf of non-residents without bringing the latter into the UK tax net, to include trading in carbon emission credits and similar instruments ("carbon trading").

Operative date

3. The measure will have effect on and after 21 days from the date when the Regulations are laid before Parliament. It is intended that the Regulations will be laid on 22 March 2007.

Current law and proposed revisions

4. A non-resident who trades in the UK through a dependent agent is liable to tax (section 6(2) of Income Tax (Trading and Other Income) Act 2005 and section 11 of Income and Corporation Taxes Act 1988). Provided certain tests are met, investment managers acting for non-resident clients can be exempted from being treated as their UK agent by virtue of section 127 of Finance Act (FA) 1995 in the case of income tax, and section 152 of and Schedule 26 to FA 2003 in the case of corporation tax. This is known as the Investment Managers' Exemption. The intention is that simply using a UK investment manager to carry out permitted transactions should not expose a non resident to UK tax, when the non-resident has no other connection with the UK.

5. The transactions that are exempted are defined in the current legislation (section 127(12) of FA 1995 and paragraph 3 (3) of Schedule 26 to FA 2003) and are known as investment transactions. That legislation provides for regulations to be made to designate other transactions as such.

6. Carbon emission credits represent a legal entitlement to emit carbon. As they do not fit within the types of financial instrument currently listed in the definition transactions in them cannot benefit from the exemption, although transactions in derivatives based on them, such as futures and options, can do.

7. These regulations will bring carbon trading within the type of transaction

that can benefit from the Investment Managers' Exemption. Although measured in tonnes of carbon they will be distinguished from physical commodities (which remain excluded from the exemption).

Further advice

8. If you have any questions about this change, please contact Mike Hogan on 020 7147 2655 (email: mike.hogan@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

ARMED FORCES OPERATIONAL ALLOWANCE

Who is likely to be affected?

1. Members of the armed forces who are paid the new Operational Allowance for service in specified areas, as designated by the Secretary of State for Defence, where the operational demands are the greatest.

General description of the measure

2. Legislation introduced in Finance Bill 2007 removes the tax charge that would otherwise arise where a member of the armed forces is paid the Operational Allowance.

Operative date

3. The legislation will cover all payments of the Operational Allowance for service from 1 April 2006.

Current law and proposed revisions

4. The Secretary of State for Defence announced on 10 October 2006 the introduction of a new Operational Allowance for UK armed forces serving in specified locations, such as Iraq, Afghanistan and the Balkans.

5. Without legislation the allowance would be chargeable to tax.

6. The legislation in Finance Bill 2007 will ensure that there is no tax charge where a member of the armed forces is paid the Operational Allowance.

Further advice

7. If you have any questions about this change, please contact the Employer Helpline on 0845 7143 143. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

TAX TREATMENT OF PAYMENTS UNDER ARMED FORCES REDUNDANCY SCHEME 2006

Who is likely to be affected?

1. Recipients of payments under the Armed Forces Redundancy Scheme 2006.

General description of the measure

2. Legislation is being introduced in Finance Bill 2007 to ensure that payments under the 2006 scheme will be tax-free in the same way as payments under the 1975 Armed Forces Redundancy Scheme.

Operative date

3. The legislation will apply to any payments under the 2006 scheme from its commencement on 6 April 2006.

Current law and proposed revisions

4. Current legislation provides tax-exemption for payments made under the Armed Forces Redundancy Scheme 1975.

5. An amendment to the Income Tax (Earnings and Pensions) Act 2003 is needed to replicate the tax-exemption applicable to payments under the 1975 scheme in relation to payments under the 2006 scheme.

Further advice

6. If you have any questions about this change, please contact the Employer Helpline on 0845 7143 143. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

HOMES ABROAD OWNED THROUGH A COMPANY

Who is likely to be affected?

1. Directors who have use of an overseas property owned by a company whose sole activity is to hold that property.

General description of the measure

2. The Government has today announced its intention to bring forward legislation in Finance Bill 2008 which will ensure that individuals who have bought or will buy a home abroad, will not face a benefit in kind tax charge for any private use of the property if purchased through a company.

3. Some UK resident individuals have set up or acquired companies to own a property abroad, generally for holiday use. Where they direct the company's affairs (whether through an agent or not) they can be within the scope of the living accommodation charge, although they may not have been aware of this or may have considered that no tax or NICs charge arose in these circumstances (and have not, therefore, reported the matter to HM Revenue & Customs (HMRC)).

4. This measure will remove that tax charge where certain qualifying conditions are satisfied.

Operative date

5. The legislation will ensure that all those who come within its scope will not face the benefit in kind tax charge – however long they have owned the property through a company.

Current law and proposed revisions

6. Chapter 5 of the Income Tax (Earnings and Pensions) Act 2003 sets out the tax position when accommodation is provided by an employer. Unless covered by a specific exemption a tax charge can arise where a property is provided by an employer to their employees, or to a director, when the property is available for their use.

7. The exemption will only apply to the benefit in kind charge. It will apply where an overseas property is owned by a company that is owned by individuals and whose sole activity is holding that property for occupation and/ or letting. It will have retrospective effect.

8. Draft legislation will be published for consultation later this year. HMRC will not seek to tax anyone in the intervening period where the following conditions are met:

- The property is owned by a company owned by individuals;
- The company's only activities are ones that are incidental to its ownership of the property;
- The property is the company's only or main asset; and
- The property is not funded directly or indirectly by a connected company.

Further advice

9. If you have any questions about this change, please contact the Employer Helpline on 0845 7143 143. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

DOUBLE COUNTING OF CAR/CARFUEL BENEFITS: LEGISLATING ESC A104

Who is likely to be affected?

1. Employees earning less than £8,500 per year who are provided with car and fuel benefits financed via an employer's credit card or voucher.

General description of the measure

2. Extra Statutory Concession (ESC) A104 will be brought into legislation by Finance Bill 2007.

3. ESC A104 was introduced in July 2004 to remove an anomaly whereby an employee earning less than £8,500 could incur a double tax charge where they are provided with car and car fuel benefits via an employer's credit card or voucher.

Operative date

4. The measure will have effect on and after 6 April 2007.

Current law and proposed revisions

5. The rules for calculating car and car fuel benefit charges are in Chapter 6 of Part 3 Income Tax (Earnings & Pensions) Act 2003 (ITEPA), but provisions in sections 239 and 269 of ITEPA prevent a double tax charge on employees earning £8,500 or more where car or car fuel benefits are provided via a credit token (e.g. a credit card) or non-cash voucher (e.g. a cheque) from the employer. This means that only the car and/or the car fuel charge will apply.

6. Most benefits in kind are not taxable on employees whose total earnings, including benefits, are less than £8,500 per year. However, a few benefits, notably credit tokens and non-cash vouchers, are taxable on all employees regardless of the level of their earnings. To determine the level of an employee's earnings relative to the £8,500 threshold, the rules in section 219 of ITEPA 2003 require all benefits and expenses provided to an employee to be included in the calculation. If a benefit relates to a car and/or car fuel provided to an employee by a non-cash voucher or credit-token, both the amount of the car/fuel benefit and the benefit of the use of the voucher/credit card for expenditure on the car/fuel, must be included as separate items in the calculation of the employee's total earnings up to £8,500. Consequently, double counting of the benefit could result in an employee (who would be otherwise below the £8,500 limit) being subject to double tax, once on the credit card amounts and again under the car car/fuel benefits charges.

7. ESC A104 was introduced to put an employee earning less than £8,500, who receives car/car fuel benefits, and uses their employer's credit card, on the same footing as someone earning at or above this figure. This legislation will achieve the same effect as ESC A104 by repealing sections 219 (5) and (6) of ITEPA.

Further advice

8. If you have any questions about this change, please contact the Employer Helpline on 0845 7143 143. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

COMPANY CAR AND FUEL BENEFIT TAX

Who is likely to be affected?

1. Employees provided with a company car available for their private use and employees who are provided with a company car who receive free fuel for private travel. Employers who bear Class 1A National insurance on the taxable benefit of providing a car and any fuel for it.

General description of the measure

2. A Treasury order will be laid before Parliament, before the summer recess, to introduce a 2% discount for company car drivers who drive a car which is capable of being run on E85 fuel.

3. The company car fuel figure for 2007/08 will be maintained at the current level.

Operative date

4. The company car fuel multiplier will have effect on and after 6 April 2007. The company car tax E85 discount will have effect on and after 6 April 2008.

Current law and proposed revisions

Company car tax

5. Where a car is made available for an employee's private use, a taxable benefit arises under sections 114 and 120 Income Tax (Earnings and Pensions) Act 2003 (ITEPA). Company car tax was reformed in April 2002 and is now calculated by applying the appropriate percentage to the list price of the car. The appropriate percentage is related to the CO_2 emissions of the car and ranges from 15% - 35% (in 1% increments) for a petrol car. Most diesel cars attract a 3% supplement on petrol percentages (capped at 35%). Cars that can be driven on alternative fuels, such as Liquified Petroleum Gas (LPG) attract a discount from the appropriate percentage rate

6. On and after 6 April 2008, there will be a 2% discount from the appropriate percentage rate for cars that have been manufactured to run on E85 fuel.

