A photograph of two men in business suits. The man on the left is in profile, facing right, and appears to be speaking. The man on the right is facing him, listening. The background is a plain, light-colored wall.

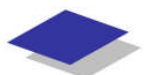
**Pre-
Budget
Report
2006**

Pre-Budget Report 6 December 2006

**Summary of the Main
Taxation Provisions**

This publication is brought to you by
Holden Associates.

If you would like to contact us you
will find our details on the last page.



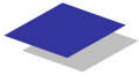
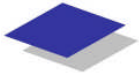


Table of Contents







2. Introduction	10. Fraud
2. What is the Pre-Budget Report?	10. Simplifying Tax Administration for business
3. Highlights	10. Other Provisions
4. Meeting the Productivity Challenge	12. Real Estate Investment (UK-REITs)
5. Increasing Employment Opportunity for All	13. Personal Allowances
5. Building a Fairer Society	13. National Insurance
6. The Third Sector	14. Tax Credits
6. New Initiatives to Tackle Financial Inclusion	15. Child Benefit and Guardian's Allowance
6. Modernising the Tax System	15. Pensions
7. Delivering High quality Public Services	15. Tax Shelters
7. Protecting the Environment	15. VAT
8. Improving Waste Management and Managing Natural Resources	16. Capital Gains Tax
8. Fairness and Certainty for Taxpayers	16. Cars
9. Tackling Avoidance	17. Corporation Tax
	17. Stamp Duty
	18. Inheritance Tax (IHT)
	18. Further Information






Introduction

Today, the Chancellor of the Exchequer Gordon Brown delivered his 10th and what most people expect to be his last Pre-Budget Report.

Today the BBC listed possible items in the Chancellor's proposals:

-  He may confirm that Individual Savings Accounts (ISAs) will continue beyond 2010;
-  Real Estate Investment Trusts (REITs), which have been trailed in the past three Pre-Budget Reports, are set to be introduced in January 2007. The Chancellor may use the report to undertake some minor tweaks;
-  If the Chancellor follows the pattern of previous years, personal allowances should rise by about £150. This would take the annual personal allowance for under-65s to about £5,200;
-  Because of rising house prices an increasing number of people are finding that their estates are worth enough to be potentially subject to IHT. It is suggested that the Chancellor may decide to dispense with the current arrangement where everything over a certain threshold (£285,000 in the 2006-2007 tax year) is taxed at 40%, in favour of a system of tiered rates;
-  The Chancellor may play around with the tax system to encourage more environmentally-friendly behaviour;
-  Hard-pressed first-time home buyers may find little to cheer in the report. For example, any substantial increase to the stamp duty threshold could be seen as fanning the flames of house price inflation;



-  The Government wants to stimulate house building and new planning guidelines will be introduced to encourage local authorities to accelerate planning consent and bring forward development of brown field sites. It could free-up more land for development. Long-term, this may help ease severe under-supply of property, which in the south east at least, is presumed to be a major factor in booming property prices;
-  Major changes to the pension system came into force in April 2006 but the chancellor was expected by some to want to tweak the new regime;
-  In particular, the requirement on people to use their pension savings to buy an annuity - income for life at age 75 may well be re-imposed.

This publication sets out what actually happened but first we look at what the Pre-Budget Report is and how it fits in with the Government's economic and financial plans for the UK.

What is the Pre-Budget Report?

A Pre-Budget Report (PBR) is delivered by the Chancellor to the House of Commons in the autumn. It provides a progress report on what has been achieved so far, gives an update of the state of the economy and public finances, and sets out the direction of Government policy in the run up to the spring Budget.

Chancellor Gordon Brown introduced the idea of a Pre-Budget Report (PBR) in 1997. Launching the first PBR on 26 November 1997, the Chancellor said that its aim was to "help build the foundations of shared understanding and sense of national economic purpose between Government, business, and individuals".

The Treasury is legally bound to present two economic forecasts per year. Between 1993 and the 1997 election, this was done in the Budget which was held in November and the Summer Economic Forecast (late June/early July).



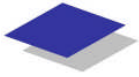
Summary

This publication summarises the main proposals announced by the Chancellor on 6 December 2006. The information is derived from the many press releases issued by Government departments immediately after the Chancellor delivered his speech. Given the timescales involved in producing this publication only hours after the press releases became available, this is only a summary and is based on the press releases resourced by us on the day. Accordingly, there may be some proposals that are not covered here.

Origins of the Budget

Source: HM Treasury

The origins of the Exchequer go back to the Norman period. The Norman system was based on two departments to deal with finance: the first, the Treasury, received and paid out money on behalf of the monarch; the second, the Exchequer, had a 'lower office' connected with the Treasury which received money, and it had an 'upper office', a court of law concerned with regulating the Kings accounts. The word 'exchequer' comes from the Latin 'scaccarium' meaning a chessboard. The name was given to the court because counters were moved on a square table. The word 'budget' comes from an old French word 'bougette' which means little bag.



Highlights

Mr Brown said the Government's aim was to "unleash" the economy. Government press releases issued after the Chancellor finished presenting his report say:

















"The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all.

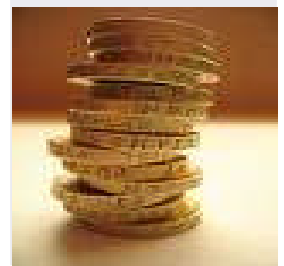
The long-term decisions the Government has taken – giving independence to the Bank of England, new fiscal rules and a reduction in debt – have created a strong platform of economic stability. In the UK, with low and stable inflation, interest rates set by the Monetary Policy Committee to meet the Government's symmetric inflation target, and fiscal policy supporting monetary policy over the cycle, the economy has grown continuously throughout this period. The UK economy is currently experiencing its longest unbroken expansion since quarterly records began, with GDP now having grown for 57 consecutive quarters.

