

BUDGET SUMMARY 2005

The recent budget was a low-key affair. Apart from some anti avoidance provisions (mostly relating to complex tax schemes which do not concern the majority of us), there was little of note this year. So we have decided to outline the key rate changes for the new tax year and to highlight some planning issues arising out of these.

INCOME TAX

<u>Band of taxable income</u>		
<u>2005/06</u>	<u>2004/05</u>	<u>rate %</u>
0 - 2,090	0 - 2,020	10
2,091 - 32,400	2,021 - 31,400	22
Over 32,400	Over 31,400	40

The personal allowance rises from £4,745 to £4,895. You can now 'earn' £37,295 before you start to pay tax at the 40% rate.

Interest and dividends continue to be taxed at slightly different rates.

SAVINGS AND INVESTMENTS

ISA limits of £7,000, of which the maximum in cash was £3,000, were due to reduce on 6th April 2006. However these current limits have **now been extended until 5th April 2010.**

CAPITAL GAINS TAX

	<u>2005/06</u>	<u>2004/05</u>
Annual exemption	£8,500	£8,200

No changes to the rates of tax but did you realise that the effective tax payable for a higher rate taxpayer may be well below 40%. If you are disposing of a business asset then after two years the rate can reduce to 10%, and even for a non-business asset it could be as low as 28%. The equivalent rates for a basic rate taxpayer are 5% on business assets and 14% on non-business assets - not too painful but to achieve the low rates you need to ensure that **the correct ownership arrangements are in place and that proper forward planning has been carried out.**

INHERITANCE TAX

	<u>Nil Rate Threshold</u>
2004/05	£263,000
2005/06	£275,000
2006/07	£285,000
2007/08	£300,000

The remaining estate over the threshold continues to be taxed at 40%. For many people their most valuable asset is their home and if its value exceeds the threshold then the excess will be brought into inheritance tax. Although tax-planning measures are limited in respect of your main residence, there may be **some scope for planning if your estate consists of more than your family home.**

STAMP DUTY LAND TAX

The thresholds on residential properties are: -

Not exceeding £120,000	nil
£120,001 - £250,000	1%
£250,001 - £500,000	3%
£500,001 or more	4%

The lower band threshold has been doubled from the previous level of £60,000. This is a measure that sounds generous but will have little effect, as you would be hard pressed to find a property costing less than £120,000 in the south east of England. To make matters worse, crossing a threshold takes the whole transaction into the next band. So, for example, if you buy a house for £250,000 the tax is £2,500 but at £251,000 you would suffer £7,530 in stamp duty - a marginal rate of 503%. **Some room for planning surely!**

VALUE ADDED TAX

The registration limit from 1st April 2005 is raised to £60,000 (previously £58,000), with the deregistration threshold rising to £58,000.

All in all a budget, which neither gives nor takes away - anyone would think there was an election just around the corner.

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