Company car fuel benefit tax

7. An additional taxable benefit arises under section 149 of ITEPA 2003 if the employee receives free or subsidised fuel for private use in a company car. The company car fuel benefit tax charge was reformed in April 2003

to align with the environmental principles of the company car tax system. Since April 2003, the fuel benefit charge has been calculated by applying the company car tax appropriate percentage to a set figure known as the multiplier. In 2006/07 the multiplier was £14,400. For 2007/08 the multiplier figure for the company car fuel benefit tax charge will be frozen at £14,400.

Further advice

8. If you have any questions about this change, please contact the Employer Helpline on 0845 7143 143 or your local Enquiry Office (see telephone directory for details). Information about Budget measures is available on the HMR Revenue & Customs website at www.hmrc.gov.uk

HYDROCARBON OILS DUTY: RATES

Who is likely to be affected?

1. Businesses producing and importing hydrocarbon oils products.

General description of the measure

2. From 1 October 2007, excise duty on main road fuels will increase by 2 pence per litre (ppl). These rates will be increased by a further 2 ppl on 1 April 2008 and 1.84 ppl on 1 April 2009.

Main road fuels	Current effective rate per litre (£)	Effective duty rate per litre (£) From 1 October 2007	Effective duty rate per litre (£) From 1 April 2008	Effective duty rate per litre (£) From 1 April 2009
Ultra low sulphur petrol (ULSP)	0.4835	0.5035	0.5235	0.5419
Sulphur-free petrol (SFP)	0.4835	0.5035	0.5235	0.5419
Ultra low sulphur diesel (ULSD)	0.4835	0.5035	0.5235	0.5419
Sulphur-free diesel (SFD)	0.4835	0.5035	0.5235	0.5419

3. From 1 October 2007 duty rates for unleaded petrol, for leaded petrol, for aviation gasoline and for other heavy oil used as road fuel will be increased by the same percentage as the main road fuels. Decisions on duty rates for these fuels in future years will be taken following consideration of the scope for simplifying the duty rate structure.

	Current effective rate per litre (£)	Effective duty rate per litre (£) From 1 October 2007
Unleaded petrol that is not ULSP or SFP	0.5152	0.5365
Other light oil (including leaded petrol)	0.5768	0.6007
Aviation gasoline (AVGAS)	0.2884	0.3003
Heavy oil which is not ULSD or SFD (conventional diesel	0.5468	0.5694

4. From 1 October 2007 effective rates of duty (that is, the relevant duty minus the relevant rebate) for non-road fuels will be increased by 2 ppl to maintain the differential between rebated oils and main rates. These rates will be increased by the same percentage as the main road fuels on 1 April 2008 and 1 April 2009.

Rebated Oils	Current effective rate per litre (£)	Effective duty rate per litre (£) From 1 October 2007	Effective duty rate per litre (£) From 1 April 2008	Effective duty rate per litre (£) From 1 April 2009
Light oil delivered to an approved person for use as furnace fuel	0.0729	0.0929	0.0966	0.1000
Marked gas oil and ultra-low sulphur diesel not for road fuel use	0.0769	0.0969	0.1007	0.1042
Fuel oil	0.0729	0.0929	0.0966	0.1000
Kerosene to be used as motor fuel off-road or in an excepted vehicle	0.0769	0.0969	0.1007	0.1042

5. The current duty differential of 20ppl for biofuels will be extended until 2009/10, in line with the alternative fuels framework.

Biofuels	Current effective rate per litre (£)	Effective duty rate per litre (£) From 1 October 2007	Effective duty rate per litre (£) From 1 April 2008	Effective duty rate per litre (£) From 1 April 2009
Biodiesel	0.2835	0.3035	0.3235	0.3419
Bioethanol	0.2835	0.3035	0.3235	0.3419

6. The duty rate for blends of rebated gas oil with biodiesel will be set in 2008 following the assessment of the results of current and planned pilot trials. This will be a reduction from the current rate of 54.68ppl.

7. The duty rate for natural gas will increase to maintain the differential with main road fuels in pence per litre equivalents up to 2009/10. The duty rate for liquefied petroleum gas will increase to reduce the differential with main road fuels by the equivalent of 1ppl a year up to 2009/10, in line with the alternative fuels framework.

Road fuel gases	Current effective rate per kg (£)	Effective duty rate per kg (£) From 1 October 2007	Effective duty rate per kg (£) From 1 April 2008	Effective duty rate per kg (£) From 1 April 2009
Natural gas (NG), including biogas	0.1081	0.1370	0.1660	0.1926
Road fuel gas other than natural gas – e.g. liquefied petroleum gas (LPG)	0.1221	0.1649	0.2077	0.2482

8. The duty differential applicable to biogas, equivalent to 40.88 ppl, will remain at least at its current level until Budget 2012.

Operative date

9. Will have effect on and after midnight on 30 September 2007; midnight on 31 March 2008; and midnight on 31 March 2009.

Current law and proposed revisions

10. The Hydrocarbon Oil Duties Act 1979 will be amended by the Finance Bill to implement those changes to come into effect on 30 September 2007.

Further advice

11. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

VAT: INCREASED TURNOVER THRESHOLDS FOR REGISTRATION AND DEREGISTRATION

Who is likely to be affected?

1. All businesses whose taxable turnover is close to the current VAT thresholds for registration and deregistration.

General description of the measure

2. The measure increases the taxable turnover threshold, which determines whether a person must be registered for VAT, from £61,000 to £64,000.

3. The taxable turnover threshold which determines whether a person may apply for deregistration will be increased from £59,000 to £62,000. The existing conditions for determining entitlement or liability to cancellation remain unchanged.

4. The registration and deregistration limits for relevant acquisitions from other European Union Member States will also be increased from £61,000 to £64,000.

Operative date

5. The new thresholds and limits will have effect for registrations and deregistrations on or after 1 April 2007.

Current law and proposed revisions

6. The increase in the taxable turnover threshold means that a person will have to apply for registration if:
   a. at the end of any month, the value of the taxable supplies made in the past 12 months or less has exceeded £64,000; or

   b. at any time there are reasonable grounds for believing that the value of the taxable supplies to be made in the next 30 days alone will exceed £64,000.

7. If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £64,000 but HMRC is satisfied that it will not exceed £62,000 in the next 12 months, that person will not have to be registered.

8. A Treasury Order amending Schedules 1 and 3 to the Value Added Tax Act 1994 will be laid before Parliament on 21 March 2007.

Further advice

9. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

VAT: REFORM OF VAT FUEL SCALE CHARGES

Who is likely to be affected?

1. Any businesses which recover input tax on fuel used for private motoring.

General description of the measure

2. This measure changes the basis of the existing Value Added Tax (VAT) private use charge from engine size to carbon dioxide (CO_2) emissions. This change aligns the basis of the VAT private use charge with that for direct taxation, although in line with underlying VAT principles the charge still reflects expenditure on fuel used for private motoring.

Operative date

3. Businesses must use the new scales from the start of their next prescribed accounting period beginning on or after 1 May 2007.

Current law and proposed revisions

4. Section 2 of the Finance (No. 2) Act 2005, provided for amendments to Section 57 of the VAT Act 1994 to allow fuel scale charges to be calculated on the basis of carbon dioxide emissions. Under Section 2(7), that legislation comes into force only when activated by a Treasury Order.

5. This measure introduces a new table with detailed provisions which set out how private use charges should be calculated. The revised rates are:

VAT fuel scale charges for 12 month periods.