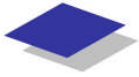
The global economy is in the midst of radical transformation with far reaching and fundamental changes in technology, production and trading patterns. Rapid technological change continues to impact on how individuals, business and communities interact with each other and how they expect to interact with the state. Global security is being reshaped as the international community responds to the ongoing threat of international terrorism, conflict and the challenges of ending world poverty. The pressures that economic and population growth are placing on the earth's natural resources and climate are increasingly apparent, presenting an urgent need for international cooperation.

This transformation will present both challenges and opportunities for the UK. Individuals, businesses and communities all need to be ready to respond to the changing global environment. Stable, flexible, skilled and innovative economies will prosper. This Pre-Budget Report sets out further reforms to lock in stability and to invest in the UK's future – including: a new ambition for world-class skills; a commitment to further investment in education; reforms to the UK's planning and transport infrastructure; measures to tackle the global challenge of climate change; and further measures to secure fairness and opportunity for all".

A summary of what the Chancellor said is as follows:

-  Economic growth this year is expected to be 2.75%, rising to between 2.75% and 3% next year, he added;
-  By mid-2007 Mr Brown said he expected inflation to be at its 2% target;
-  Britain will meet both its fiscal rules in this economic cycle and the next;
-  China and other economies were competing on skilled workers, so the UK's economy had to "out-innovate" competitors;
-  The "new priority" was "world-leading" investments in areas such as transport and education;
-  The minimum wage is now £5.35 an hour and in January 2007 penalties for failing to pay it will rise;
-  By 2020, 90% of adults should achieve five GCSEs or equivalent;
-  The Government will consult on £2,000 bursaries to encourage young people from poorer backgrounds to go to university;
-  In April 2007, benefit payments for the poorest children will rise to £64 a week;
-  Basic state pension to rise 3.6% in April 2007 and pension credit minimum guarantee to rise by £5 for single people and £7.65 for couples;
-  The normal budget period for funding voluntary and other groups will rise from one year to three years;
-  Councils will get £30m to encourage community ownership of community assets;
-  From 2007, most carbon-zero homes will be exempt from stamp duty;
-  From February 2007, air passenger duty will rise - the intra-EU economy rate will rise from £5 to £10 and the non-economy rate from £10 to £20. The long-haul economy rate will rise from £20 to £40 and the non-economy rate from £40 to £80;
-  There will be an inflation rise in fuel duty from midnight on 6 December 2006. The fuel duty escalator will not be restored. The rise will come to 1.25p a litre;
-  Tax discounts for biofuels will be extended;





- ◆ A further 300,000 households to be offered free insulation and free central heating;
- ◆ Planning decisions on major infrastructure projects are to be made by an independent planning body;
- ◆ Another 160,000 families are to be helped onto the housing ladder through shared equity schemes;
- ◆ An extra £600m will be provided for military operations in Iraq, Afghanistan and elsewhere and another £84m for intelligence;
- ◆ By 2020, the number of apprentices will rise to 500,000;
- ◆ The overall surplus for this economic cycle is £8bn, meeting the "golden rule", while borrowing will fall from 2.3% of national income to 1.3% by 2011;
- ◆ Capital investment in education next year will be £8.3bn, on transport £9.6bn and on housing nearly £8bn;
- ◆ New penalties will be introduced for film and music piracy, alongside greater rights to copy for personal use;
- ◆ Making Individual savings Accounts (ISAs) permanent, beyond 2010, to provide stability for savers and certainty for the industry. In addition, the introduction of a package of reforms to the ISA designed to simplify the regime, will make it more flexible for savers and providers. It will also promote saving;
- ◆ Next year will see the introduction of the new tax relief for film-making.

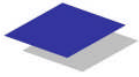
Meeting the Productivity Challenge

In an increasingly integrated and competitive global economy, raising UK productivity is critical to delivering continued economic growth and sustained increases in standards of living. In the last decade, significant progress has been made to strengthen UK productivity growth, through investment in infrastructure, a more highly skilled workforce, and increasing the attractiveness and openness of the UK as a place to invest. The 2006 Pre-Budget Report sets out how the Government is building on this success to lay the foundations for sustained long-term

productivity growth. Key measures include:

- ◆ **investing in a new ambition for world-class skills**, increasing adult skills across all levels and strengthening employer voice in their provision – by taking forward the recommendations of the Leitch Review;
- ◆ **investing in the growth of the UK's science and innovation system** – through a single health research fund of at least £1 billion, taking forward the recommendations of the Cooksey Review, and ensuring a more balanced, coherent and flexible regime for intellectual property, as set out in the Gowers Review;
- ◆ **enabling greater flexibility in the land use planning system** to ensure it contributes to economic growth while delivering its wider sustainable development goals – by taking forward the Barker Review;
- ◆ **investing in transport infrastructure** to maximise the return on investment in transport – by taking forward the recommendations of the Eddington Transport Study;
- ◆ **investing in the growth of sustainable housing supply** – including further acceleration of the release of surplus public sector land and greater ambitions for assisted home ownership through shared equity schemes; and
- ◆ **increasing business flexibility** by reducing unnecessary burdens on business – by creating certainty for business, by implementing the recommendations of the Varney Review of HMRC Links with Large Business, and driving forward implementation of the Hampton Review's risk-based approach to regulation, and the Davidson Review's recommendations to reduce any gold plating of EU legislation.