CO_2 band	VAT fuel scale charge, 12 month period, £	VAT on 12 month charge, £	VAT exclusive 12 month charge, £
140 or below	730.00	108.72	621.28
145	780.00	116.17	663.83
150	830.00	123.62	706.38
155	880.00	131.06	748.94
160	925.00	137.77	787.23
165	975.00	145.21	829.79
170	1,025.00	152.66	872.34
175	1,075.00	160.11	914.89
180	1,120.00	166.81	953.19
185	1,170.00	174.26	995.74
190	1,220.00	181.70	1,038.30
195	1,270.00	189.15	1,080.85
200	1,315.00	195.85	1,119.15
205	1,365.00	203.30	1,161.70
210	1,415.00	210.74	1,204.26
215	1,465.00	218.19	1,246.81
220	1,510.00	224.89	1,285.11
225	1,560.00	232.34	1,327.66
230	1,610.00	239.79	1,370.21
235	1,660.00	247.23	1,412.77
240 or above	1,705.00	253.94	1,451.06

VAT fuel scale charges for 3 month periods

CO_2 band	VAT fuel scale charge, 3 month period, £	VAT on 3 month charge, £	VAT exclusive 3 month charge, £
140 or below	182.00	27.11	154.89
145	195.00	29.04	165.96
150	207.00	30.83	176.17
155	219.00	32.62	186.38
160	231.00	34.40	196.60
165	243.00	36.19	206.81
170	256.00	38.13	217.87
175	268.00	39.91	228.09
180	280.00	41.70	238.30
185	292.00	43.49	248.51
190	304.00	45.28	258.72
195	317.00	47.21	269.79
200	329.00	49.00	280.00
205	341.00	50.79	290.21
210	353.00	52.57	300.43
215	365.00	54.36	310.64
220	378.00	56.30	321.70
225	390.00	58.09	331.91
230	402.00	59.87	342.13
235	414.00	61.66	352.34
240 or above	426.00	63.45	362.55

VAT fuel scale charges for 1 month periods

CO_2 band	VAT fuel scale charge, 1 month period, £	VAT on 1 month charge, £	VAT exclusive 1 month charge, £
140 or below	60.00	8.94	51.06
145	65.00	9.68	55.32
150	69.00	10.28	58.72
155	73.00	10.87	62.13
160	77.00	11.47	65.53
165	81.00	12.06	68.94
170	85.00	12.66	72.34
175	89.00	13.26	75.74
180	93.00	13.85	79.15
185	97.00	14.45	82.55
190	101.00	15.04	85.96
195	105.00	15.64	89.36
200	109.00	16.23	92.77
205	113.00	16.83	96.17
210	117.00	17.43	99.57
215	121.00	18.02	102.98
220	126.00	18.77	107.23
225	130.00	19.36	110.64
230	134.00	19.96	114.04
235	138.00	20.55	117.45
240 or above	142.00	21.15	120.85

6. The scale charge for a particular vehicle is determined by its CO_2 emissions figure. Where the CO_2 emissions figure of a vehicle is not a multiple of 5, the figure is rounded down to the next multiple of 5 to determine the level of charge. For a bi-fuel vehicle which has two CO_2 emissions figures, the lower of the 2 figures should be used. For cars which are too old to have a CO_2 emissions figure HMRC have prescribed a level of emissions by reference to the vehicles engine capacity (cc).

Further advice

7. An update to notice 700/64 VAT: Motoring Expenses will be available from the National Advice Service including the revised figures in due course. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. A Regulatory Impact Assessment for this measure and information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

VAT: AMENDMENT TO VAT LEGISLATION FOLLOWING RECENT JUDGMENTS OF THE EUROPEAN COURT OF JUSTICE

Who is likely to be affected?

1. Any business or other organisation which uses land and buildings or other assets partly for non-business purposes.

General description of the measure

2. This measure has three parts:

    (a) It will repeal legislation that was introduced in 2003, and which is now ineffective;
    (b) It will allow HM Revenue and Customs to make regulations about how VAT charges on non-business use are calculated. The effect of these regulations will be to shorten the period over which VAT charges on non-business use of land and building are paid; and
    (c) It will address a potential loophole in the deemed supply legislation.

Operative date

3. Changes a) and b) will have effect on and after 1 September 2007. Change c) will have effect on and after 21 March 2007 to prevent forestalling attempts.

Current law and proposed amendments

4. Currently organisations which acquire an asset which is to be used partly for the purposes of the business can choose at the outset between:

    (a) Allocating the asset only partly to business purposes, apportioning the VAT charges, so as to recover up front only the VAT attributable to the business use made of the goods.
    (b) Allocating the asset wholly to business purposes, recovering all the VAT charged up front (subject to the normal partial exemption rules) and accounting for VAT on the non-business use in each VAT return period, calculated by spreading the capital cost of the asset over an "economic life" and multiplying the cost attributed to the VAT return period by the proportion of non-business use in the period, This is also known as '*Lennartz accounting*'. Or
    (c) Allocating the asset wholly to non-business purposes, recovering none of the VAT charged and not accounting for output VAT when the asset is used or sold.

5. The first part of this measure will repeal legislation that was introduced in 2003 to prevent *Lennartz accounting* on land and buildings. This follows

the decision of the European Court of Justice (ECJ) in *Charles & Charles-Tijmens* which in effect prevents EU member States from legislating against the use of *Lennartz accounting*.

6. The second part of this measure will enable the UK to implement the ECJ decision in *Wollny* and, for land and buildings, to reduce the period over which VAT charges on non-business use are paid. Currently, HMRC's policy is that for land and buildings the maximum period is 20 years. The regulations made under this measure will introduce a 10-year period for land and buildings (in line with the existing VAT Capital Goods Scheme.) In practice, this will mean that 10% of the full cost of the building will be taken into account in calculating non-business use charges each year (paid according to VAT return periods). It will also specify the period for non-business use charges on other assets.

7. The second part of the measure will affect assets where *Lennartz accounting* has already been applied. Non-business use charges accounting for use of assets after 1 September 2007 will need to be calculated on the new basis. The regulations are likely to provide for transitional relief.

8. The third part of this measure will address a disputed loophole as to whether or not the rules that deem a supply of land or building to arise when an interest is disposed of for no consideration apply where there is (in land law terms) a 'surrender' of an interest in land. This measure will put it beyond doubt that a surrender of an interest in land for no consideration is treated in the same way as the grant of a new interest or an assignment (transfer) of an existing interest to another person.

9. These measures will be introduced in Finance Bill 2007, and the detailed rules for part (b) will be introduced by Order. The Order and guidance on the whole measure will be available for consultation during the summer.

Further advice

10. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. A Regulatory Impact Assessment for this measure and information about other Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

VAT: REDUCED RATE FOR SMOKING CESSATION PRODUCTS

Who is likely to be affected?

1. Suppliers and consumers of smoking cessation products.

General description of the measure

2. A reduced Value Added Tax (VAT) rate of 5% for ‘over the counter’ sales of smoking cessation products will be introduced. The reduced rate will apply for one year and will take effect alongside the introduction of the ban on smoking in public places in England.

3. Smoking cessation products that are dispensed on a prescription remain zero rated.

Operative date

4. The Treasury Order will be introduced shortly. Subject to Parliamentary approval, it is expected that the reduced rate will have effect from 1 July 2007.

Current law and proposed revisions

5. Smoking cessation products dispensed by a pharmacist on the basis of a prescription of a medical practitioner are already zero-rated by the Value Added Tax (VAT) Act 1994. This measure will not affect smoking cessation products supplied in these circumstances.

6. The reduced rate applies to all other supplies of smoking cessation products by retailers including supplies made over the internet. This includes all non-prescribed sales of patches, gums, inhalators and other pharmaceutical products held out for sale for the primary purpose of helping people quit smoking.

7. A new Group will be added to Schedule 7A to the VAT Act 1994 by Treasury Order, to introduce the reduced rate.

Further advice

8. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000.

VAT: TRANSFER OF GOING CONCERN

Who is likely to be affected?

1. Any type of business that sells or acquires a business as a going concern, but mainly small and medium-sized enterprises.

General description of the measure

2. Record-keeping requirements for businesses transferred as a going concern will be brought into line with other tax and regulatory regimes so that the seller retains his records, except in the few cases where the buyer retains the seller's VAT number.

Operative date

3. This change will have effect on and after 1 September 2007.

Current law and proposed revisions

4. Section 49 of the VAT Act 1994, and regulation 6 of the VAT Regulations 1995, will be amended so that:
   - The seller will keep the business records in all but a few specified cases.
   - The seller must make available to the buyer information necessary for the buyer to comply with his duties under the VAT Act.
   - HMRC may disclose to the buyer information it holds that is needed by the buyer to comply with his duties under the VAT Act.

Further advice

5. If you have any questions about this change, please contact Ian Allen on 020 7147 0009 (email: Ian.Allen@hmrc.gsi.gov.uk). A Regulatory Impact Assessment has been published today accompanying this measure. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk.

VAT : GAMBLING ACT 2005 CONSEQUENTIALS

Who is likely to be affected?

1. Any business, club or other institution offering bingo or other games of chance.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to update VAT law on participation fees for playing bingo or other games of chance in the light of the Gambling Act 2005.

3. This measure will maintain the VAT exemption for those exceptions listed in the law. Charges for player-to-player gaming will continue to be subject to VAT. The Gambling Act also allows charges, as opposed to stakes risked in the game, to be made for games of chance against the 'House'. These will also be subject to VAT.

Operative date

4. This measure will have effect on and after a date to be appointed by appointed day order when the Gambling Act provisions come fully into effect. This is expected to be on 1 September 2007.

Current law and proposed revisions

5. The current law (note 1(b) of Group 4 of Schedule 9, to the VAT Act 1994) taxes the granting of a right to take part in a game of chance in respect of which a charge may be made, by virtue of regulations under section 14 of the Gaming Act 1968 or Article 76 of the Betting, Gaming, Lotteries and Amusements (Northern Ireland) Order 1985.

6. This measure will have the effect of taxing all participation fees for bingo and gaming, subject to certain exceptions, such as small scale cash bingo, prize bingo and gaming played for fund raising purposes, subject to monetary limits prescribed by law under the Gaming Act or the 1985 Order.

7. The new legislation will update the existing legislation to take account of the Gambling Act 2005. It will maintain the existing exceptions from taxation by mentioning the relevant sections of the Gambling Act or Articles of the 1985 Order under which these games are played. It will also maintain the existing exemption for participation charges for remote gaming.

8. Notice 701/26 (Betting and Gaming) and Notice 701/27 (Bingo) will be

amended in due course.

Further advice

9. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

VAT: JOINT AND SEVERAL LIABILITY

Who is likely to be affected?

1. Businesses trading in electronic goods, mobile phones, computers and related parts and accessories.

General description of the measure

2. A Treasury Order is to be made on 21 March 2007 to extend the list of goods to which section 77A of the Value Added Tax Act 1994 (joint and several liability) applies by adding certain electronic goods.

3. Legislation will also be introduced in Finance Bill 2007 providing a power to extend or amend the 'rebuttable presumption' (see paragraph 7 below) contained within section 77A.

Operative date

4. The extension of the list of goods to which section 77A applies will take effect from 1 May 2007. The power to amend the 'rebuttable presumption' will take effect from the date that Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

5. The joint and several liability provisions in section 77A of the VAT Act 1994 allow HMRC to direct that a VAT-registered business receiving goods listed in section 77A(1) from another VAT-registered business is jointly and severally liable for VAT if they had reasonable grounds to suspect that VAT would go unpaid elsewhere in the supply chain. At present the provisions apply to telephones, computers and their parts and accessories

6. The Treasury may, by Order, amend the list of goods contained in section 77A(1). Such an Order will extend the list of goods to which section 77A(1) applies. The further goods will be certain sorts of electronic equipment, of a kind ordinarily owned by individuals and used by them for the purposes of leisure, amusement or entertainment. The order also clarifies that satellite navigation systems (SatNavs) are included as computer equipment.

7. Section 77A(6) allows HMRC to presume that a business had reasonable grounds to suspect that VAT would go unpaid if they purchased specified goods for less than the open market value or less than the price payable for them by any previous supplier. That presumption is rebuttable on proof that the low price payable for the goods was due to circumstances unconnected with a failure to pay VAT. The Finance Bill 2007 amends section 77A by introducing a new section 77A(9A) and (9B). The new subsections will allow the Treasury to extend or otherwise alter the circumstances in which a person is presumed to have reasonable grounds for suspecting that VAT will go unpaid elsewhere in the supply chain.

Further advice

8. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

LANDFILL TAX: INCREASES TO RATES

Who is likely to be affected?

1. Businesses registered for landfill tax.

General description of the measure

2. Legislation will be included in Finance Bill 2007 to increase the standard rate of landfill tax from £21 to £24 per tonne, and then to increase it further to £32 per tonne.

3. Legislation will also be included in Finance Bill 2007 to increase the lower rate of landfill tax from £2 to £2.50 per tonne. The lower rate applies to inactive wastes disposed at landfill that are listed in the Landfill Tax (Qualifying Material) Order 1996.

Operative date

4. The £24 per tonne standard rate will apply to any standard rated disposal of waste made, or treated as made, on or after 1 April 2007.

5. The £32 per tonne standard rate and the £2.50 per tonne lower rate will apply respectively to any standard rated and any lower rated disposal of waste made, or treated as made, on or after 1 April 2008.

Current law and proposed revisions

6. Section 42 of the Finance Act 1996 specifies the rates of landfill tax, and will be amended to reflect the new rates.

Further advice

7. If you have any questions about this change, please contact the National Advice Service on 0845 010 900. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

LANDFILL COMMUNITIES FUND: INCREASE IN VALUE AND SIMPLIFICATION PACKAGE

Who is likely to be affected?

1. Businesses registered for landfill tax and environmental bodies (EBs) enrolled under the Landfill Communities Fund (LCF).

General description of the measures

2. The maximum credit that landfill site operators may claim against their annual landfill tax liability, for contributions made to bodies with objects concerned with the environment, enrolled under the LCF, will be changed from 6.7 per cent to 6.6 per cent. This should result in an increase in the value of the fund of £5m to a potential maximum of £65m for 2007-08.

3. The Commissioners of HM Revenue and Customs will be able to specify conditions under which the regulatory body for the LCF is and remains approved. Additionally, the regulatory body will be able to specify conditions under which an EB is and remains approved.

4. An EB will no longer have to submit a copy of its independently audited financial accounts to the regulatory body each year, unless it is requested to do so.

5. The relevant period for which an EB must submit details of its income, expenditure and balances will be standardised to a 12 month period ending on 31 March. An EB may be required to submit such information at other times at the request of the regulatory body.

6. Currently, when an EB transfers a contribution to another EB, both EBs have to notify the regulatory body. From 1 April 2007, the EB making the transfer will still have to notify the regulatory body but the EB receiving the transfer will no longer have to do so.

7. An EB will have to notify the regulatory body of project details in advance of spending on a project.

8. Contributions made by a landfill site operator before 1 April 2003 will no longer be qualifying contributions if they are spent on sustainable waste (object c and cc) projects unless there is a contract or documented record in place before 1 April 2007 committing those funds to such a project.

Operative date

9. The changes will have effect on and after 1 April 2007.

Current law and proposed revisions

10. A new paragraph will be inserted in section 53(4) of the Finance Act 1996 to allow the Commissioners and the regulatory body to specify conditions relating to approval. By statutory instrument laid on 22 March 2007, new paragraphs will be inserted in Regulations 34(1) and 35(1) of the Landfill Tax Regulations 1996 to enable the regulatory body and the Commissioners to specify the conditions under which and EB and the regulatory body respectively is and remains approved.

11. Regulation 31(3) of the Landfill Tax Regulations 1996 specifies the maximum percentage credit claimable under the LCF and will be amended by statutory instrument to be laid on 22 March 2007.

12. Regulation 33A of the Landfill Tax Regulations 1996 specifies the obligations of approved EBs and will be amended by statutory instrument laid on 22 March 2007.

13. Regulation 6 of the Landfill Tax (Amendment) Regulations 2003 allows contributions made before 1 April 2003 to be spent on objects relating to the management of waste, commonly referred to as the c and cc projects. This regulation will be revoked and a new regulation will be inserted by statutory instrument laid on22 March 2007.

Further advice

14. If you are a business registered for landfill tax and you have any questions about this change, please contact the National Advice Service on 0845 010 9000. If you are an enrolled EB, please contact ENTRUST, the regulatory body for the LCF, on 0161 972 0074. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

EXTENSION OF THE LANDLORDS ENERGY SAVING ALLOWANCE

Who is likely to be affected?

1. Landlords who let residential properties and pay income tax or corporation tax.

General description of the measure

2. As announced at 2006 Pre-Budget Report, legislation will be introduced in Finance Bill 2007 to extend the current Landlords Energy Saving Allowance (LESA). Floor insulation will be added to the energy saving items which qualify for the allowance; a deduction of up to £1,500 will be available for each property rather than for each building; and the allowance will be available until 2015.

3. LESA will also be made available to corporate landlords who let residential properties, subject to state aid approval from the European Commission.

Operative date

4. Extensions to the existing LESA affecting landlords paying income tax will be made available for expenditure incurred on or after 6 April 2007.

5. The allowance will be made available to landlords paying corporation tax on expenditure incurred after state aid approval is received.

Current law and proposed revisions

Income Tax

6. Under section 312 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA), landlords who pay income tax can, when calculating their taxable profits, deduct the cost of acquiring and installing certain energy saving items in a dwelling house which they let.

7. The energy saving items are loft insulation, cavity wall insulation (both under section 312 of ITTOIA), solid wall insulation (under Statutory Instrument 2005/1114), hot water system insulation and draught proofing (both under Statutory Instrument 2006/912).

8. A further Statutory Instrument has been laid before Parliament under section 312 of ITTOIA so that expenditure on floor insulation on or after 6 April 2007 will also qualify for a deduction.

9. The maximum amount of expenditure for which a deduction can be made

under section 312 of ITTOIA is currently capped at £1,500 per building under Statutory Instrument 2004/2664. A Statutory Instrument has been laid before Parliament so that the maximum amount is instead capped at £1,500 per property. This means that a maximum of £1,500 will now be deductible for each flat in a block of flats.

10. The new Statutory Instrument also revokes the previous Statutory Instruments (2004/2664, 2005/1114, and 2006/912) and includes all of their unchanged contents.

11. At present, the LESA only applies to expenditure incurred before 6 April 2009. Legislation in Finance Bill 2007 will extend the lifetime of the allowance until 2015.