Increasing Employment Opportunity for All

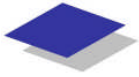
The Government's long-term goal for the labour market is to achieve employment opportunity for all – the modern definition of full employment. This means that everyone should be given appropriate support and advice to enable them to find and retain a job, with the opportunity to gain skills and experience, thereby helping to meet the productivity challenge. The Pre-Budget Report describes the further steps the Government is taking towards the attainment of employment opportunity for all:

- extending the support offered to lone parents who move into work by maintaining the In-Work Credit in the current pilot areas for a further six months;
- improving the Jobseeker's Allowance intervention regime by offering expert work-search support at the new claim stage, and extending the Job Grant of £100 (£250 to claimants with children) to 18-24 year old jobseekers;
- improving enforcement of the National Minimum Wage by increasing by 50 per cent the resources allocated to tackle non-compliance and raising penalties for the seriously non-compliant;
- providing funding to improve the administration of Housing Benefit and to raise awareness that Housing Benefit is available to those in work;
- taking forward measures to simplify and reduce error in the benefits system; and
- raising the earnings disregard to Housing Benefit and Council Tax Benefit in line with indexation to £15.45 in April 2007, ensuring that claimants gain from increases in the rate of Working Tax Credits.

Building a Fairer Society



The Government is committed to promoting fairness alongside flexibility and enterprise to ensure that everyone can take advantage of opportunities to fulfil their potential. The Government's reforms of the welfare state reflect its aims of eradicating child poverty, supporting families to balance their work and family lives, promoting saving and ensuring security for all in old age. The Government is also committed to a modern and fair tax system that ensures that everyone pays their fair share of tax. The Pre-Budget Report sets out the next steps the Government is taking to support these aims, including:

- announcing that from April 2007, the value of the child element of Child Tax Credit will rise by £80 to £1,845 per year;
- from April 2009, additional support for all families, with every mother-to-be becoming eligible for Child Benefit from week 29 of their pregnancy, so that women will be up to £200 better off;
- an extension of the Warm Front programme, targeting 300,000 of the most vulnerable pensioner and other households, community by community;
- making Individual Savings Accounts (ISAs) permanent, beyond 2010, to provide stability for savers and certainty for the industry. In addition, the introduction of a package of reforms to the ISA, designed to simplify the regime, will make it more flexible for savers and providers and further promote saving;
- a package of measures responding to the consultation on the role of the third sector in social and economic regeneration, including the establishment of a new £30 million Community Asset Transfer fund and the guarantee of three years of funding passed on to third sector organisations;
- the establishment of an international research collaborative for the development sciences, led by a high level steering board including leading scientists; and
- further reforms to modernise the tax system and protect tax revenues, including work to tackle avoidance.





The Third Sector

The Government's interim report into the future role of the third sector in social and economic regeneration is published alongside this Pre-Budget Report and announces:

-  a new Community Assets Fund of £30 million to support communities and community groups to take on the management or ownership of assets;
-  a commitment from Government to see three-year funding settlements passed to third sector organisations as the norm, rather than the exception; and
-  allocation of an extra £6.5 million within the Safer and Stronger Communities block of Local Area Agreements.

New Initiatives to Tackle Financial Inclusion

The Government has announced details of a number of measures being implemented as part of its wider strategy to promote financial inclusion. Key measures include:

-  details of a £5.4 million campaign to assist financially excluded people to access mainstream banking and credit products; and
-  new funding of £2.5 million to increase the number of new advisers, specialising in free face-to-face debt and money advice in areas of high financial exclusion, to over 500.

The Chancellor today announced measures to ensure the tax system continues to keep pace with developments in business practice and the global economy by enhancing certainty and reducing complexity, thereby maintaining the competitiveness of the UK tax system.

Modernising the Tax System

Controlled Foreign Companies (CFCs) and foreign profits

The Government says that it is determined to maintain the overall competitiveness of the UK and since the last Budget has held a productive dialogue with stakeholders on the taxation of foreign profits. Following the recent European Court of Justice judgment in the *Cadbury Schweppes* case, changes are announced today to the CFC rules to ensure they remain effective and to provide increased certainty for business. The Government says it remains committed to exploring a wider package of reform relating to the taxation of foreign profits, in consultation with business, in 2007.

Reform of Insurance Tax

As part of its commitment to simplification, the Government is announcing a package of measures to simplify some of the tax rules governing life assurance companies, and to reform and modernise the current taxation rules for general insurers' reserves.

Stamp Duty on Shares

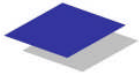
To enhance and develop the market in Exchange Traded Funds (ETFs), the Chancellor is announcing today the removal of Stamp Duty Reserve Tax from the purchase of overseas ETFs.

Reform of EU Travellers' Allowances

The Chancellor today welcomed the recent decision by EU Member States to double the tax-free goods allowance for international travellers returning from trips outside the EU.

Tax Avoidance

A package of measures to combat avoidance has also been announced by the Chancellor.



Delivering High Quality Public Services

The Government says its aim is to deliver world-class public services through sustained investment and far-reaching reform. The 1998 Comprehensive Spending Review (CSR) put in place a modernised framework for public spending and performance management to support the delivery of the Government's long-term priorities.

A decade on from the start of the first CSR, the Government is now conducting a second CSR reporting in 2007. Building on an analysis of the key long-term challenges facing the UK, the 2007 CSR provides the opportunity to assess what further investments and reforms are needed to equip the UK to respond. In preparation for the 2007 CSR, the Pre-Budget Report announces:

- solid progress in the Government's SR04 efficiency programme, with departments and local authorities reporting gains of £13.3 billion by September 2006, over halfway towards the target of over £21 billion by 2007-08;
- building on this success, the baseline savings ambition for the 2007 CSR period will be at least 3 per cent per year across central and local Government, with a focus on net cashable savings to free-up resources to meet the challenges ahead;
- administration budgets across departments will be reduced by at least 5 per cent per year in real terms over the 2007 CSR period, releasing resources for reallocation to frontline services;
- an early CSR07 settlement for the Department for Constitutional Affairs, which will see its budget fall by an annual average of 3.5 per cent in real terms over the 2007 CSR period;
- an early CSR07 settlement for education capital with investment rising from £8.3 billion in 2007-08 to £10.2 billion in 2010-11, a total of £36 billion over the next four years; and

- the publication of Sir David Varney's review of public service transformation, making recommendations to strengthen and join up public service delivery and make public services more efficient and responsive to the needs of users.