Corporation Tax

12. Finance Bill 2007 will include legislation which will allow landlords who pay corporation tax to deduct the cost of acquiring and installing relevant energy saving items in a dwelling house which they let.

13. The deduction will be available for expenditure incurred after a date specified by Treasury Order. The legislation will take effect once state aid approval is received.

Further advice

14. If you have any questions about this change, please contact Ruth Curtice on 020 7147 2602 (email: ruth.curtice@hmrc.gsi.gov.uk) or Craig Mason on 020 7147 2599 (email: craig.mason@hmrc.gsi.gov.uk). A Regulatory Impact Assessment considering these changes has also been published today. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

MICROGENERATION: TAX TREATMENT OF RENEWABLES OBLIGATION CERTIFICATES

Who is likely to be affected?

1. Householders who pay income tax, have installed microgeneration technology in their home and receive Renewables Obligation Certificates (ROCs).

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to clarify the tax treatment of ROCs obtained as a result of domestic microgeneration.

3. Where a private householder installs microgeneration technology in their home primarily for the purpose of generating electricity for their personal use the receipt of a ROC will not be subject to income tax and gains made on disposal of a ROC will not be subject to capital gains tax.

Operative date

4. The income tax treatment will apply to ROCs received on or after 6 April 2007. The capital gains tax treatment will apply to ROCs disposed of on or after 6 April 2007.

Current law and proposed revisions

5. ROCs are issued by Ofgem to accredited generating stations to certify the quantity of electricity produced from qualifying renewable sources. A householder can sell the ROCs they receive and energy suppliers can use ROCs to meet their Renewables Obligation. This Obligation requires suppliers to source an increasing percentage of their sales from eligible sources of renewable energy.

6. The tax treatment of ROCs received by a householder depends on the specific circumstances. Liability to tax may arise in three ways:
   - Under section 5 of the Income Tax (Trading and Other Income) Act (ITTOIA), income tax is charged on the profits of a trade.
   - Under section 687 of ITTOIA income tax is charged on miscellaneous income.
   - Under section 2 of the Taxation of Chargeable Gains Act 1992, capital gains tax is charged on any gains arising on the disposal of an asset.

7. Householders who are not trading, but who microgenerate primarily to meet the electricity needs of the house, will be exempt from income tax on the acquisition of ROCs, and from capital gains tax on the disposal of ROCs, where they receive those ROCs for electricity generated by the

house's microgeneration system. The exemption will apply to microgeneration systems as defined in section four of the Climate Change and Sustainable Energy Act 2006.

Further advice

8. If you have any questions about this change, please contact Ruth Curtice on 020 7147 2602 (email: ruth.curtice@hmrc.gsi.gov.uk) or Craig Mason on 020 7147 2599 (email: craig.mason@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

AUCTIONS OF EMISSION ALLOWANCES UNDER THE EU EMISSIONS TRADING SCHEME

Who is likely to be affected?

1. The European Union Emissions Trading Scheme (EU ETS) is a scheme for trading allowances of carbon dioxide (being the main greenhouse gas) from permitted installations. It covers approximately half of the UK and EU's carbon dioxide emissions, including emissions from electricity production.

General description of the measure

2. In August 2006, the UK published its National Allocation Plan for allowances under Phase 2 of EU ETS. This set out the Government's intention to auction 7% of allowances as well as allowances from closures and surplus allowances from the New Entrants Reserve (NER). The remaining allowances (the majority) are to be allocated for free.

3. Legislation will be introduced in Finance Bill 2007 to put in place the legislative basis for auctioning (the term "auctioning" should be taken to mean any disposal for a price, including sale).

Operative date

4. Phase 2 of EU ETS begins on 1 January 2008.

Current law and proposed revisions

5. There is currently no legislation to provide for auctioning EU ETS allowances in Phase 2 of the Scheme

Further advice

6. If you have any questions about this change, please contact Katherine Mansfield on 020 7270 5377 (email: Katherine.Mansfield@hm-treasury.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

AGGREGATES LEVY: RATES

Who is likely to be affected?

1. Those commercially exploiting taxable aggregate in the UK.

General description of the measure

2. Legislation introduced in Finance Bill 2007 will increase the rate of aggregates levy from £1.60 per tonne to £1.95 per tonne.

3. In Northern Ireland, registered operators in possession of a valid aggregates levy credit certificate will continue to be entitled to 80 per cent relief of the full levy rate. As a result of the rate increase, in effect, the amount of levy payable by such operators will increase from 32 to 39 pence per tonne.

Operative date

4. The new rate will apply to any aggregate commercially exploited on or after 1 April 2008.

Current law and proposed revisions

5. Section 16(4) of the Finance Act 2001 specifies the rate of aggregates levy and will be amended by Finance Bill 2007.

Further advice

6. If you have any questions about this change, please contact the National Advice Service on 0845 010 900. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

AGGREGATES LEVY: EXEMPTION FOR AGGREGATE FROM THE IMPROVEMENT, MAINTENANCE AND CONSTRUCTION OF RAILWAYS, TRAMWAYS AND MONORAILS

Who is likely to be affected?

1. Those improving, maintaining or constructing railways, tramways or monorails.

General description of the measure

2. Legislation that will be introduced in Finance Bill 2007 will exempt from aggregates levy aggregate removed from the ground along the line, or proposed line, of any railway, tramway or monorail for the purposes of improving, maintaining or constructing it, providing the aggregate was not removed for the purpose of extracting the aggregate.

Operative date

3. Not before a date appointed by Treasury Order laid before Parliament after Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

4. A new paragraph will be added to section 17(3) of the Finance Act 2001 to provide for the exemption. There will also be a consequential change to regulation 3(2) of the Aggregates Levy (Registration and Miscellaneous Provisions) Regulations 2001 - to create the necessary exemption from registration.

Further advice

5. If you have any questions about this change, please contact the National Advice Service on 0845 010 900. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CLIMATE CHANGE LEVY: CHANGES TO RATES

Who is likely to be affected?

1. Suppliers and others liable to account for climate change levy.

General description of the measure

2. Legislation in Finance Bill 2007 will increase the rates of climate change levy for 2008-09 broadly in line with inflation.

3. The rates from 1 April 2007, which were increased broadly in line with inflation by legislation in Finance Act 2006, will be:

Taxable commodity	Rate
Electricity	£0.00441 per kilowatt hour
Gas supplied by a gas utility or any gas supplied in a gaseous state that is of a kind supplied by a gas utility	£0.00154 per kilowatt hour
Any petroleum gas, or other gaseous hydrocarbon, supplied in a liquid state	£0.00985 per kilogram
Any other taxable commodity	£0.01201 per kilogram

4. The rates from 1 April 2008 will be:

Taxable commodity	Rate
Electricity	£0.00456 per kilowatt hour
Gas supplied by a gas utility or any gas supplied in a gaseous state that is of a kind supplied by a gas utility	£0.00159 per kilowatt hour
Any petroleum gas, or other gaseous hydrocarbon, supplied in a liquid state	£0.01018 per kilogram
Any other taxable commodity	£0.01242 per kilogram

Operative date

5. The new rates shown in paragraphs 3 and 4 above will apply to supplies of taxable commodities treated as taking place on or after 1 April 2007 and on or after 1 April 2008 respectively.

Current law and proposed revisions

6. Paragraph 42(1) of Schedule 6 to the Finance Act 2000 contains the rates of climate change levy. Finance Act 2006 amended the paragraph to reflect the new rates from 1 April 2007. The paragraph will be amended again to reflect the rates that will be effective from 1 April 2008.

Further advice

7. HM Revenue and Customs wrote to all energy suppliers in October 2006 and again in March 2007 detailing methods to apportion climate change levy charges to those customers who do not coincide exactly with the start date of the new rates, as per paragraph 37(5) of Schedule 6 to the Finance Act 2000. Details of this methodology are outlined in paragraphs 7.17 to 7.22 of HMRC Notice CCL1, 'A general guide to Climate Change Levy' available at www.hmrc.gov.uk (click on the 'Environmental taxes' section of 'Excise and other').

8. If you have any questions about this change, please contact the National Advice Service on 0845 010 900. Information about Budget measures is available on the HM Revenue and Customs website at www.hmrc.gov.uk

CLIMATE CHANGE LEVY (CCL): SIMPLIFICATION PACKAGE

Who is likely to be affected?

1. Energy suppliers and CCL relief recipients.

General description of the measure

Administration of supplier certificates and penalty provisions

2. Most mainstream reliefs from CCL are applied via certificates of entitlement (supplier certificates) given to the supplier of a taxable commodity by the customer. That certificate amalgamates on a commodity per supplier basis all of the reliefs to which the customer is entitled, to arrive at an overall composite relief percentage on the given commodity. Currently certificates must be given to suppliers before a customer can receive a relieved supply. To ensure the accuracy of the relief claimed, relief claimants are generally required to review their certificates periodically, usually annually.

3. From autumn 2007 the requirement on the customer to provide a certificate before receiving the relieved supply will be removed allowing relief to be provided where the certificate is submitted after the supply. This will ensure that customers do not lose out on relief to which they are entitled simply because the certificate was not submitted on time.

4. Where an incorrect certificate is submitted by a claimant to their energy supplier, the claimant becomes liable to a penalty for incorrect certification. However, no penalty applies if information that is correct when the certificate is submitted subsequently becomes incorrect.

5. Liability to a penalty for incorrect certification will be extended to include circumstances where a certificate becomes incorrect after its initial submission. This will take effect from Royal Assent.

Levy exemption for exported and onward supplies

6. At present a supply is exempt from the levy if, before the supply is made, the customer gives the supplier specific notification that:

- a commodity other than electricity or gas in a gaseous state is to be permanently exported from the UK or is to be the subject of an onward supply; or,
- electricity or gas in a gaseous state is to be permanently exported from the UK.

For practical purposes these prior notifications have generally been made using supplier certificates making separate notification unnecessary.

7. The separate notification requirement will be removed, allowing these exemptions to proceed on the supplier certification route only. This will take effect from Royal Assent.

Administration of the reduced-rate of CCL

8. Energy intensive businesses can receive supplies at the reduced-rate of 20 per cent of the full rate of levy where:

(a) supplies are made to a facility that is the subject of a certificate given to the Commissioners for HM Revenue & Customs by the Secretary of State for the Department for Environment, Food and Rural Affairs stating that for a defined period the facility shall be taken as being covered by a climate change agreement (CCA); and,

(b) the Commissioners have published a notice giving details of the facility concerned, including the period of time it is taken as being covered by a CCA.

In practice, energy suppliers have been applying the reduced-rate to CCA signatories when they have also been provided with a supplier certificate given by their customer in line with the way other CCL reliefs are administered.

9. This measure will remove the requirement on the Commissioners to publish a notice. In addition, in autumn 2007 procedures for reduced-rate supplies will be fully aligned with the CCL certification regime applying to other reliefs.

Operative date

10. The changes in respect of the penalty provisions and of exports and onward supplies will take effect on and after the date Finance Bill 2007 receives Royal Assent.

11. Changes in respect of reduced-rate supplies and the giving of supplier certificates will be brought into force in autumn 2007 on a date specified by Treasury Order and H M Revenue & Customs regulations to be laid before Parliament.

Current law and proposed revisions

12. Schedule 6 to the Finance Act 2000 will be amended to:

- remove the separate notification requirement for supplies for export and onward supply (paragraph 11 of Schedule 6);
- remove the requirement on the Commissioners to publish a notice in respect of facilities covered by a CCA (paragraphs 44 and 45); and
- extend the penalty provisions (paragraph 101).

A number of consequential amendments will also be required.

13. Part III of and Schedule 1 to the Climate Change Levy (General) Regulations 2001 (SI 2001/838) will be amended to:

- allow reduced-rate supplies to be brought fully into the CCL certification regime; and
- allow supplier certificates to be given after the supply.

Further advice

14. If you have any questions, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

ENERGY PRODUCTS DIRECTIVE : EXPIRY OF DEROGATIONS

Who is likely to be affected?

1. Suppliers and users of fuel for private pleasure-flying and private pleasure-boating. Suppliers or users of waste oil as fuel, either directly after recovery or following a recycling process for waste oils.

General description of the measure

2. Following the expiry of the UK's derogations from the Energy Products Directive on 31 December 2006, from 1 November 2008 fuel used for the purposes of private pleasure flying and private pleasure boating will no longer benefit from the current reduced and exempt rates of duty.

3. Informal discussions have already begun with representatives from the boating and aviation sectors on options for implementation. Formal consultation on new regimes will be held later in the year.

4. No decision on the renewal of the derogation concerning use of waste oil as fuel has been notified by the European Commission.

Operative date

5. The changes will take effect on and after 1 November 2008.

Current law and proposed revisions

6. The Hydrocarbon Oil Duties Act 1979 (HODA) will be amended by Finance Bill 2008 to take effect from 1 November 2008.

7. Statutory instruments will be made under the relevant sections of HODA.

Further advice

8. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

ALCOHOL DUTY RATES

Who is likely to be affected?

1. Manufacturers, importers, distributors, retailers and consumers of certain alcohol products (beer, cider, wine and made-wine).

General description of the measure

2. Legislation in Finance Bill 2007 will provide for the Annual Setting of Duty Rates for Alcohol. The rate changes are as follows:

    - Duty on beer will increase in line with inflation, adding 1 penny to a pint of beer;
    - Duty on wine and made-wine will increase in line with inflation, adding 5 pence to a 75cl bottle of wine or made-wine;
    - Duty on still cider will increase in line with inflation, adding 1 penny to a litre of still cider;
    - Duty on sparkling cider will increase in line with inflation, adding 5 pence to a 75cl bottle of sparkling cider;
    - Duty on spirits is frozen;
    - Duty on sparkling wine will increase in line with inflation, adding 7 pence to a 75cl bottle of sparkling wine;
    - The Small Brewers Relief scheme will continue to provide 50% duty relief to the smallest brewers;

Operative date

3. The revised rates take effect from Monday 26th March 2007

Current law and proposed revisions

4. The Alcoholic Liquor Duties Act 1979 and the HM Revenue and Customs Tariff will be amended to reflect the changes.

Further advice

5. If you have any questions about this change, please contact the HMRC National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

TOBACCO PRODUCTS DUTY: RATES

Who is likely to be affected?

1. Manufacturers and importers of tobacco products (i.e. cigarettes, cigars, hand-rolling tobacco, other smoking tobacco and chewing tobacco).

General description of the measure

2. The rates of duty on tobacco products imported into, or manufactured in, the United Kingdom will be increased in line with inflation.

Operative date

3. The rate changes will have effect from 6pm on 21 March 2007.

Current law and proposed revisions

4. The new rates of duty are:
   - Cigarettes: An amount equal to 22 per cent of the retail price plus £108.65 per thousand cigarettes.
   - Cigars: £158.24 per kilogram
   - Hand-rolling tobacco: £113.74 per kilogram
     Other smoking tobacco and chewing tobacco: £69.57 per kilogram

5. An amendment will be made to the Table of rates of duty in Schedule 1 to the Tobacco Products Duty Act 1979, as last substituted by section 1 of the Finance Act 2006.

Further advice

6. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

REMOTE GAMING DUTY

Who is likely to be affected?

1. Anyone involved in the provision of remote gaming.

General description of the measure

2. Legislation will be included in Finance Bill 2007 to introduce a new duty of excise on the gaming profits of remote gaming operators. Remote gaming refers to playing a game of chance for a prize by the use of remote communication - for example, the internet, telephone or television.

3. The rate of duty will be 15%

Operative date

4. Remote Gaming Duty will be brought into effect by order and timed to align with the full implementation of the Gambling Act 2005, which is expected to be on 1 September 2007.

Current law and proposed revisions

5. The provision of remote gaming is not captured by the existing gambling duties because, with a few very limited exceptions, it has not previously been permitted under social law. The Gambling Act 2005 provides for remote gaming licences to be offered in the UK and is expected to come into force from 1 September 2007.

6. This new legislation provides a structure to tax remote gaming by amending the Betting and Gaming Duties Act 1981. It includes details of interpretation, the rate of duty, registration, accounting and enforcement. It also makes provision for some aspects of the operation and administration of the duty to be dealt with in regulations.

7. A Public Notice on the operation of this new duty will be issued in due course.

Further advice

8. If you have any questions about this change, please contact HMRC National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

GAMING DUTY: RATES AND BANDINGS

Who is likely to be affected?

1. Casino operators.

General description of the measure

2. Legislation will be included in Finance Bill 2007 to change the Gross Gaming Yield (GGY) bandings, and rates of duty, for gaming duty.

Operative date

3. The changes will come into effect for six month accounting periods starting on or after 1 April 2007.

Current law and proposed revisions

4. The new duty bands are as shown below:

Duty Band	Percentage of tax
The first £1,836,500 of GGY	15
The next £1,266,000 of GGY	20
The next £2,217,500 of GGY	30
The next £4,680,000 of GGY	40
The remainder	50

5. Section 11 of Finance Act 1997 will be amended to reflect these changes.

Further advice

6. If you have any questions about this change, please contact HMRC National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

AMUSEMENT MACHINE LICENCE DUTY (AMLD): CHANGE TO PRIZE LIMIT FOR CATEGORY C MACHINES

Who is likely to be affected?

1. Anyone who provides gaming machines for play.

General description of the measure

2. Where a gaming machine costs more than 5 pence to play the game once, but does not exceed 50 pence to play the game once, legislation will be introduced in Finance Bill 2007 to increase the value of the prize that may be won in any one game from £25 to £35.