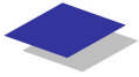
The Pre-Budget report outlines further measures directing resources to the Government's priorities, including:






- a further £130 million direct to schools in England in 2007-08, including to support personalised teaching and extended services;
- an increased focus on small group and one-to-one support, with the Every Child a Reader scheme rolled out nationally to 30,000 children a year by 2010-11, and an additional £10 million in 2007-08 to increase personalised support in schools where boys are falling behind; and
- an additional £84 million to support the ongoing expansion of counterterrorism capabilities in the Intelligence Agencies.

Protecting the Environment


The Government says that it is committed to delivering a strong economy based not just on high and stable levels of growth and employment but also on high standards of environmental stewardship. Climate change is a very significant challenge, and the recently published Stern Review on the Economics of Climate Change has highlighted how long-term global prosperity will be undermined if early and coordinated international action is not taken. The Pre-Budget Report sets out the next stage in the Government's strategy for tackling climate change both domestically and globally, including:

- promoting the development of a global carbon market through the expansion and strengthening of the EU Emissions Trading Scheme and linking it to schemes outside the EU;
- taking further steps towards realising carbon capture and storage technology, including tendering for consulting engineers to help enable a decision in 2007 on whether to support a UK-based demonstration plant;



-  an inflation-based increase of 1.25 pence per litre (ppl) in the rate of road fuel duty with effect from midnight on 6 December 2006; and the same increase of 1.25 ppl in duty for rebated fuels, maintaining the differential with main fuel duty rates;
-  a package of measures to encourage the development of the biofuels market and innovative types of biofuels;
-  an ambition for all new homes to be zero carbon within a decade with a time-limited stamp duty exemption to be introduced in 2007 for the vast majority of new zero-carbon homes that meet this standard;
-  legislation to ensure householders installing microgeneration are not subject to income tax on any payment for surplus electricity exported back to the grid; and
-  the extension of the Landlords Energy Saving Allowance to 2015 and to corporate landlords.

The Pre-Budget Report also reports on the Government's strategy for tackling other environmental challenges, including:

-  confirmation that the standard rate of landfill tax will increase by £3 per tonne to £24 per tonne with effect from 1 April 2007. The Government will also consider the case for steeper increases in the tax from 2008.

Improving Waste Management and Managing Natural Resources

Landfill tax

Landfill tax increases the price of waste sent to landfill, encouraging more sustainable ways of managing waste. The standard rate of landfill tax, applying to active wastes (those that give off emissions), is currently £21 per tonne. The Pre-Budget Report confirms that from 1 April 2007, the standard rate of landfill tax will increase by a further £3 per tonne to £24 per tonne.

The Government says that it will also consider whether the standard rate needs to increase more steeply from 2008 onwards, or go beyond the £35 per tonne already committed to for the medium to long-term in order to encourage greater diversion of waste from landfill and more sustainable waste management options.

Fairness and Certainty for Taxpayers

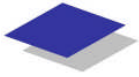
Managed Service Company Schemes

The Government is taking action to tackle Managed Service Company (MSC) schemes which are used to avoid paying employed levels of tax and NICs.

Income received by workers in MSCs in relation to services provided through the MSC will be subject to employed levels of tax and NICs, with the MSC obliged to operate Pay As You Earn (PAYE) and deduct tax and Class 1 NICs on that income - and the rules for tax relief for travel expenses will be the same as for other employed workers.

The Government will also address the problem of MSCs escaping payment of tax and NICs due by allowing the recovery of these debts from appropriate third parties. This will protect the Exchequer and ensure a level playing field for compliant businesses and workers. The Intermediaries legislation will remain in place for Personal Service Companies.

The Government is consulting on the draft legislation to implement this measure. The draft legislation and questions for consultation are set out in the consultation document *Tackling Managed Service Companies*, published alongside the Pre-Budget Report today.



Six-Year Limitation Period for all Direct Tax Claims

The Government has announced that it will legislate to ensure that the limitation period for the recovery of direct tax paid by mistake of law is six years from the date of payment. This is to ensure consistency with the limitation period for making claims in respect of direct taxes paid under assessment as a result of a mistake in a tax return, as specified in section 33 Taxes Management Act 1970 and paragraph 51 schedule 18 Finance Act 1998. This follows a recent House of Lords decision and restores the balance of interests secured by such a limitation.

The Government says that taking no action would risk unwarranted transfers from taxpayers in general to the current shareholders of certain claimant companies. The provision will have retrospective effect, but will not disturb the entitlement of those who have secured what amounts to a final judgment in their favour prior to 6 December 2006.

VAT – Partial Exemption ‘Special Method’

Following consultation over the summer, changes will be made to the VAT partial exemption regime with effect from 1 April 2007. Businesses will be required to declare the suitability of their proposed ‘special method’, for the calculation of VAT liability, before it is approved by HMRC. This will greatly speed up the approvals process benefiting the vast majority of the 20,000 businesses that choose to operate a partial exemption special method.

Protecting Pensions Tax Relief

The Government has announced action to ensure that pensions tax relief continues to be used to produce an income in retirement. The Government will tighten up the rules on Alternatively Secured Pensions (ASP), introducing a minimum income requirement, setting a higher maximum income and imposing an unauthorised payments charge where ASP funds remaining on the death of a member are transferred to pension funds of other members in the scheme.

Life Insurance Companies

A measure will be introduced to ensure that transactions involving the transfer, by life insurers, of assets valued according to regulatory principles do not have inappropriate tax consequences.

Tackling Avoidance

Disclosure Regime - tackling non-compliance

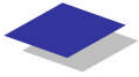
Budget 2004 introduced a disclosure regime that has enabled the Government to respond to avoidance more swiftly and in a more targeted fashion. In order to ensure that the regime functions consistently, the Government will consult on a new power to investigate a scheme where there are reasonable grounds to believe that a promoter has failed to comply with its statutory disclosure obligations. HMRC will publish a consultation document by the end of December 2006.

A Targeted Anti-Avoidance Rule for Capital Losses

The Government has announced that schemes designed to enable individuals, trustees and personal representatives to gain a tax advantage from contrived capital losses will be closed with effect from 6 December 2006. This will be delivered by a targeted anti-avoidance rule ensuring that allowable capital losses are restricted only to those arising from genuine commercial transactions.

Stamp Duty Land Tax – Closure of avoidance schemes

Measures to counter avoidance of stamp duty land tax will come into force from 2pm today. These will make ineffective a number of schemes involving the use of leases, partnerships and sub-sales, that are currently being exploited in an attempt to avoid paying stamp duty land tax.



Taxation of Companies – Closure of avoidance schemes

The Government announced measures, effective from 6 December 2006, to tackle artificial schemes, brought to light under the disclosure rules. These schemes are used by companies to avoid tax by exploiting certain aspects of legislation, including the rules on manufactured payments, exchange gains and losses, annual payments, double taxation relief, lease and leaseback and controlled foreign companies (the public quotation exemption).

Fraud

Missing Trader Intra-Community Fraud

The Government has strengthened its strategy for tackling Missing Trader Intra-Community (MITC) VAT fraud in response to a rapid increase in attempted fraud in the latter part of 2005-06 and the first quarter of 2006-07. The number of staff deployed has been increased to over 1400 and focusing on:

- identifying and prosecuting the criminals behind the fraud;
- working internationally to combat cross-border fraud;
- identifying and tracking those goods most susceptible to MITC fraud; and
- more in-depth checking of suspect repayment claims.

A significant proportion of these attempted frauds are stopped so the estimated potential impact on VAT receipts is much smaller. New estimates, which take account of mutations in the fraud are published today. These show that attempted MITC fraud grew to between £3.5 billion and £4.75 billion in 2005-06 whilst the negative impact on VAT receipts is estimated to be between £2 billion and £3 billion. As part of the wider international strategy, negotiations are continuing with European partners to secure a derogation necessary to introduce reverse charge accounting for goods most commonly used in the fraud.

Simplifying Tax Administration for Business

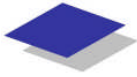
HM Revenue and Customs (HMRC) has plans to deliver a better service for business by 2010-2011 and has set out milestones for the introduction of new and improved services that will deliver the stretching targets, announced at Budget 2006, to reduce administrative burdens. Over the next four years, HMRC will:

- further reduce the burden of forms and returns: for instance, by introducing a redesigned VAT registration form from December 2006 to make registration easier and quicker for 225,000 businesses each year, and a new self assessment return in April 2008, halving the number of self-employment pages for 500,000 businesses;
- develop a single customer record, which will underpin single registration for all business taxes and enable the creation of a single business customer account, with consultation starting in 2007;
- link the enquiry window with the submission of the tax return, so that businesses can have their tax affairs settled sooner, with effect from 2008;
- provide a streamlined online environment for businesses to submit forms and returns and make payments, with delivery planned from 2008-09; and
- enhance services for agents and tax advisers, so that they can better support their clients and enable HMRC to target its activities more accurately on higher risk areas, with the first pilots starting in December 2006.

Other Provisions

HMRC online services

To increase the take-up of its online services, HMRC is investing in its supporting infrastructure and continuing to work with customers and other stakeholders on the implementation of Lord Carter's recommendations.



Legislation will be brought forward during 2007 to implement the changes which start in 2008. In July 2006, the Government accepted Lord Carter's revised recommendation for income tax self assessment, so that the deadlines for filing returns for 2007-08 will be 31 October 2008 for paper and 31 January 2009 for filing online.

Company Filing Dates

Following Lord Carter's recommendations and consultation by HMRC and Companies House, the Government will work to provide a single online filing facility by 2010.

To encourage earlier filing and give businesses certainty sooner, from 2008 the period during which an enquiry can be opened into a corporation tax return will be tied, for most companies, to the actual date HMRC receives the return rather than a fixed filing date. HMRC will review the impact of these changes.

Tax-Motivated Incorporation

The Government say that it is committed to ensuring that the small business tax system adapts to the changing business environment and that the UK is the best place in the world to start and grow a business. However, it remains concerned about the tax-motivated incorporation of the self-employed, which involves businesses taking advantage of structural differences in the tax and national insurance contributions (NICs) treatment that applies to companies. The Government will therefore continue to review how the system could be modernised, made simpler, more efficient and more competitive.

Construction Industry Scheme

The new Construction Industry Scheme will be introduced on 6 April 2007. The legislation to bring this into effect is being laid in Parliament this afternoon. It will reduce regulatory burdens and help the construction industry comply with its tax obligations. An increasing proportion of sub-contractors in the current scheme do not have their full tax and national insurance liabilities met by their deductions.



To reduce the additional payments due after the end of the year, the new scheme will have a standard deduction rate of 20 per cent.

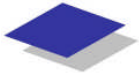


To enable unregistered sub-contractors to start work sooner and encourage them to register, the higher deduction rate will be 30 per cent.

Taxation of Foreign Profits

The Government is determined to maintain the overall competitiveness of the UK, and since Budget 2006, has held productive dialogue with stakeholders on the taxation of foreign profits. Following the recent European Court of Justice (ECJ) judgment in *Cadbury Schweppes*, changes to the Controlled Foreign Companies (CFC) rules are necessary to ensure they remain effective and to provide increased certainty for business. The Government will consult with business in 2007 on a wider package of reform.





Six-Year Limitation Period Direct Tax Claims

The Government has announced that it will legislate to ensure that the limitation period for the recovery of direct tax paid by mistake of law is six years from the date of payment. This is to ensure consistency with the limitation period for making claims in respect of direct taxes paid under assessment as a result of a mistake in a tax return, as specified in section 33 Taxes Management Act 1970 and paragraph 51 schedule 18 Finance Act 1998. This follows a recent House of Lords decision and restores the balance of interests secured by such a limitation.

VAT: Special Method of Declaration

Following informal consultation with affected businesses, the Government will introduce from 1 April 2007 changes to the VAT rules that allow partly-exempt businesses to use bespoke calculation methods to agree how much VAT they can recover. For the vast majority of the 20,000 businesses affected, these changes will simplify and speed up the administrative process for agreeing special methods of declaration. These changes will also require businesses to confirm that their proposed method gives a fair tax result. The new rules will also allow businesses to include the VAT on certain overseas supplies within their calculation method, which they currently have to reclaim separately.

VAT: Retention of Records

Following consultation with businesses, the Government will bring forward changes in Finance Bill 2007 to clarify the VAT rules on which business records should be retained by the seller or passed to the buyer when a business is sold as a going concern. This simplification measure will help businesses to retain or acquire the records necessary to ensure compliance with their tax obligations without imposing additional complexity or cost.

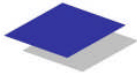
Capital Gains Tax

The Government is introducing a measure effective from today that will prevent people creating and using capital losses purely to gain a tax advantage. This measure will encompass the existing provision for companies included in this year's Finance Act without changing its effect.

Real Estate Investment (UK-REITs)

The Pre-Budget Report announces a change to the Real Estate Investment (UK-REITs) regime, to be included in Finance Bill 2007, to make it easier companies to join the regime. This change will allow companies to enter the REIT regime without meeting the requirement that at least 75 per cent of their business assets and income consists of property rental activity, provided that they meet this within one year of entry. The entry charge of 2 per cent of the gross market investment properties will be levied at the end of this first year, on the value of properties at that point. HMRC will also shortly publish information on a number of technical measures to be made in Finance Bill 2007, to ensure that the regime runs smoothly.





Personal Allowances etc

All income tax allowances will automatically be increased in line with inflation. The personal allowance will increase to £5,225 in 2007/8.

The age-related personal allowances will rise in 2007/8 to £7,550 for people aged between 65 and 74 and to £7,690 for those aged 75 and over. This will mean that in 2007-08 no one aged 65 or over need pay tax on an income of up to £145 a week. Around half of all pensioners pay no tax on their income.

The threshold for Higher Rate Income Tax is to be increased by £1,300 to £34,600 for 2007/8.

The starting rate limit is to be increased by £80 to £2,230 for 2007/8.

What is yet to be confirmed (to be decided in the 2007 Budget) includes Basic and Higher Rate Income Tax Rates for 2007/8.

PERSONAL ALLOWANCES

Income tax personal and age-related allowances 2007-2008	£
Personal allowance (age under 65)	5,225
Personal allowance (age 65-74)	7,550
Personal allowance (age 75 and over)	7,690
Married couple's allowance* (aged less than 75 and born before 6 April 1935)	6,285
Married couple's allowance* (age 75 and over)	6,365
Married couple's allowance* - minimum amount	2,440
Aged income limit	20,900
Blind person's allowance	1,730

* Married couple's allowance given at the rate of 10%

National Insurance

The standard main rate of employee's Class 1 contributions below the upper earnings limit will continue to be 11 per cent, and above the limit the rate will continue to be 1 per cent.

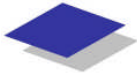
The standard rate of employers' Class 1 contributions will continue to be 12.8 per cent.

The NI Contribution thresholds and rates from 6 April 2007 are set out in the Table below.

NATIONAL INSURANCE CONTRIBUTIONS

2007-08

Lower earnings limit, primary class 1	£87 a week
Upper earnings limit, primary class 1	£670 a week
Primary threshold	£100 a week
Secondary threshold	£100 a week
Employees' primary class 1 rate	11% on £100 to £670 a week 1% above £670 a week
Employees' contracted-out rebate	1.60%
Married women's reduced rate	4.85% on £100 to £670 per week 1% above £670 a week
Employers' secondary class 1 rate	12.8% on earnings above £100 a week
Employers' contracted-out rebate, salary-related schemes	3.70%
Employers' contracted-out rebate, money-purchase schemes	1.4%
Class 2 rate	£2.20 a week
Class 2 small earnings exception	£4,635 a year
Special class 2 rate for share fishermen	£2.85 a week
Special class 2 rate for volunteer development workers	£4.35 a week
Class 3 rate	£7.80 a week
Class 4 rate	8%
Class 4 lower profits limit	£5,225 a year
Class 4 upper profits limit	£34,840 a year
Class 4 rate above upper profits limit	1%



Tax Credits

Child and Working Tax Credit rates and Child Benefit

Child Benefit is raised in line with inflation.

The child element of Child Tax Credit (CTC) is to be unchanged from 6 April 2007.

The disabled child element and severely disabled elements rise with inflation. The family element (normal and baby addition) remains frozen at £545 per year. The income threshold for CTC rises to £14,495 per year. The income threshold for CTC family element only remains unchanged at £50,000 per year.

The maximum eligible childcare costs remains unchanged at £175 for one child and £300 for two or more children. The percentage of eligible childcare costs is also unchanged at 80 per cent.

The disregard in Tax Credits for increases in income between one tax year and the next remains unchanged at £25,000.



WORKING TAX CREDIT

£ per year (unless stated)	2006-07	Change	2007-08
Basic element	£1,665	+ £65	£1,730
Couple and lone parent element	£1,640	+ £60	£1,700
30 hour element	£680	+ £25	£705
Disabled worker element	£2,225	+ £85	£2,310
Severe disability element	£945	+ £35	£980
50+ Return to work payment (16-29 hours)	£1,140	+ £45	£1,185
50+ Return to work payment (30+ hours)	£1,705	+ £65	£1,770

CHILDCARE ELEMENT OF WORKING TAX CREDIT

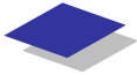
£ per year (unless stated)	2006-07	Change	2007-08
Maximum eligible cost for one child	£175 per week	Unchanged	£175 per week
Maximum eligible cost for two or more children	£300 per week	Unchanged	£300 per week
Percentage of eligible costs covered	80%	Unchanged	80%

CHILD TAX CREDIT

£ per year (unless stated)	2006-07	Change	2007-08
Family element	£545	Unchanged	£545
Family element, baby addition	£545	unchanged	£545
Child element	£1,765	+ £80	£1,845
Disabled child element	£2,350	+ £90	£2,440
Severely disabled child element	£945	+ £35	£980

INCOME THRESHOLDS AND WITHDRAWAL RATES

£ per year (unless stated)	2006-07	Change	2007-08
First income threshold	£5,220	Unchanged	£5,220
First withdrawal rate (per cent)	37%	Unchanged	37%
Second income threshold	£50,000	Unchanged	£50,000
Second withdrawal rate (per cent)	6.67%	Unchanged	6.67%
First threshold for those entitled to Child Tax Credit only	£14,155	+ £340	£14,495
Income disregard	£25,000	Unchanged	£25,000



Child Benefit and Guardian's Allowance

The rates of Child Benefit and Guardian's Allowance for 2007-08 will be as set out opposite.

Pensions

On 6 April 2006 (known as A-Day) new tax rules for all pensions came into force. These new rules are intended to encourage us all to save more for our retirement.

Amongst the changes that came in on 6 April 2006 are significant increases in the maximum amount an individual can put into a pension without tax penalty (the Annual Allowance), and a lifetime allowance being the value of pension savings anyone can draw in their lifetime without a tax penalty.

The table opposite show the allowance levels from A-Day up to 2010/11.

There are also changes to the amount that can be taken as a tax free lump sum at retirement (from A-Day it will be basically 25% of total pension benefits) and the minimum age for taking pension benefits (from A-Day it is 50, increasing to 55 from 6 April 2010).

Tax Shelters

There were no announcements affecting existing tax shelters (except an extension in the life of ISAs) which for 2006/7 are as follows:

TAX SHELTERS 2006-2007

Venture Capital Trusts - investment limit and rate of tax relief (maximum)	£200,000 (relief at 30%)
EIS - relief at 20%	£400,000
Tax-free employment termination	£30,000
Tax-free "rent-a-room" income	£4,250
ISAs	£7,000

CHILD BENEFIT AND GUARDIAN'S ALLOWANCE

£ per week	2006-07	Change	2007-08
Eldest/only child	£17.45	+ £0.65	£18.10
Other children	£11.70	+ £0.40	£12.10
Eldest/only Child (Lone Parent Rate)	£17.55	Abolished	Abolished
Guardian's Allowance	£12.50	+ £0.45	£12.95

PENSIONS - ANNUAL AND LIFETIME ALLOWANCES

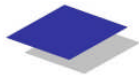
Tax Year	Annual Allowance	Lifetime Allowance
2006/07	£215,000	£1,500,000
2007/08	£225,000	£1,600,000
2008/09	£235,000	£1,650,000
2009/10	£245,000	£1,750,000
2010/11	£255,000	£1,800,000

VAT

There were no new announcements affecting VAT rates or registration/de-registration limits which remain as follows:

VALUE ADDED TAX

	Rates etc from 1 April 2006
Standard rate	17.50%
VAT fraction	7/47ths
Registration limit at	£61,000
Deregistration limit at	£59,000
Cash accounting turnover limit	£660,000
Annual accounting turnover limit	£1.35m



Capital Gains Tax

The Chancellor made no new announcements on the favourable rates of taper relief on business assets which remain as follows:

CAPITAL GAINS TAX TAPER RELIEF

Whole years asset held from 6 April 1998	Percentage of gain charged to tax	Effective rate of tax for higher rate taxpayer (%)
Less than 1	100	40
1	50	20
2	25	10

CAPITAL GAINS TAX EXEMPT AMOUNT

	Annual exempt amount for individuals	Annual exempt amount for trustees
2006/7	£8,800	£4,400
2007/8	£9,200	£4,600

Cars

The Chancellor made no new announcements about tax on car benefits which are:

CAR BENEFIT READY RECKONER

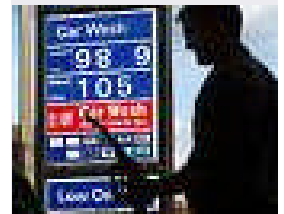
CO ₂ emissions in grams per km	2005-2006 to 2007-2008	2008-2009
120 or lower	N/A	10%
125-135	N/A	15%
140	15%	16%
145	16%	17%
150	17%	18%
155	18%	19%
160	19%	20%
165	20%	21%
170	21%	22%
175	22%	23%
180	23%	24%
185	24%	25%
190	25%	26%
195	26%	27%
200	27%	28%
205	28%	29%
210	29%	30%
215	30%	31%
220	31%	32%
225	32%	33%
230	33%	34%
235	34%	35%
240	35%	35%
245	35%	35%
250	35%	35%
255	35%	35%

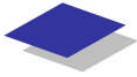
CAR FUEL ADJUSTMENTS

Type of fuel	Code	Standard adjustment	Other adjustments
Petrol	P	none	none
Diesel (not Euro IV)	D	supplement: 3% (see note 1)	none
Diesel (Euro IV) first registered on or before 31 December 2005	L	cancel type D supplement, above	none
Diesel (Euro IV) first registered on or after 1 January 2006	L	supplement: 3% (as type D; see note 1)	none
Electric only	E	reduction: 6%	none
Hybrid electric	H	reduction: 3%	none
Gas only	B	reduction: 2%	none
Bi-fuel with CO ₂ emissions figure for gas (note 2)	B	reduction: 2%	use lowest CO ₂ figure
Bi-fuel conversion, or other bi-fuel not within type B	C	none	none

Notes

- Subject to the overall maximum appropriate percentage of 35%.
- Cars which were type approved as bi-fuel cars and were first registered on or after 1 January 2000. These cars have two approved CO₂ emissions figures, one each for petrol and gas (though only one may appear on the Vehicle Registration Certificate, V5C). Supplements and reductions only apply to cars first registered on or after 1 January 1998. They apply to all such cars, whether or not they have an approved CO₂ emissions figure.





Corporation Tax

Changes to the corporation tax regime from 1 April 2006 are shown in the table below. New rates from 1 April 2007 will be announced in Budget 2007.

The profits limits may be reduced for a company that is part of a group or has associated companies. The lower rates and marginal reliefs do not apply to close investment holding companies.

CORPORATION TAX RATES: YEAR TO 31 MARCH 2007

Companies earning less than £50,000:

Starting rate (on profits up to £10,000)	Not applicable
Lower Marginal rate (excess over £10,000)	Not applicable

Companies earning under £300,000 From £1 to £300,000 @ 19%

Non Corporate Distribution rate Not applicable

Companies earning between £300,000 and £1.5million:

First £300,000	19%
Upper Marginal rate (excess over £300,000)	32.75%

Companies earning over £1.5million:

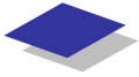
Main rate	30%
-----------	-----

Stamp Duty

The Chancellor made no new announcements on the stamp duty land tax rates which were last increased on 23 March 2006 as shown in the Table below.

STAMP DUTY LAND TAX RATES FROM 23/03/06

Rate	Land in disadvantaged areas		All other land in the UK	
	Residential	Non-residential	Residential	Non-residential
0%	Up to £150,000	Up to £150,000	Up to £125,000	Up to £150,000
	More than £150,000 but not more than £250,000	More than £150,000 but not more than £250,000	More than £120,000 but not more than £250,000	More than £150,000 but not more than £250,000
1%	More than £250,000 but not more than £500,000	More than £250,000 but not more than £500,000	More than £250,000 but not more than £500,000	More than £250,000 but not more than £500,000
	More than £500,000	More than £500,000	More than £500,000	More than £500,000
3%	More than £500,000	More than £500,000	More than £500,000	More than £500,000
	More than £500,000	More than £500,000	More than £500,000	More than £500,000



Important Notice

© Copyright 2001-2006, Bizezia Limited. All Rights Reserved.

This publication is published on our behalf by Bizezia Limited. It is protected by copyright law and reproduction in whole or in part without the publisher's written permission is strictly prohibited. The publisher may be contacted at info@bizezia.com (telephone 0870 389 1420).

Articles and information contained herein are published without responsibility by us, the publisher or any contributing author for any loss howsoever occurring as a consequence of any action which you take, or action which you choose not to take, as a result of this publication or any view expressed herein. Whilst it is believed that the information contained in this publication is correct at the time of publication, it is not a substitute for obtaining specific professional advice and no representation or warranty, expressed or implied, is made as to its accuracy or completeness. The information is relevant within the United Kingdom. These disclaimers and exclusions are governed by and construed in accordance with English Law.

Publication issued on: 6 December 2006

Ref: 739

Inheritance Tax (IHT)

The Chancellor has already announced the thresholds for IHT:

INHERITANCE TAX (IHT) THRESHOLDS

Year	Nil Rate Band
2006-07	£285,000
2007-08	£300,000
2008-09	£312,000
2009-10	£325,000

IHT MAIN EXEMPTIONS

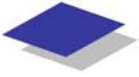
	Exempt Amount
Annual gifts per donor	£3,000 per year
Small gifts to same person	£250
To non-domicile spouse	£55,000 for life
To UK domicile spouse	unlimited gifts
On marriage by either party to the marriage	£2,500
On marriage by parent of either party	£5,000
On marriage by remoter ancestor of either party	£2,500
On marriage by any other person	£1,000
To charities	all gifts
To political parties	all gifts

IHT CHARGE ON GIFTS WITHIN SEVEN YEARS OF DEATH

Years between gift and death	Percentage of death rate charge applied to gift
0 to 3	100%
3 to 4	80%
4 to 5	60%
5 to 6	40%
6 to 7	20%

Further Information

If you would like to receive further information about this subject or other publications, please call us – see our contact details on the next page.



Holden
Associates
Your partner in business

Contact: JASON HOLDEN

Telephone Number: 0845 225 2845

Fax Number: 0870 432 0247

Email: advice@holdenassociates.co.uk

Website: www.holdenassociates.co.uk

We are a family run accountancy and business support practice led by Jason Holden who offer far more than the traditional services you would expect from a firm of accountants.

So, whether you are starting up in business or would like a fresh approach to your existing business, we are confident we can make a real difference to your future.

Our aim is to provide a range of tailor made services to all our clients, this is why we place great emphasis on establishing close working relationships at an early stage. It is only by understanding your needs are we able to provide the practical solutions to your problems.

We are always pleased to meet informally over a cup of coffee with new or potential clients, and remember, we **do not charge for initial meetings**.

Holden
Associates