3. A revised description of the machines falling into each licence category is set out in the table below.

4. HM Revenue & Customs will also be given the power to increase AMLD prize and stake limits by Order so that, if appropriate, duties can be kept in line with any changes to the social definitions of machine categories.

Operative date

5. The change to the prize limit for Category C machines will come into effect on 22 March 2007.

6. The power to make changes to AMLD categories by order will come into effect from the date the Finance Bill 2007 receives Royal Assent.

Current law and proposed revisions

7. Part II of the Betting and Gaming Duties Act 1981 (BGDA) will be amended to reflect these changes.

8. The categories of machines (described in section 23(3) of BGDA) will be revised as follows:

A	A gaming machine that does not fall into any other category.
B1	A gaming machine where the amount required to play the game once does not exceed £2, and the value of the prize that may be won in any one game does not exceed £4,000.
B2	A gaming machine where the amount required to play the game once does not exceed £100, and the value of the prize that may be won in any one game does not exceed £500.
B3	A gaming machine where the amount required to play the game once does not exceed £1, and the value of the prize that may be won in any one game does not exceed £500.
B4	A gaming machine where the amount required to play the game once does not exceed £1, and the value of the prize that may be won in any one game does not exceed £250.
C	A gaming machine where the amount required to play the game once does not exceed 5 pence **and** A gaming machine where the amount required to play the game once does not exceed 50 pence, and the value of the prize that may be won in any one game does not exceed £35.

Further advice

9. Notice 454 Amusement Machine Licence Duty will be amended to reflect the changes.

10. If you have any questions about this change, please contact HMRC National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CONSEQUENTIAL AMENDMENTS TO THE BETTING AND GAMING DUTIES LEGISLATION

Who is likely to be affected?

1. Anyone who operates a betting or gaming business in the United Kingdom.

General description of the measure

2. The Gambling Act 2005 will repeal much of the current social law for betting, gaming and lotteries. The tax law for betting, gaming and lotteries depends on many cross-references to the social law for definitions of certain terms and expressions. When the Gambling Act is fully implemented many of these references will become redundant – this is expected to be on 1 September 2007.

3. Legislation to be introduced in Finance Bill 2007 will make changes to the betting and gaming duties legislation to either update the social law cross-references, or replace them with new free-standing definitions that are independent of the social law.

Operative date

4. Changes that introduce new free-standing definitions will have effect from the date Finance Bill 2007 receives Royal Assent.

5. Changes that introduce new cross-references to the Gambling Act will be brought into effect by Treasury Order at a later date.

Current law and proposed revisions

6. Part 1 of and Schedule 3 to Finance Act 1966, section 1 of the Customs and Excise Management Act 1979, the Betting and Gaming Duties Act 1981, Part 1 Chapter 2 of the Finance Act 1993, and Part 1 of, and Schedule 1 to the Finance Act 1997 will be amended to reflect these changes.

Further advice

7. Notices 147 (Pool Betting Duty), 451 (General betting duty), 453 (Gaming Duty), 454 (Amusement machine licence duty), 457 (Bingo Duty), and 458 (Lottery Duty) will be amended as appropriate.

8. If you have any questions about this change, please contact HMRC National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at

REPEAL OF EXCISE DUTIES (SMALL NON-COMMERCIAL CONSIGNMENTS) RELIEF REGULATIONS 1986

Who is likely to be affected?

1. Private individuals.

General description of the measure

2. Repeal of the Excise Duties (Small Non-Commercial Consignments) Relief Regulations 1986 (SNCCR).

Operative date

3. The repeal of the SNCCR will have effect on and after the date on which the Finance Bill receives Royal Assent.

Current law and proposed revisions

4. The regulations provide that no excise duty is payable on non-commercial imports of excise goods, including alcohol and tobacco products (subjective to quantitative limits - for example 50 cigarettes, 50 grams of HRT, 1 litre of spirits) which form part of a small consignment. The regulations are concerned solely with unaccompanied goods, including those sent via the postal system.

5. Legislation will be introduced in Finance Bill 2007 to repeal the SNCCR. This will mean that all alcohol and tobacco sent via the postal system from abroad will be liable to UK excise duty.

Further advice

6. If you have any questions about this change, please contact the National Advice Service on 0845 010 9000. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

REVIEW OF POWERS AND SAFEGUARDS: NEW CRIMINAL INVESTIGATION POWERS & SAFEGUARDS

Who is likely to be affected?

1. Individuals and businesses involved in criminal investigations by HM Revenue and Customs (HMRC).

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to provide consistent powers and safeguards for all HMRC's criminal investigations and repeal existing powers that will no longer be needed.

3. For England, Wales and Northern Ireland certain existing powers will be applied consistently to HMRC's criminal investigations. For Scotland the legislation introduces some new powers and safeguards and applies some existing ones more consistently to investigations under Scottish law.

Operative date

4. The changes will come into force at a date to be set by a Treasury Order to be laid before the House of Commons. This is likely to be before the end of 2007.

Current law and proposed revisions

5. Section 114 of the Police and Criminal Evidence Act 1984 (PACE) allows the Treasury to make an order applying provisions of that Act to investigations and persons detained by Customs & Excise. Such an order was made in 1985 (The Police and Criminal Evidence Act 1984 (Application to Customs and Excise) Order 1985 – SI 1985/1800). PACE applies in England and Wales and similar legislation applies in Northern Ireland.

6. The measure will amend section 114 of PACE, and the equivalent in Northern Ireland, so provisions of PACE can be applied to HMRC. This will allow an order to be made so that the appropriate PACE powers and safeguards will apply on a consistent basis to the criminal investigations HMRC carries out in England, Wales and Northern Ireland.

7. The appropriate powers and safeguards in PACE are those already applied to criminal investigations by HMRC concerning ex-Customs and Excise matters and include:
   - applying to magistrates and judges for search warrants.
   - applying to judges for court orders to obtain evidence from people other than the suspect.

- arresting suspects, search upon arrest and questioning.

8. For Scotland the measure will introduce new and consistent powers and safeguards for HMRC's criminal investigations including:
   - applying to sheriffs for search warrants.
   - applying to sheriffs for court orders to obtain evidence from people other than the suspect.
   - arresting suspects, search upon arrest and questioning
   - provisions to help identify suspects and potential witnesses.

9. Certain provisions concerning the cross-border exercise of powers will also be applied to HMRC's criminal investigations. These provisions will clarify the procedures to follow when a criminal investigation involves cross-border issues, for example where a suspect is to be apprehended in England for a crime committed in Scotland.

10. A number of HMRC's existing criminal investigation powers (25 in total) will be superseded by this measure so they will be repealed.

Further Advice

11. This measure was the subject of a consultation paper published on 17 January 2007 – *Criminal Investigation Powers: Publication of draft clauses and explanatory notes*. A Regulatory Impact Assessment, a summary of responses to that consultation and an explanation of changes made as a result will be published shortly.

12. If you have any questions about this change, please contact John Shuker on 020 7147 2403 (email: John.Shuker@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk

HMRC REVIEW OF POWERS, DETERRENTS AND SAFEGUARDS: PENALTIES FOR INCORRECT RETURNS

Who is likely to be affected?

1. Individuals and businesses who understate their tax liability because of failing to take reasonable care in completing returns for Income Tax, Corporation Tax, Pay As You Earn (PAYE), National Insurance Contributions (NIC) and Value Added Tax (VAT) and those who deliberately understate their liability to any of these taxes.

General description of the measure

2. Legislation will be introduced in Finance Bill 2007 to provide a single new penalty regime for incorrect returns for income tax, corporation tax, PAYE, NIC and VAT where the penalty will be determined by the amount of tax understated, the nature of the behaviour giving rise to the understatement and the extent of disclosure by the taxpayer. It introduces a new concept of suspended penalties.

Operative date

3. The new provisions will apply from an appointed day to be set by a Treasury Order laid before the House of Commons and this is expected to be for return periods commencing after 31 March 2008 where the return is filed after 31 March 2009.

Current law and proposed revisions

4. The measure will repeal penalty provisions for incorrect returns for Income Tax Self Assessment (section 95 Taxes Management Act 1970, Corporation Tax Self Assessment (paras 20(1) and 89(1), Schedule 18 to Finance Act 1998), PAYE and NIC (section 98A (4) Taxes Management Act 1970) and for VAT (sections 60, 61 and 63 Value Added Tax Act 1994).

5. It will replace these different provisions with a single penalty regime to apply to inaccurate returns, claims, accounts and other documents for each of the taxes. The new provisions will provide for penalties based on the amount of tax understated and the behaviour that gives rise to the understatement. There will be:
   - no penalty where a taxpayer makes a mistake;
   - moderate penalties for failures to take reasonable care;
   - higher penalties for deliberate action; and
   - still higher penalties for deliberate action with concealment.

6. The measure will provide for each penalty to be substantially reduced where the taxpayer makes a disclosure (takes active steps to put right the problem), more so if this is unprompted. So, for an unprompted disclosure of a failure to take reasonable care the penalty could be reduced to nil. Where a taxpayer discloses fully when prompted (by a challenge from HMRC) each penalty could be reduced by up to a half.

7. The clauses will also provide for the measure of tax lost to be calculated before setting off group relief for companies.

8. There will be provisions for calculating the tax lost in special circumstances, such as where there is an overstated loss or the inaccuracy in the return results in tax being declared late rather than not at all.

9. Provisions from the predecessor regimes will be carried forward and applied across the taxes for penalties where the taxpayer accepts an inadequate assessment or uncovers a mistake but fails to take reasonable steps to tell HMRC.

10. The measure will include full and explicit provisions for the right of appeal against all penalty decisions.

11. There will be at least 20 months between Royal Assent of Finance Bill 2007 and the implementation of the changes, during which HMRC will be continuing to consult on guidance on the operation of these penalty provisions. It is intended that guidance will be published well ahead of implementation.

Further advice

12 This measure was the subject of a consultation paper published on 19 December 2007 – *Penalties for Incorrect Returns: Publication of draft clauses and explanatory notes*. A summary of responses to that consultation and a Regulatory Impact Assessment including an explanation of changes made as a result will be published shortly.

13. If you have any questions about this change, please contact Rachel Button on 0207 147 2341 (email: Rachel.P.Button@hmrc.gsi.gov.uk). Information about Budget measures is available on the HMRC website at www.hmrc.gov.uk

CHANGES TO THE INCOME TAX AND CORPORATION TAX ENQUIRY WINDOWS, THE EXISTING POWERS TO REQUIRE ONLINE FILING AND ELECTRONIC PAYMENT, AND THE EFFECTIVE DATE OF PAYMENT BY CHEQUE

Who is likely to be affected?

1. The changes to enquiry windows will affect individuals, trustees and partnerships who complete Income Tax self assessment tax returns and most companies who complete company tax returns.

2. The changes to the regulation making powers to require online filing and electronic payment will, subject to regulations being laid, ultimately affect most businesses.

3. The changes to the effective date of payment by cheque will, subject to regulations being laid, affect businesses that pay Corporation Tax and/or VAT by cheque.

General description of the measure

4. Finance Bill 2007 will introduce the legislation needed to implement Lord Carter of Coles' recommendations from his report on the "Review of HMRC Online Services". BN81 covers the related proposed changes to the self assessment tax return filing dates.

5. The changes to enquiry windows will link the period during which HMRC can enquire into Income Tax self assessment tax returns and most companies' tax returns to the date the return is received by HMRC.

6. The changes to the regulation making powers to require online filing and electronic payment will provide a single set of regulation making powers that apply to all taxes and duties for which HMRC is responsible.

7. The ability to make regulations that change the effective date of payment by cheque will enable regulations to be made that allow cheque payments of VAT and corporation tax to be treated as made at the point that funds have cleared into HMRC's account. HMRC expects to make regulations that will apply this rule to all payments of VAT and corporation tax from the time that requirements to pay electronically start to be phased in.

Operative dates

8. The changes to enquiry windows will apply to:
   - Income Tax self assessment tax returns for 2007/08 and subsequent tax years, and
   - company tax returns for accounting periods ending after 31st March 2008.

9. HMRC will have the power to make regulations concerning online filing and electronic payment, including the regulation making powers for changes to the effective date of payment by cheques, on and after the date on which Finance Bill 2007 receives Royal Assent. Regulations under these powers will be published in draft alongside Finance Bill 2007, and, subject to consultation, will be laid in September this year.

10. The requirement to file PAYE in-year forms online will be introduced in phases from 2009; the requirements to file online and pay electronically for VAT are expected to be phased in from 2010, and for CT from 2011.

Current law and proposed revisions

11. Currently the rules for enquiry windows are governed by section 9A of the Taxes Management Act 1970 for income tax returns (individuals and trustees), by section 12AC of the Taxes Management Act 1970 for income tax returns (partnerships), and by paragraph 24 of Schedule 18 to Finance Act 1998 for company tax returns. These provisions provide that, where a return is received on time, the enquiry window runs until the anniversary of the statutory filing deadline.

12. The change introduced here will link the closure of the enquiry window for a return filed on time to the date the return was received by HMRC. The enquiry window will close one year after delivery of the return. So where a return is received before the filing deadline the enquiry window will close earlier than under current legislation.

13. This change will not apply to large groups of companies whose returns need to be looked at together. The enquiry window for returns from these companies will continue to be linked to the statutory filing deadline as now.

14. Section 135 of the Finance Act 2002, section 204 of the Finance Act 2003, section 25 of the Value Added Tax Act 1994 and paragraph 2 of schedule 11 of the VAT Act 1994 currently confer powers to make regulations requiring online filing or electronic payment. The changes here will bring together the legislation into two provisions that will apply to all taxation matters for which HMRC is responsible. One provision will provide the regulation making powers required to implement Lord Carter's recommendations concerning requiring electronic filing, the other provisions will provide similar powers regarding electronic payment.

15. Under Section 70A of the Taxes Management Act 1970 and Section 59 of the Value Added Tax Act 1994, HMRC currently deem payment to have been made as soon as HMRC receive the cheque. The legislation being introduced will allow for changes to be made to the current position by regulation. The regulations will then be able to provide that, where a business pays VAT or corporation tax by cheque, HMRC will deem payment to have been made only once the funds have cleared into HMRC's account. HMRC expects to make regulations that will apply this rule to all payments of VAT and corporation tax from the date that requirements to pay electronically start to be phased in.

Further advice

16. If you have any questions about these changes, please contact Luke Liddiard on 020 7147 2421 (email: luke.liddiard@hmrc.gsi.gov.uk). A full Regulatory Impact Assessment on these changes, together with other information about Budget measures, is available on the HM Revenue & Customs website at www.hmrc.gov.uk

CHANGES TO SELF ASSESSMENT TAX RETURN FILING DATES

Who is likely to be affected?

1. Individuals, trustees and partnerships who complete Income Tax self assessment tax returns.

General description of the measure

2. Legislation will be included in Finance Bill 2007 introducing different filing dates for paper and online self assessment tax returns. Budget Note BN79 covers the related proposed changes to the tax return enquiry window.

3. Lord Carter of Coles, in his report on the "Review of HMRC Online Services" published at Budget 2006, recommended changes to the self assessment tax return filing date. Lord Carter subsequently reviewed the responses to the Partial Regulatory Impact Assessment published with his original report, considered further representations from tax practitioners and revised his recommendation.

4. Lord Carter's revised recommendation was accepted by the Government in July 2006.

Operative date

5. This measure will apply to tax returns that are issued on or after 6 April 2008 and relate to the tax year 2007-08 and subsequent years.

Current law and proposed revisions

6. Currently tax returns are required by notices issued under sections 8, 8A or 12AA Taxes Management Act 1970 to be filed by 31 January after the end of the tax year to which the return relates.

7. For 2007-08 tax returns and those for subsequent years, there will be two separate filing dates. For paper returns, there will be a new date of 31 October (for tax year 2007-08 that will be 31 October 2008). For returns filed online, the date will remain at 31 January (for tax year 2007-08 that will be 31 January 2009). For taxpayers filing paper returns who want HMRC to calculate their tax liability for them, the cut off date will move from 30 September to 31 October to align with the new paper return filing deadline. A calculation of tax liability is automatically provided when a return is filed online.

8. Consequential changes will also be made to revise the period during which a return can be amended. Currently, the latest possible date is linked to

the first anniversary of the filing date. The introduction of differential filing dates for different methods of filing a return would advance this date for those filing by paper. To avoid disadvantaging those who file early, the amendment window date will be linked to the 31 January anniversary date for all paper and online returns.

9. Where the notice to make a return is issued after 31 October following the tax year, a period of 3 months is currently allowed for completion of that return and the period during which a return can subsequently be amended runs from this later date. A number of consequential changes will be made to retain this minimum period of 3 months and the amendment window links.

10. Changes will also be made to five provisions (sections 28C, 33A, 93, 93A TMA 1970 and para 4 of Schedule 15 to Finance Act 2006) that have time limits linked to the current return filing dates. These changes ensure the existing dates referred to within these provisions are retained in all circumstances.

11. There is a tiny minority of self assessment tax return filers (including registered pension schemes set up under trust) for whom facilities to file online are not yet available. HMRC will allow extra time (until the 31 January deadline) for those taxpayers to file paper returns. HMRC is continuing to look at ways of extending its online tax return filing service to include all self assessment customers.

Further advice

12. If you have any questions about this measure, please contact Richard Broomfield (email: Richard.J.Broomfield@hmrc.gsi.gov.uk) on 0121 713 4604. A full Regulatory Impact Assessment "HMRC Online Services: Increasing Use of Online Filing and Electronic Payment" can be viewed via HMRC's website. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk