

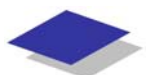
**Budget
2006**



The 2006 Budget Report

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**The Budget
proposals from
Gordon Brown, the
Chancellor of the
Exchequer,
announced on 22
March 2006**



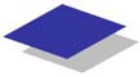


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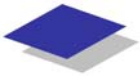
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Introduction

A strong surge in corporate and income tax receipts helped the government to post a record monthly budget surplus in January 2006. The Office for National Statistics (ONS) said public coffers recorded a surplus of £12.6bn during the month.

As a result, Chancellor Gordon Brown has now borrowed £29.8bn in the 10 months to January 2006 - £200m down on the same period last year. It puts Mr Brown on track to meet his borrowing target of £37bn.

Predictions for the 2006 Budget from Chiltern PLC include:

Anti-avoidance measures: given the precedents set in previous budgets and the raft of information that HMRC has, thanks to the Disclosure of Tax Avoidance Schemes (DOTAS) rules now in place, it is almost inevitable that there will be a further raft of anti-avoidance measures aimed at preventing specific tax planning initiatives.

Real estate: Final UK Real Estate Investment Trust (UK-REIT) legislation should be released on Budget day with details of the all-important "conversion charge" which will be applied to companies wishing to enter the UK-REIT regime and, as such, will be hugely influential in establishing the overall success of the regime.

Residence and domicile issues: A review of the rules surrounding residence and domicile has long been mooted and it is quite possible that such a review may be unveiled in this Budget.

Taper relief: It is now eight years since taper relief was introduced and there is speculation that rules will be introduced to align the treatment of business and non-business assets.

Principal Private Residence: Given the profits now arising on the sale of properties, it would not be a surprise to see measures in this year's Budget to tighten the rules surrounding principal private residence relief.







The BBC had their own spin on what the Chancellor might say:

-  An increase in road tax to £200 for large 4x4 cars in a bid to help the environment.
-  Freezing fuel duties for the fourth year running - a move that will anger green campaigners.
-  Plans to attract more foreign investment into the UK and create "high value" jobs.
-  Repeating last year's one-off £200 council tax rebate for pensioners.
-  Extending research and development (R&D) tax breaks to small firms.
-  Increasing council tax for households that throw away too much rubbish.
-  More help to get single parents into work.
-  More cash for military operations in Iraq and Afghanistan.

Of course, these were just educated predictions. Please read the actual proposals from the Chancellor on the following pages.

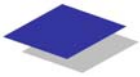
What we already knew...

Today, Gordon Brown has delivered his tenth (and final?) Budget and we already know it will lead to yet another bumper Finance Act. Key changes previously announced but yet to be fleshed out include:

-  Changes to small company tax rates
-  Revised rules for corporation tax losses
-  Restrictions to the new rules for registered pension schemes
-  Relief for the tax effect of a change in accounting practice
-  Further anti-avoidance measures for partnerships
-  A new regime for trust taxation
-  Significant changes to the tax credits regime



*History...
As early as 1295, King Edward I wanted to raise taxes to fight the Scots and French, so he thought it wise to get the backing of the Commons - because it gave his money-grabbing more legitimacy.
The annual Budget first came about during Walpole's time in the 1720s. He was both PM and Chancellor. The word "budget" came from the French word "bougette", a little bag.*



Quick Overview

Chancellor Gordon Brown announced his ninth Budget at 12:30 GMT on 22 March 2006.

We are told that the Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all. The Budget sets out how the Government is working to achieve this goal, building on a platform of stability and sustained growth, to ensure the UK can continue to succeed in the global economy. Budget announcements include:

- an updated economic forecast, which shows that the UK economy is stable and growing, and that the Government is meeting its strict fiscal rules for sound public finances over the economic cycle;
- support for families, by increasing the child element of the Child Tax Credit at least in line with earnings to the end of this Parliament;
- further payments into Child Trust Fund accounts at age 7 of £250 for all children, with £500 for children from lower-income families;
- free national off-peak bus travel in England for every pensioner and disabled person from April 2008;
- an additional £585 million to increase direct payments to schools in England;
- funding to support the most talented British athletes to prepare for the 2012 Olympics;
- measures to raise productivity including maximising the impact of science funding, and reducing the burden of regulation on business;
- further reforms to modernise the tax system, and a number of measures to tackle tax fraud and avoidance;
- measures to tackle climate change including an increase in line with inflation of the climate change levy from April 2007, and the introduction of a new zero rate of vehicle excise duty for the small number of cars with the very lowest carbon emissions and a new top band for the most polluting new cars; and
- an increase in line with inflation of fuel duty rates from 1 September 2006.

The Budget Report is available from the HM Treasury website, in Adobe Acrobat Portable Document Format (PDF) at:
www.hm-treasury.gov.uk/budget/budget_06/budget_report/bud_bud06_repindex.cfm

The Budget in Detail

Income tax rates and allowances

The Chancellor announced that the income tax starting rate limit and basic rate limit are to increase in line with indexation. The taxable bands are uprated each year by indexation unless legislation is passed to override this.

National insurance contributions

National insurance contribution (NIC) rates and thresholds for 2006-07 were announced in the 2005 Pre-Budget Report. The starting point for employers', employees' and self-employed NICs in 2006-07 will increase in line with inflation. NICs are not paid on earnings or profits below this amount. The upper earnings and profits limits for NICs will increase from April 2006 in line with inflation. For the self-employed, the rate of Class 2 contributions will also be increased in line with inflation.

Capital gains tax (CGT)

The capital gains tax annual exempt amount is increased in line with statutory indexation to £8,800 for the tax year 2006-07 for individuals, personal representatives of deceased persons and trustees of certain settlements for the disabled.

Gains arising on disposal of a principal private residence will continue to be exempt from capital gains tax.

Inheritance tax

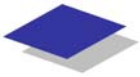
The inheritance tax threshold is increased beyond statutory indexation to £285,000 for 2006-07. The value of estates above the threshold is taxed at 40 per cent. The threshold will rise from £285,000 for 2006-07 to £300,000 for 2007-08.

Customs and Excise

Alcohol Duty Rates

The excise duty on spirits, cider and sparkling wine is frozen. The duty on beer and still wine is increased in line with inflation, adding 1p (duty and VAT) to a pint of beer and 1p (duty and VAT) to a standard 175ml glass of wine. The operative date is Midnight on 26 March 2006.










Tobacco Products: Changes In Duty Rates

The rates of duty on tobacco products imported into, or manufactured in, the United Kingdom will be increased by 2.65% in line with inflation. The rate changes will come into effect at 6pm on 22 March 2006.

Gaming Duty: Changes to Duty Bands

The Gross Gaming Yield (GGY) threshold for each duty band will be increased in line with inflation.

The changes to the duty bands come into effect for accounting periods starting on or after 1 April 2006. The new duty bands are as shown below:

-  The first £546,500 of GGY - 2.5%
-  The next £1,212,500 of GGY - 12.5%
-  The next £1,212,500 of GGY - 20%
-  The next £2,124,000 of GGY - 30%
-  The remainder - 40%

Section 11 of the Finance Act 1997 and regulation 5 of the Gaming Duty Regulations 1997 will be amended to reflect these changes.

Hydrocarbon Oils: Duty Rates



Businesses producing and importing hydrocarbon oils products will, from 1 September 2006, be affected by increases in excise duty rates on main road fuels by 1.25 pence per litre (ppl), in line with inflation. All other hydrocarbon oils used for road fuel will also increase in line with inflation. Effective rates of duty (that is, the relevant duty minus the relevant rebate) for non-road fuels will also be increased by 1.25 ppl, to maintain the differential to main rates. In order to maintain the current differentials with main road fuels, the duty rates for biodiesel / bioethanol will also be increased by 1.25 ppl. The duty rate for natural gas will increase by 1.25ppl (1.81 p/kg) to maintain the differential with main road fuels.

The duty rate for Liquefied Petroleum Gas will increase by 2.25ppl (3.21 p/kg) to reduce the differential with main road fuels by 1ppl.

VAT: Increased Turnover Limits for Registration And Deregistration

This affects all businesses whose taxable turnover is close to the current VAT thresholds for registration and deregistration. The measure increases the annual taxable

turnover limit which determines whether a person must be registered for VAT from £60,000 to £61,000. This means that a person will have to apply for registration if:

-  at the end of any month, the value of the taxable supplies made in the past 12 months or less has exceeded £61,000; or
-  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 £61,000.

If at the end of any month, a person's taxable turnover in the past 12 months or less exceeds £61,000 but Customs are satisfied that it will not exceed £59,000 in the next 12 months, that person will not have to be registered.

The taxable turnover limit which determines whether a person may apply for deregistration will be increased from £58,000 to £59,000. The existing conditions for determining entitlement or liability to cancellation remain unchanged.

The registration and deregistration limits for acquisitions from other European Union Member States will also be increased from £60,000 to £61,000.

The changes will come into effect on 1 April 2006.

UK Real Estate Investment Trusts (REITS)

Who is likely to be affected?

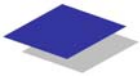
Companies and groups of companies whose main business is property investment, and people who invest in them.

General description of the measure

The measure puts in place a regime that exempts income from and gains made on property from tax, provided the company or group meets certain conditions.

The measure also changes the character of dividends paid by companies that join the regime, to the extent that they relate to tax-exempt profits. These dividends are treated as income from UK property for UK tax purposes and are paid under deduction of basic rate income tax.





Operative date

Companies and groups can elect to join the regime with effect from 1 January 2007.

Where a company owns property, it is chargeable to corporation tax at 30%, on the net rents received (section 15 Income and Corporation Tax Act 1988 (ICTA)) and under section 1 Taxation of Capital Gains Act 1992 on any gains made when property is sold. When a company distributes these profits to investors, they are treated as normal dividends for tax purposes.

For many investors, there is no further tax to pay on the dividends. This is because UK companies are in general exempt from tax on UK dividends (section 208 ICTA), and for individuals, the tax credit attached to the dividend meets the liability to tax for all but higher rate taxpayers (section 397 ITTOIA). Higher rate taxpayers pay additional tax of 25% on the dividend. The tax credit cannot be paid to investors whose liability to UK tax is less than the tax credit.

For companies or groups that meet the necessary conditions for the regime, the measure will allow them to elect for special rules to apply to their property business and to their distributions. Those that elect will be known as UK-REITs (Real Estate Investment Trusts).

For UK-REITs, their qualifying rental income and gains on disposals of investment properties will be exempt from corporation tax. Profits and gains on any other activities carried on by the UK-REIT will be subject to corporation tax in the normal way.

Distributions paid out by a UK-REIT, so far as they are paid out of tax-exempt property income or gains, will be treated as UK property income. They will be chargeable to tax under Schedule A (section 15 ICTA) (for corporation tax) or section 268 ITTOIA (for income tax) and paid out to investors under deduction of basic rate income tax (22%). Dividends paid out of other profits will be treated as normal dividends for UK tax purposes. The detail of the administrative arrangements for accounting for tax deducted from payments will be included in regulations.

The conditions that have to be met to come within the UK-REIT regime cover:

- the company (or the parent company in the case of a group),

- the business carried on, and
- a requirement to distribute at least 90% of the tax-exempt profits each year.

The conditions the company must meet include the following:

- it must be UK resident for tax purposes,
- its shares must be listed on a recognised stock exchange, and
- no one investor may be beneficially entitled to 10% or more of distributions or control directly or indirectly 10% or more of the share capital or voting rights.

The conditions that relate to the business are that:

- 75% or more of its assets must be investment property,
- 75% or more of its income must be rental income, and
- the ratio of interest on loans to fund the tax-exempt business to rental income of that business must be less than 1.25:1.

Companies or groups wanting to become UK-REITs will pay an entry charge of 2% of the market value of their investment properties at the date the company or group joins the regime. This charge will be collected at the same time as any corporation tax that is due for the first accounting period the regime applies to them. Companies or groups will be able to spread the charge over four years, in instalments of 0.5%, 0.53%, 0.56% and 0.6% if they prefer.

The legislation relating to “housing investment trusts” (sections 508A and 508B ICTA) is being repealed at the same time.

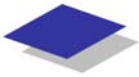
Corporation Tax

Who is likely to be affected?

Most companies with profits chargeable to corporation tax of less than £50,000.

General description of the measure

The reduction of the starting rate of corporation tax to 0% in April 2002 has resulted in a significant number of small businesses incorporating solely or mainly for tax and NIC reasons rather than as a step to growth.



This measure will simplify the corporation tax position for small companies with a single CT rate replacing the starting and non-corporate distribution rates.

There will be no changes to the current small companies and main rates, nor to the profit limits and fraction used in smoothing the differences between these rates (marginal small companies' relief).

Operative date

The new rates will apply from 1 April 2006.

Current law and proposed revisions

The rate at which corporation tax is payable depends on the amount of a company's profits for the financial year in question. Corporation tax is charged at the starting rate (currently 0%) where profits are £10,000 or less, the small companies' rate (currently 19%) where profits are between £50,001 - £300,000, and the main rate (currently 30%) where profits exceed £1,500,000. Marginal relief is given to smooth the transition from one rate to another.

In addition, where a company makes a distribution on or after 1 April 2004 to a non-corporate person (a recipient who is not a company) a minimum rate of 19% is applied to the profits distributed.

This measure will remove the starting and non-corporate distribution rates from 1 April 2006 and will result in a much simpler regime with profits charged at either the small companies' rate or the main rate, with marginal relief for companies with profits between the limits.

Rate of First-Year Capital Allowances for Small Businesses

Who is likely to be affected?

Small businesses investing in plant and machinery.

General description of the measure

The rate of first-year capital allowances for small businesses spending on most plant and machinery will be increased from 40% to 50% for a period of one year.

Operative date

The increased allowance will apply to spending incurred on or after 1 April 2006 for businesses in the charge to corporation tax, and on or after 6 April 2006 for businesses in the charge to income tax.

Current law and proposed revisions

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 and 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.

This measure will increase the rate of FYAs for small businesses only, from 40% to 50% for a period of one year, providing an increased cash-flow benefit for small business's investments in plant and machinery. The rate of FYAs for medium-sized enterprises remains unchanged at 40%.

Reform of Film Tax Relief

Who is likely to be affected?

Companies within the charge to UK taxation incurring expenditure on the production of British films intended for cinema exhibition.

General description of the measure

The measure introduces a new tax relief for the production of British films.

Operative date

The new relief will be available to films intended for theatrical release which commence principal photography on or after 1 April 2006.

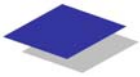
The existing tax relief will continue to apply to the production of films commencing principal photography on or before 31 March 2006, provided the film is completed before 1 January 2007 and to the acquisition of films where acquisition takes place before 1 October 2007.

Current law and proposed revisions

The basic tax treatment of expenditure on the production and acquisition of films is governed by sections 40A and 40B of the Finance (No 2) Act 1992 and, for individuals, section 134 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005).

Tax relief is provided by section 42 of the Finance (No 2) Act 1992 and sections 138 to 144 of ITTOIA 2005 which allow expenditure on the production or acquisition of British films





to be matched against income from the film or written off over three years. Section 48 of the Finance (No 2) Act 1997 allows such expenditure on low budget British films to be written off immediately. Such relief is only available to films intended for cinema exhibition.

A British film is one certified as such under the Films Act 1985. These provisions allow the expenditure on producing or buying a film to be treated as revenue, rather than capital, expenditure. The same basic treatment also applies to expenditure on British films intended for broadcast on television.

The new film tax relief will be underpinned by a new treatment for film production companies (FPCs) that ensures that, for tax purposes, a FPC will be defined as a company responsible for principal photography, post-production and for delivering the completed film. Each film will be treated as a separate trade for tax purposes.

The current tax reliefs will be replaced with a new regime available to the production of British films by a FPC and will be provided on a maximum of 80% of total qualifying UK expenditure. To be eligible for the new relief, qualifying UK expenditure must be at least 25% of total production expenditure on the film.

A British film will be defined as one which meets the conditions of a test to be introduced by revisions to the Films Act 1985. Qualifying UK expenditure will be defined as that directly incurred in relation to pre-production, principal photography and post production activities which take place within the UK. Expenditure on other film-related activities, such as development, distribution and marketing, will be subject to normal tax rules.

The new incentive will provide an additional tax deduction for UK production expenditure. The rate of the deduction will be 100 per cent for films with total qualifying production expenditure of £20m or less and 80 per cent for all other films. Where this additional deduction gives rise to a tax loss, the FPC will be entitled to surrender that loss, up to the amount of its qualifying UK expenditure, for a payable tax credit. This tax credit will be calculated at a rate of 25 per cent of the loss surrendered for films with qualifying production expenditure of £20m or less and 20 per cent for all other qualifying films.

Alternatively, a FPC will be able to carry forward the additional deduction and set it against future income from the film in the same way as other losses. When the trade ceases, for example when the film is sold or ceases to be exploited, the FPC will be able to transfer its unused additional deduction to another trade of producing a British film carried on either within the same FPC or in another FPC within the group.

Amendments to Research & Development Tax Relief Schemes

Who is likely to be affected?

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

General description of the measure

In line with a key recommendation of the Cox Review, the Government intends to provide additional support to firms with between 250 and 500 employees through R&D tax credits, subject to the outcome of state aid discussions with the European Commission. Further details of the proposals will be published later this year.

Two minor changes are being made to the rules governing R&D tax relief and vaccines research relief in Finance Bill 06. These changes:



align the claims process and time limits for claims to enhanced deductions with those for payable credits; and



extend the categories of qualifying expenditure to include payments made to clinical trial volunteers.

Operative date

The changes to the claims process will apply, for all three schemes, for accounting periods ending on or after 31 March 2006. Transitional rules will apply in the case of accounting periods ending before that date.

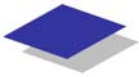
The operative date for the extension of qualifying expenditure will be as follows:



in the case of the 'large company' R&D scheme (Schedule 12 FA 2002), 1 April 2006; and



in the case of the R&D scheme for small and medium enterprises and vaccines research relief, a date to be appointed by Treasury Order. This will allow the extension to take effect once state aids approval has been received.



Current law and proposed revisions

Schedule 20 Finance Act 2000 provides for tax relief for small and medium sized 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 tax credit. Schedule 12 Finance Act 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. Schedule 13 Finance Act 2002 provides tax relief for companies of all sizes carrying vaccine research. 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.



Under Schedule 20 Finance Act 2000 and Schedule 13 Finance Act 2002 companies must make, amend or withdraw claims to payable tax credits in their tax returns and the time limit for doing this is the first anniversary of the filing date for the return. There are no specific rules for claims to enhanced deductions. The normal rules for claims therefore apply and such claims can currently be made up to six years from the end of the accounting period to which they relate.

The new rules align the process and time limits for making tax credit claims and for making claims for the enhanced deduction. All companies will be required to make, amend or withdraw their claim to the enhanced deduction by the first anniversary of the filing date for the tax return. Transitional rules will apply in the case of claims to the enhanced deduction for accounting periods ended before 31 March 2006. Such claims will need to be made by the earlier of the current time limit for claims (six years after the end of the relevant accounting period) and 31 March 2008.

The amendment extends the categories of qualifying expenditure to include payments made to clinical trial volunteers for taking part in the trials. In the case of the SME R&D scheme and vaccines research relief, which are notified state aids; this extension is subject to approval by the European Commission.




Alternative Finance Arrangements

Who is likely to be affected?

-  Individuals and companies wishing to invest or borrow under alternative finance arrangements that do not involve the receipt or payment of interest.
-  Banks, building societies and similar financial institutions offering alternative finance products.

General description of the measure

The measure;

-  provides for two additional financial arrangements that replicate the effect of investments or loans at interest, ensuring that they are taxed no more or less favourably than equivalent arrangements that do give rise to interest;
-  provides for low-cost alternative finance arrangements by employers to employees to be taxed in the same way as equivalent loans that give rise to interest, and
-  allows other similar arrangements, which equate in substance to a loan or deposit but do not give rise to the payment or receipt of interest, to be brought into the existing legislation by Treasury Order.

These changes further facilitate the use of alternative financial products including, for example, those developed to be Shari'a compliant.

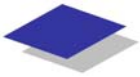
Operative date

The provision relating to alternative finance arrangements made available to employees will apply to arrangements entered into on or after 22 March 2006. The remaining provisions apply to arrangements entered into on or after 6 April 2006 for income tax purposes and 1 April 2006 for corporation tax purposes.

Current law and proposed revisions

Finance Act 2005 (FA 2005) introduced legislation to deal with finance arrangements that are structured so that they do not involve the payment or receipt of interest. It enabled certain financial arrangements to be taxed in a manner similar to those involving interest. It also ensured that other rules relating to interest, such as deduction of tax at source, apply in the same way.

The new provisions build on FA 2005 by providing for two additional alternative finance arrangements to be taxed on a level playing field to products involving interest. These



relate to an agency-style contract, which is equivalent to a saving account, and a partnership-style arrangement used to finance the purchase of property or other assets.

This is achieved by providing that, where certain conditions are met, amounts equating economically to interest that are paid by the financial institution to the investor or received by the financial institution are to be charged to tax on the same basis as interest.

The proposed revision also amends FA 2005 to provide that low cost alternative finance arrangements provided by employers to employees are treated in the same way as conventional low-interest loans to employees. Existing legislation provides that a taxable benefit-in-kind arises from a 'taxable cheap loan' made to an employee. The difference between the amount of interest actually payable, and the amount of interest that would be payable at the official rate, represents the taxable benefit.

It is unclear whether the existing legislation includes alternative finance arrangements. The proposed revision puts it beyond doubt that benefits under such arrangements will be taxed on a par with conventional loans.




Changes to the Venture Capital Schemes

Who is likely to be affected?

-  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.

General description of the measure


For VCTs:

-  The new rate of income tax relief for investors in VCTs will be 30%. (down from 40%).
-  The minimum period for which VCT investors must hold their shares will rise to 5 years.
-  A change to the meaning of "investment".

Regarding the EIS:

-  The annual investment limit for income tax relief is doubled to £400,000.

Regarding EIS, VCTs and CVS

-  The limit in the maximum size of companies able to raise money under the schemes ("the gross assets test") is reduced to £7 million before investment and £8 million afterwards.

Operative dates

The new measures take effect from 6 April 2006, apart from the change to the 70% qualifying holdings condition for VCTs, which has effect from 6 April 2007.

The change to the "gross assets test" will not apply in relation to funds raised by VCTs prior to 6 April 2006, nor to EIS or CVS shares subscribed for before 22 March 2006.

For EIS investments made by Approved Investment Funds (AIFs) raising funds the new gross assets test limits will not apply to investments made by AIFs which were approved before 22 March and which have started raising money before 6 April 2006.

Current law and proposed revisions

Income tax relief for investment in VCTs
Section 94 Finance Act 2004 introduced a two-year temporary increase in the rate of income tax relief available to VCT investors. That temporary rate of 40% applies to investments made before 6 April 2006, with the rate scheduled to revert to 20% thereafter. The new rate of income tax relief that will now apply to VCT shares issued on or after 6 April 2006 will be the increased rate of 30%.

VCTs: Qualifying holding period

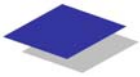
Under Schedule 15B, Income and Corporation Taxes Act 1988 (ICTA), individuals must hold VCT shares for a minimum period of three years to qualify for income tax relief. This period will rise to five years for shares issued on or after 6 April 2006.

VCTs: The meaning of "investment"

Under Section 842AA ICTA a VCT must have 70% by value of its investments represented by shares or securities in qualifying holdings to gain and retain approval. It must also have no more than 15% of its total investments in a single holding in any company. The new rules will mean that any money that a VCT holds (or is held on its behalf) after 6 April 2007 will be treated as an investment for the purpose of these tests.

Annual EIS investment limit

Individuals can qualify for EIS income tax relief to obtain a reduction in their income tax



liabilities of an amount up to 20% of the amount they invest in new full-risk ordinary shares in qualifying companies under Section 290 ICTA. This is subject to an investment limit of £200,000 per tax year. With effect for shares issued on or after 6 April 2006 this limit is doubled to £400,000.

Under Section 289A ICTA, individuals who invest in eligible shares under the EIS scheme during the first six months of any tax year can choose to treat up to half of them as if they had been issued in the previous year, and claim relief accordingly, subject to a maximum carry-back figure of £25,000. This figure is doubled from £25,000 to £50,000, with effect from 6 April 2006.

EIS, VCTs and CVS: The "gross assets test"

Under current rules the relevant assets of the company (or group of companies) raising money under the venture capital schemes may not exceed £15 million immediately before the investment and £16 million immediately afterwards. These limits will be reduced to £7 million and £8 million.

For VCTs the new limits apply to investment of funds raised after 6 April 2006 – for investment of funds raised before 6 April 2006, and money derived from such investments, the existing limits continue to apply.

For EIS and CVS the new limits apply to shares issued on or after 6 April 2006. But the old rules continue to apply in relation to shares issued after that date providing they were subscribed for before 22 March 2006.

EIS investments made by Approved Investment Funds (AIFs) will similarly be subject to the new limits from 6 April 2006. But where an AIF was approved before 22 March 2006 and was raising money before 6 April 2006, investments can be made in companies which meet the old gross assets limits.

Extension to Group Relief

Who is likely to be affected?

The new relief will be available to UK groups with foreign subsidiaries that have incurred foreign tax losses that cannot be relieved elsewhere where those subsidiaries are either resident in the European Economic Area (EEA) or have incurred the relevant losses in a permanent establishment in the EEA.

General description of the measure

This measure introduces a small extension to the group loss relief rules to reflect European Community law. It will include provisions to prevent abuse.

Operative date

The legislation preventing abuse will be effective from 20 February 2006. All other legislation will be effective from 1 April 2006.

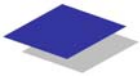
Current law and proposed revisions

Under Section 402 Income and Corporation Taxes Act 1988, a group company can claim to set the losses of another group company against its profits, thereby reducing the amount of corporation tax it pays. However, this applies only if both the claimant company and the surrendering company are UK resident or carrying on a trade in the UK through a permanent establishment.

On 13 December 2005, the Court of Justice of the European Communities (CJEC) handed down its decision in the case of *Marks & Spencer plc v. Halsey*. This case concerned the UK's group loss relief rules for companies. In summary, the Court ruled that the UK's group loss relief rules are in principle compatible with European law, but go too far in denying loss relief to a parent company for the losses of a foreign subsidiary where the parent company has demonstrated that the non-resident subsidiary has exhausted all possibilities of relief in its state of residence.

Primary legislation is being introduced to ensure compatibility with European Community law. The legislation will not affect the existing group loss relief rules as they apply between UK companies or UK permanent establishments. The new relief will apply only where a UK parent company has a foreign subsidiary (including an indirectly held subsidiary) which has incurred a foreign tax loss that is unrelievable in the home state (or elsewhere), and where that subsidiary is either resident in the EEA or has incurred the relevant losses in a permanent establishment in the EEA.

The foreign losses will be 'relievable in the UK' only where all possibilities of relief have been exhausted and future relief is unavailable in the country where they were incurred or in any other country. Where there is a foreign company in the ownership chain between the surrendering company and a UK parent, precedence rules will be used to



determine whether relief will be available in the UK.

In order to obtain relief against UK profits the foreign tax loss will need to be recomputed under UK tax principles. This means that relief will only be available for losses or other amounts that may be surrendered under the existing UK rules. In addition, when calculating the amount of the relief, regard will be had to the overall amount of the unrelieved foreign loss. That is, relief will not be given for an amount that does not represent an unrelieved foreign tax loss.

All appropriate compliance obligations will be placed on the UK claimant company. Therefore, the claimant company will be responsible for demonstrating that the losses meet the relevant conditions.

Legislation will also be introduced, effective from 20 February 2006, to deny loss relief where there are arrangements which either result in losses becoming unrelievable outside the UK that might otherwise be relievable, or give rise to unrelievable losses which would not have arisen but for the availability of relief in the UK, if the main purpose or one of the main purposes of those arrangements is to obtain UK relief.

Securitisation and International Accounting Standards (IAS)

Who is likely to be affected?



Large companies involved in securitisations or issuance of debt.
General description of the measure



Changes to the temporary regime for securitisation companies under which they remain on old UK generally accepted accounting practice (GAAP) for tax purposes.

Operative date

The regime is extended by one year. The changes to the regime have effect from the original start date of 1 January 2005.

Current law and proposed revisions

A temporary tax regime for securitisation companies was introduced in Section 83 Finance Act 2005, to enable such companies to be taxed on the basis of accounting standards in force before the introduction of IAS. This regime was due to end on 31 December 2006.

In order to allow time to develop a more permanent tax regime for securitisation companies, the temporary regime is being extended by one year to 31 December 2007.

Amendments are also being made to the definitions of securitisation companies for the purpose of the temporary regime to ensure it works as intended.

The first change is to exclude companies that issue debt in circumstances other than a securitisation.

Companies that were within the regime on 22 March 2006, or were legally committed to entering into arrangements on 22 March 2006 that would have brought them within the regime, can elect to retain the original rule.

The other changes allow the inclusion of chains of intermediate borrowing companies, and extend the range of permitted activities that a note issuing company can carry on to include the activity of acting as a guarantor.

Sale of Lessors

Who is likely to be affected?

Companies carrying on a business of leasing plant or machinery.

General description of the measure

The measure affects arrangements that can lead to a loss of tax when a company carrying on a business of leasing plant or machinery is sold or otherwise changes hands or enters into transactions with a similar effect.

The measure brings into charge an amount which recovers the benefit that the company has derived from capital allowances and gives the company an equal and opposite relief.

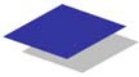
Operative date

The measure will apply where changes in the economic ownership of lessor companies occur on or after 5 December 2005.

Corporate Capital Losses

Who is likely to be affected?

Those companies that take part in schemes or arrangements in order to gain a tax advantage from capital losses.



General description of the measure

As announced in the Pre-Budget Report 2005, three targeted anti-avoidance rules will be introduced to ensure that the creation and use of capital losses is restricted to genuine commercial transactions. Following consultation, minor amendments have been made to the legislation dealing with tax-motivated loss and gain buying so that it operates as intended. Changes have also been made to the guidance issued in the Pre-Budget Report in order to provide further clarity for business.

Operative date

All three anti-avoidance rules will be effective from 5 December 2005.

London Olympic Games and Paralympic Games



The London Organising Committee of the Olympic Games Ltd (“LOCOG”, the company set up to organise the Games), the International Olympic Committee (“IOC”), and non-UK resident competitors and support staff temporarily in the UK for the Games.

General description of the measure

These measures will exempt LOCOG from corporation tax and will provide powers for regulations to be made in relation to the IOC and non-resident athletes and other persons temporarily in the UK to carry out Olympic-related business. The powers will allow provision to be made to ensure that the IOC's revenues generated from the Games, income of non-UK resident athletes from their performance at the Games, and income of other persons temporarily in the UK to carry out Olympic-related business will not be chargeable to corporation tax, income tax or capital gains tax.

Operative date

LOCOG will be exempt from corporation tax from 22 October 2004 (the date the company was incorporated). The regulations made under the powers are unlikely to be needed until nearer the time of the Games.

Controlled Foreign Companies and Residence

Who is likely to be affected?

Companies which became non-resident in the UK for tax purposes before 1 April 2002.

General description of the measure

This measure is designed to ensure that some companies which became non-resident in the UK as a result of the operation of a double taxation treaty before 1 April 2002 are brought within the controlled foreign companies (CFC) legislation.

Operative date

This change will have effect from 22 March 2006.

Taxation of Leased Plant and Machinery

Who is likely to be affected?

Lessors and some lessees of plant or machinery where the lease is essentially a financing transaction. Leases of less than 5 years, and in some cases 7 years or more, will not be affected.

General description of the measure

This legislation aligns the tax treatment of leased plant and machinery with that of plant and machinery acquired with other forms of finance. As a consequence it reduces a distortion in the current system caused by the differing tax treatment of finance from different sources.

Subject to an option to elect otherwise, this legislation will only apply to longer leases that are essentially financing transactions. These leases will be known as “long funding leases”.



Operative date

In general, the legislation will apply to long funding leases finalised on or after 1 April 2006. Transitional arrangements will allow some leases finalised on or after this date to remain unaffected by the new rules.

Other changes

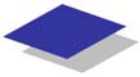
First year allowances

To ensure stability of the new regime, the legislation will make amendments that will allow first year allowances to remain available to lessors only where:

-  they lease cars with low carbon dioxide emissions; or
-  the plant or machinery is leased with a building and functions as background plant or machinery.

Hire purchase

The legislation will amend the hire purchase rules in section 67 Capital Allowances Act 2001 so that:



- hire purchase transactions with overseas lessees are treated in the same way as transaction with UK lessees;
- they only apply to a lessee if the lease should be accounted for as a finance lease under generally accepted accounting principles; and
- the hire purchase rules will apply equally to alternative hire purchase arrangements, for example those developed to be Shari'a compliant.

The changes to the hire purchase rules will apply to contracts finalised on or after 1 April 2006.

Finance costs

The legislation will make two changes that apply to companies carrying on oil extraction activities etc. in the UK or on the UK continental shelf. It will:

- expand the scope of s.494AA ICTA, which deals with the finance costs arising on sale and leaseback transactions, to cover sale and leaseback transactions where the leaseback is what the legislation refers to as a "long funding operating lease" of plant or machinery; and
- amend the definition of "finance costs" in s.501A ICTA which is used in calculating the adjusted ring fence profits on which the supplementary charge is payable.

A similar change will be made to the definition of finance costs in paragraph 63 of Schedule 22 Finance Act 2000, which governs the way that finance costs are to be allocated between tonnage tax and non-tonnage tax activities.

North Sea Oil Pricing

Who is likely to be affected?

Oil and gas companies that operate in the UK or on the UK continental shelf.

General description of the measure

Certain companies can exploit the current oil tax pricing rules to ensure a lower tax price for sales of North Sea production. This can lead to behaviour that is not tax neutral. The changes to be introduced will change the current North Sea oil valuation and pricing rules to achieve a fairer and less distortive tax pricing system.

The measure will impact on:

- pricing for tax purposes of non-arm's length disposals of oil,
- the scope of the Nominations Scheme, and
- the rules for determining which field blended oil is deemed to be lifted from.

Operative date

The new rules will apply on and after 1 July 2006

Qualifying Life Insurance Policies

Who is likely to be affected?

Some holders of qualifying life insurance policies whose terms are varied.

General description of the measure

This measure ensures that unexpected tax effects do not arise for holders of qualifying life assurance policies in certain circumstances. These circumstances are where there is a variation in the method for calculating the investment return to holders of the policies, for instance from with-profits to non profit unit-linked. In the past these variations have often been linked with transfers of insurance business from one insurance company to another.

Operative date

The amendment applies to the type of variation described above taking place on or after 7 October 2005. It also applies retrospectively to similar variations that took place under court-approved insurance business transfer schemes.

Life Insurance Companies

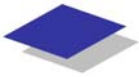
Who is likely to be affected?

Life insurance companies.

General description of the measures

Two measures relating to life insurance companies (measures A and B) were announced on 29 September 2005 (with a further announcement on measure B on 3 November 2005). As a result of consultation undertaken since the announcements, the proposed legislation to implement them has been revised.

The Insurance Companies (Corporation Tax Acts) (Amendment) Order 2005 (SI2005/3465) sets out a revised basis for



taxing the income and gains attributable to assets not needed to pay policyholder benefits (the “inherited estate”) to ensure that, for accounting periods beginning on or after 1 January 2005 and ending before 1 October 2006, such income and gains will be taxed at normal corporation tax rates. As a result of consultation undertaken since the laying of the instrument, a further amending instrument will be laid shortly. In addition, the Finance Bill will contain a provision extending the effect of the instrument. (Measure C).

A further measure will make some technical changes to the corporation tax and stamp duty land tax (SDLT) rules that apply where there is a transfer of business in connection with a scheme of demutualisation. (Measure D).

There will also be a consultation exercise looking at a number of issues which have been identified by practitioners in the insurance industry and within Government as ones which could simplify the current I minus E system and remove unnecessary barriers to commercial transactions, especially business transfers. A consultation document will be issued later this spring.

Operative date

Measures A and B will apply for periods ending on or after 29 September 2005, as announced. Measure C will come into force at Royal Assent and will apply for periods ending after 30 September 2006. Measure D will apply in relation to transfers of business on or after today (but with one aspect backdated to 2 December 2004).

Protecting Revenues: Financial Products

Who is likely to be affected?

Companies who enter into certain types of arrangement that involve financial products designed to avoid tax.

General description of the measure

These measures block a number of avoidance schemes that have been notified to HM Revenue and Customs under the disclosure rules introduced in Finance Act 2004. A common feature of a number of these schemes ((d) to (g) below) is that they use intra-group arrangements to avoid tax on income arising to the group, or create a tax loss when there is no economic loss to the group as whole. Work will continue to

examine the extent to which these and other similar themes are common to this type of avoidance scheme, and the scope for identifying a common approach to addressing them.

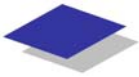
In order to tackle immediate issues, legislation will be introduced in the 2006 Finance Bill to block the following schemes:

- a. avoidance of tax on interest on cash using stock lending arrangements on non-commercial terms;
- b. arrangements involving purchase and sale of rights to distributions on shares used by financial traders to create tax losses;
- c. avoidance of tax through use of instruments which are economically loans but which are claimed not to be loan relationships because they cannot be settled in cash (so called “mandatory convertibles”) but by the issue of shares;
- d. exploitation of the group continuity rules for loan relationships and derivative contracts to take advantage of different accounting methods used by group companies, or to avoid tax on discount arising on transfers;
- e. exploitation of accounting rules which result in profits on loan relationships being de-recognised, and thus falling out of tax;
- f. avoidance of tax in respect of loan relationships under arrangements where the investor receives less than a full commercial lending return (which would be taxable), but another connected party receives the value of that return in a non-taxable form; and
- g. regulations coming into force today will prevent arrangements to hedge currency exposures resulting in tax relief where there is a loss on the hedge but no tax charge where there is a profit.

In addition, minor changes will be made to the ‘shares as debt rules’ introduced in Finance (No 2) Act 2005, to clarify the wording and ensure they work as intended, and in one instance to provide a relaxation asked for by business.

Operative date

The changes apply to scheme (a) in respect of arrangements entered into on or after 5 December 2005, with transitional provisions where arrangements in force on that date are amended. The extension of the stock lending anti-avoidance rules to other arrangements which are similar to stock lending arrangements will apply to arrangements entered into on or after 22nd March 2006.



The changes apply to scheme (b) where sales of rights to distributions are made on or after 20 January 2006.

The changes apply to schemes (c), (e) and (f) in respect of profits accruing from 22nd March 2006, and to scheme (g) to exchange losses brought into account from 22nd March 2006.

The changes apply to scheme (d) in respect of transfers of loan relationships or derivative contracts on or after 22nd March 2006.

The changes to the 'shares as debt rules' will apply to profits accruing on or after today, and the relaxation of the time limit for issues of mirror shares will apply where the public issue is on or after 22nd March 2006.

Simplification of the Taxation of Pensions

Who is likely to be affected?

Pension scheme savers, employers, insurance companies, occupational and personal pension schemes and their advisers, and financial advisers.

General description of the measure

The simplified tax regime for pensions comes into effect on 6 April 2006 (A-Day). From that date, there will be a single set of tax rules for all tax-advantaged pension schemes. The relevant legislation is contained in Finance Acts 2004 and 2005, and accompanying regulations.

These new measures build on those in Finance Act 2004, providing additional flexibility and protection for schemes and individuals, clarifying aspects of the new regime and introducing further necessary anti-avoidance and compliance rules.

Operative date

Will have effect from 6 April 2006.

Current law and proposed revisions

Pension savings are currently governed by various different tax regimes limiting the amount that an individual can contribute to a tax-advantaged pension scheme and the consequent benefits that a scheme can pay out. Pensions simplification will replace the existing tax regimes with a single universal regime for tax-privileged pension savings. The numerous controls in the current regimes will be replaced by two key controls in the new regime:



the lifetime allowance of £1.5m on tax privileged savings, rising to £1.8 million by 2010; and



the annual allowance of £215,000 for savings in a tax privileged pension scheme, rising to £255,000 by 2010.

International Tax Enforcement Arrangements

Who is likely to be affected?

This is a technical measure to extend the scope of the UK's powers to enter into international agreements about mutual assistance in the enforcement of taxes. It will have no direct impact on taxpayers or business.

General description of the measure

The new powers will allow the UK to enter into bilateral and multilateral arrangements for the exchange of information in relation to both direct and indirect taxes. The existing rules provide for arrangements only in respect of direct taxes.

They will also provide for such arrangements to include for the first time provisions on mutual assistance in tax collection in respect of both direct and indirect taxes.

Operative date

Will have effect from when Finance Bill 2006 receives Royal Assent.

Stamp Duty Land Tax: Raising the Threshold for Residential Transactions

Who is likely to be affected?

Anyone who enters into a land transaction relating to residential property where the chargeable consideration exceeds £120,000 but does not exceed £125,000.

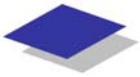
General description of the measure

The measure raises the threshold for stamp duty land tax on residential transactions from £120,000 to £125,000.

Operative date

Any land transaction the 'effective date' of which (see below) is on or after 23 March 2006.

No tax will be payable on transactions in residential property if the consideration does not exceed £125,000. Tax will be payable at



1% if the consideration exceeds £125,000 but does not exceed £250,000.

This change takes effect for transactions the 'effective date' of which is on or after 23 March 2006. 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.

Stamp Duty Land Tax: Extension of Alternative Finance Reliefs

Who is likely to be affected?

Anyone wishing to use alternative financing arrangements for the purchase or lease of land and buildings.

General description of the measure

Current reliefs allow individuals to purchase land and buildings using alternative financing arrangements which are structured to preclude the payment of interest. The reliefs ensure that the stamp duty land tax due is no more than would be due under more traditional loan finance arrangements.

These reliefs will be extended so that all persons such as companies, clubs and trusts can take advantage of this form of financing.

Operative date

This measure has effect for all alternative finance purchases on or after Royal Assent to Finance Bill 2006.

Stamp Duty Land Tax: Simplification and Clarification of the Law

Who is likely to be affected?

Anyone involved in land transactions.

General description of the measure

A number of measures will be included in the Finance Bill to simplify and clarify the law relating to stamp duty land tax. In addition Treasury regulations have been made under existing powers to take a number of transactions outside the scope of stamp duty land tax.

Operative dates



At Royal Assent to Finance Bill 2006, for measures contained in the Finance Bill.



12 April 2006 for measures contained in Treasury regulations.

Stamp Duty Land Tax: Withdrawal of Unit Trust 'Seeding Relief'

Who is likely to be affected?

Promoters, investors and potential investors in unit trust schemes which invest in property.

General description of the measure

'Seeding relief' gives relief from stamp duty land tax when property is transferred into a newly formed unit trust in consideration of the issue of units. This measure withdraws seeding relief. There will now be a stamp duty land tax charge on the transfer of property into a unit trust in consideration of the issue of units, by reference to the market value of the land and buildings transferred.

Operative date

This measure has effect for all transfers into unit trusts on or after 22 March 2006. There are transitional provisions to protect contracts entered into before 2 pm on 22 March 2006.

Stamp Duty Reconstruction Reliefs

Who is likely to be affected?

Companies acquiring either;



the whole or part of a business of another company, or



the entire share capital of another company.

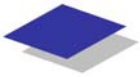
General description of the measure

The measure will amend the rules under which certain company reconstructions and acquisitions may qualify for relief from stamp duty. The requirement that the acquiring company must be registered in the UK will be removed.

The strict rules concerning the proportion of shares held by any shareholder will also be changed so that relief may be given provided that, as nearly as is practical, there is no change in overall ownership of the reconstructed business.

Operative date

From Royal Assent to Finance Bill 2006.



Aligning the Inheritance Tax Treatment for Trusts

Who is likely to be affected?

People who have set up, or have an interest in, “accumulation & maintenance” trusts (A&Ms) and/or “interest in possession” trusts (IIPs) that do not meet new inheritance tax (IHT) rules about their terms and the circumstances in which they are created.

General description of the measure




This measure refines the current IHT rules for A&Ms and IIPs. Trusts of this type that currently receive special treatment but do not qualify under the new rules will come within the mainstream IHT regime for “relevant property” trusts. This change will apply also to existing A&Ms and IIPs, subject to the transitional rules described below.

Operative date




The new rules will apply on and after 22 March 2006 to new trusts, additions of new assets to existing trusts and, subject to transitional provisions, to other IHT-relevant events in relation to existing trusts. Transitional rules will provide for a period of adjustment for certain existing trusts up to 6 April 2008, and for continuing exclusion from the “relevant property” charges if they satisfy conditions for ongoing protection.

Current law and proposed revisions

Part III, Chapter III Inheritance Tax Act 1984 (IHTA) provides a specific regime for “relevant property” trusts – broadly, those trusts in which no person has an interest in possession. It combines:

-  an immediate “entry” tax charge of 20% on lifetime transfers that exceed the IHT threshold into “relevant property” trusts;
-  a “periodic” tax charge of 6% on the value of trust assets over the IHT threshold once every ten years; and
-  an “exit” charge proportionate to the periodic charge when funds are taken out of a trust between ten-year anniversaries.

There are special rules for A&M trusts (section 71 IHTA) and IIP trusts (Part III, Chapter II IHTA). Lifetime transfers into these trusts are exempt from IHT if the settlor survives seven years, and the trusts are not subject to the periodic or exit charges. Legislation in the Finance Bill will limit these special rules to trusts that:

-  are created on death by a parent for a minor child who will be fully entitled to the assets in the trust at age 18; or
-  are created on death for the benefit of one life tenant in order of time whose interest cannot be replaced (more than one such trust may be created on death as long as the trust capital vests absolutely when the life interest comes to an end); or
-  are created either in the settlor’s lifetime or on death for a disabled person (see section 89(4) IHTA).

Any other trusts will fall into the mainstream IHT rules for “relevant property” trusts.

New trusts

In the case of trusts created on and after 22 March 2006, this means that lifetime transfers into trusts are no longer eligible for special treatment unless they are set up for a disabled person. All other transfers will be immediately chargeable. Trusts that do not qualify for special treatment – whether they are created in life or on death – will be liable to the periodic and exit charges applying to “relevant property” trusts.

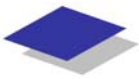
Existing A&M trusts

Where existing A&M trusts provide that the assets in trust will go to a beneficiary absolutely at 18 – or where the terms on which they are held are modified before 6 April 2008 to provide this – their current IHT treatment will continue.




Where they do not, the trust assets will become “relevant property” from 6 April 2008 and the periodic and exit charges will apply. Ten-yearly anniversaries will arise by reference to the original date of settlement. For the first ten years after 6 April 2008, the rate of charge will reflect the fact that the property has not been “relevant property” throughout a full ten-year period. For example, if the first ten-yearly anniversary falls in November 2008, it will be one twentieth of the normal charge.

Existing IIP trusts

The current rules for existing IIP trusts will run on until the interest in the trust property at 22 March 2006 comes to an end. If someone then takes absolute ownership, this will be a transfer by the person with the interest in the property – either a transfer on death or a “potentially exempt transfer” if they are still living – and will receive the same IHT treatment as now. The trust will have no further IHT consequences.



If the interest comes to an end so that the property remains on trust, this will be treated as the creation of new settled property;

-  if it comes to an end during the lifetime of the person beneficially entitled to it, this will be a transfer creating "relevant property" (unless the new trusts are for charitable purposes) and will therefore be immediately chargeable; and
-  if the interest comes to an end on death, it will form part of the person's IHT estate as now and the settled property will then become "relevant property" (unless the charity exemption applies).
-  In both cases, the periodic and exit charges will apply.




However, any new IIP that arises when an IIP created before 22 March 2006 comes to an end before 6 April 2008 – whether on death or otherwise – will be treated as an IIP that was in place on 22 March 2006.

Gifts with reservation

Where an individual is beneficially entitled to an interest in settled property, and continues to be treated for IHT purposes as owning the property, a termination of the interest in the individual's lifetime on or after 22 March 2006 will be treated as a gift for purposes of the IHT "gift with reservation" rules. So if they retain the use of the settled property after their interest in it ends, it will remain chargeable in their hands in the same way as if they had formerly owned it outright.

Capital gains tax consequences

Changes to the IHT treatment of trusts will have a number of implications for CGT:

-  transfers into and out of trusts that will now come within the "relevant property" rules will automatically be eligible for hold-over relief under Section 260(2)(a) Taxation of Chargeable Gains Act 1992 (TCGA);
-  hold-over relief under Section 260(2)(d) TCGA will be restricted to trusts that meet the new IHT rules for trusts for minor children;
-  the special rules in Section 72 and Section 73 TCGA relating to the death of a person entitled to an IIP will be restricted to assets that are subject to an IIP which meets the new IHT rules.

Inheritance Tax & Pensions Simplification

Who is likely to be affected?

The beneficiaries of members of registered pension schemes.

General description of the measure

This measure clarifies how inheritance tax (IHT) will apply to choices made under the new pension scheme rules, which come into effect on 6 April 2006. It legislates an existing IHT concessionary practice for scheme members who die under the age of 75 and sets out how IHT is to be charged on death on or after age 75 where funds are held in an alternatively secured pension.

Operative date

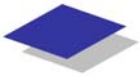
Effective on the death of a scheme member on and after 6 April 2006.

Current law and proposed revisions

Death of scheme member before age 75

The present IHT rules will continue to apply to registered pension schemes in much the same way as they do currently. This measure will legislate the IHT concessionary practice dating from 1992 in relation to pension choices by scheme members. The practice was first published in Inland Revenue Tax Bulletin 2 (February 1992) and was subsequently updated in 1999 to take account of the introduction of income withdrawal under pension schemes.

An IHT charge can arise in a scheme member's lifetime under section 3(3) Inheritance Tax Act 1984 if they do not exercise their right to take pension benefits. The charge applies at the latest time when the right could be exercised i.e. immediately before death. For example, if a scheme member did not take their pension when their life expectancy was seriously impaired, and this resulted in an enhanced death benefit being paid to their beneficiaries, then IHT could apply. Currently, by concession, IHT is not charged in respect of these enhanced death benefits where the beneficiary is a spouse, civil partner or person who is financially dependant on the scheme member. Nor is IHT applied where a scheme member chooses not to exercise a right at a time when this choice does not trigger a charge (for example, choosing not to take a pension when they are in good health) and does not subsequently vary that choice, even when a reduction in their life expectancy would in strictness trigger an IHT charge.




This concessionary treatment will be legislated in the Finance Bill. In addition, payments arising in these circumstances which are made to charity will also be exempted from IHT.


Death of scheme member on or after age 75 – Alternatively Secured Pension


The Government provides tax relief on pensions on the basis that pension funds are used to secure an income in retirement. The pensions tax simplification rules provide that an individual must secure an income before they reach the age of 75. For most people an annuity or scheme pension is the best means by which they can do this. The new pensions tax regime introduces an additional option for securing their retirement income – an Alternatively Secured Pension (ASP).


The Government made clear throughout the development of the new pensions tax regime that ASPs are specifically designed for those who have a principled religious objection to annuitisation. It has become clear that some individuals and their advisors are intending instead to use the ASP provisions for a much wider purpose to enable individuals to pass on tax-privileged retirement savings to their dependants rather than to provide a pension in retirement. In order to prevent this the Government is examining how best to restrict ASPs to their original limited purpose.

Following a consultation by HMRC, legislation will be introduced in the Finance Bill to ensure that appropriate IHT charges will apply on left-over ASP funds. The Government will apply an IHT charge on left-over ASP funds on death (or later) as follows:

 any funds paid as a “transfer lump sum death benefit” (i.e. where the funds remain within the scheme for the benefit of other scheme members) or refunded to an employer or used to provide benefits for a dependant in the pension scheme context who is not a spouse, civil partner or person who is financially dependant will be subject to an IHT charge on the death of the original scheme member as if the funds were part of the scheme member’s own taxable estate on death;

 any funds paid on the death of the scheme member to charity will be exempt from IHT, as will funds expended for the scheme member’s spouse, civil partner or person who is financially dependant on the scheme member;

 any left-over funds, once use by the spouse, civil partner or person who is financially dependant (the beneficiary) has come to an end, will be chargeable to IHT on the earlier of the cessation of those benefits and the death of the beneficiary. These remaining funds will be treated as if they were an addition to the original scheme member’s estate. However, any left-over funds that are paid to charity will be exempt from IHT;

 in certain circumstances, an IHT charge on ASP funds will fall on the estate of a dependant (rather than that of the original scheme member). This will apply where a dependant – within the meaning of the pension scheme rules – opts for an ASP derived from “benefits” inherited from a scheme member who died before age 75. Here, any left-over funds on the dependant’s death will be charged to IHT as if they were part of the dependant’s taxable estate on death.

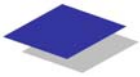
The IHT charge

IHT will be payable on the value of the taxable property at the time the charge arises, and calculated by reference to the tax-free threshold and rate of tax in place at that time. The pension scheme administrator will be responsible for accounting for and paying any IHT due on the ASP funds.

There are two instances where the tax charges on ASP funds overlap. One is where the funds are paid to an employer and the other is where on the death of a dependant under age 75, any remaining funds are paid out as a lump sum other than to a charity. The IHT charge takes priority over the pension scheme tax charge which is then applied to the net fund after deduction of IHT.

Impact

HMRC is planning to work closely with the pensions industry on the necessary processes to help minimise any regulatory impact on pension schemes. Personal representatives of estates will be required to provide information in the estate account about the ASP. This will include an estimate of the value of the left-over ASP funds at the date of death together with details of the name and address of the scheme administrator (who will be liable for any IHT payable).



Gaming Machines and Amusement Machine Licence Duty (AMLD)

Who is likely to be affected?

Will affect anybody who provides a licensable machine for play in the UK. In particular, the change to the definition of a gaming machine will affect bookmakers who provide fixed odds betting terminals (FOBTs) for play and operators of machines provided under section 16 of the Lotteries and Amusements Act 1976 or section 21 of the Gaming Act 1968 (section 16/21 machines or 16/21s).

General description of the measure

More closely aligns excise and VAT definitions of a gaming machine with the Gambling Act 2005 and removes any amusement machine that is not a gaming machine (e.g video or pinball machine) from the scope of AMLD. In addition, there is a minor revision to the definition of an exempted gaming machine to align with the Gambling Act categories.

Aligns the AMLD machine categories with those provided by the Gambling Act 2005 and sets new duty rates.

Operative date

All of the above changes will have effect for any licences commencing on or after 1 August 2006. There is one important exception detailed below.

Current law and proposed revisions **Definition of a Gaming Machine (FOBTs and 16/21s)**

On 6 December 2005, the definition of a gaming machine in Group 4 of Schedule 9 to the Value Added Tax (VAT) Act 1994 was amended by Treasury Order. In consequence, it is necessary to amend section 23 of the VAT Act 1994, which determines the amount on which VAT is calculated, in Finance Bill 2006. The section 23 definition will be amended with retrospective effect back to 6 December 2005.

The 6 December 2005 changes imposed a clear liability to VAT on the receipts from FOBTs and 16/21s. Since then general betting duty has not been collected on FOBT receipts, and section 16/21 machines have remained entitled to be licensed as non-gaming machines (category A AMLD). Until 1 August 2006 there will be no additional

changes to the tax treatment of FOBTs and 16/21s.





With effect from 1 August 2006, the definition of a gaming machine contained in section 25 of Betting and Gaming Duties Act 1981 (BGDA) will be amended (in line with the VAT and Gambling Act 2005 definitions) so that FOBTs and 16/21s are brought within the scope of AMLD and will need to be covered by the appropriate licence. At the same time, further changes to BGDA will remove FOBTs from any charge to general betting duty. This will formalise the tax treatment they received from 6 December 2005.

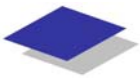
For the elimination of doubt, if a licence were to be taken out for either a section 16/21 or a FOBT from 6 December 2005 until 31 July 2006, for a category other than a gaming machine, that licence will not be valid in relation to those machines after 31 July 2006. From 1 August 2006 a licence authorising the appropriate category of gaming machine (defined by stake and prize) will be required for any premises where FOBTs and 16/21s are available for play.

Scope of AMLD

From 1 August 2006, an amusement machine that is not a gaming machine (e.g video or pinball machine) will be removed from the scope of AMLD. Prior to 1 August 2006, amusement machines that are not gaming machines, and which have a total cost per play in excess of 50p, remain liable to category A AMLD.

Section 21 of BGDA exempts 2-penny machines and machines with a maximum stake of 10p and a maximum prize of £8. From 1 August 2006 the scope of this exemption will be revised:

-  The 2-penny machine exemption will remain.
-  Machines with a maximum stake of 10p and maximum cash prize of £5 will be included.
-  Machines with a maximum stake of 30p and maximum prize of £8, where the cash element of the prize does not exceed £5 will be included.
-  The previous group of machines with a maximum stake of 10p and a maximum prize of £8 will no longer be included unless they qualify under one of the above groups.



New categories

The current categories of machines, and rates of duty, for AMLD are described in section 23(3) of BGDA. This structure will be replaced by the following six categories of machine (that mirror those provided by the Gambling Act 2005):

- 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 in money or as a non-monetary prize.
- 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 in money or as a non-monetary prize.
- 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 in money or as a non-monetary prize.
- 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 in money or as a non-monetary prize.
- C A gaming machine where the amount required to play the game once does not exceed 50p, and the value of the prize that may be won in any one game does not exceed £25 in money or as a non-monetary prize.

Machine operators will need to check which new AMLD category their machines will fall into, but the following is an indicative guide of how new AMLD categories map across to existing AMLD categories:

New category	Relationship to existing AMLD category
A	None. This is intended for new unlimited stake and prize machines that will be allowed in the regional casino, but like the current top category of AMLD, it has been defined for anti-avoidance purposes to capture any gaming machine not falling into any other category.
B1	Some current Cat E machines in casinos.
B2	Some current Cat E machines in casinos plus bookmakers FOBTs not currently subject to AMLD. This will also include some 16/21 machines.
B3	Some current category E machines in casinos and bingo clubs. This category will also include some 16/21 machines.
B4	Some current category E machines in casino, bingo halls and registered clubs, plus category D machines in registered clubs.
C	Current category C and B machines found in a variety of locations.

The table in section 23 of BGDA, setting out rates of duty, will be replaced by the table below:

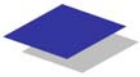
Period (in months) for which licence granted	Category A £	Category B1 £	Category B2 £	Category B3 £	Category B4 £	Category C £
1	435	220	170	170	155	65
2	875	435	345	345	310	130
3	1310	655	515	515	465	195
4	1750	875	690	690	625	255
5	2185	1095	860	860	780	320
6	2625	1310	1030	1030	935	385
7	3060	1530	1205	1205	1090	450
8	3500	1750	1375	1375	1245	515
9	3935	1970	1545	1545	1400	580
10	4375	2185	1720	1720	1555	645
11	4810	2405	1890	1890	1715	705
12	5000	2500	1965	1965	1780	735

In comparison to the old rates, the new rates will:

- Increase AMLD in line with inflation;
- Set new higher rates for category A and B1 to reflect their higher stakes and prizes;
- Set a new rate for category B4;
- Make short period licences more affordable.

Other Measures

As part of the overall Budget package for gaming machines it was announced that changes would be introduced later this year to simplify some aspects of the administration of AMLD.



Gaming Duty: Revalorisation of Duty Bands

Who is likely to be affected?

Casino operators.

General description of the measure

The Gross Gaming Yield (GGY) threshold for each duty band will be increased in line with inflation.

Operative date

The changes to the duty bands come into effect for accounting periods starting on or after 1 April 2006.

New Duty Bands

The new duty bands are as shown below:

The first £546,500 of GGY	2.5%
The next £1,212,500 of GGY	12.5%
The next £1,212,500 of GGY	20%
The next £2,124,000 of GGY	30%
The remainder	40%

Section 11 of the Finance Act 1997 and regulation 5 of the Gaming Duty Regulations 1997 will be amended to reflect these changes.

Tobacco Duty: Control of Supply Chains

Who is likely to be affected?

Manufacturers of cigarettes and hand-rolling tobacco.

General description of the measure

This measure imposes obligations on tobacco manufacturers to monitor and control their supply chains to restrict the supply of tobacco to smugglers. Manufacturers must avoid, so far as reasonably practicable, supplying tobacco to markets where there is not sufficient legitimate demand or where it is likely that the product will be re-supplied to those intending to smuggle it into the UK.

Tobacco manufacturers will be liable to penalties of up to £5 million if, having been given a formal warning, they do not take the necessary steps to control their supply chains adequately. They will not be penalised for the actions of smugglers, but for failing to take steps available to them to prevent large quantities of tobacco getting into the smugglers' hands.

Operative date

The scheme will come into force in Autumn 2006.

Current law and proposed revisions

Existing legislation does not impose any such duty on tobacco manufacturers. The Finance Bill will make necessary amendments to the Tobacco Products Duty Act 1979.

Subsequent Regulations will set out the detailed administrative provisions required for the operation of the scheme.

The legislation will impose a duty on manufacturers to conduct their business in such a way as to ensure, so far as is reasonably practicable, that cigarettes and hand-rolling tobacco manufactured by them, or on their behalf, are supplied in such a manner that they do not become available to those intending to evade UK duty by importing them into the United Kingdom for a commercial purpose.

Manufacturers will be required to maintain a written policy setting out the steps to be taken to comply with this duty.

Manufacturers will also be required to provide specified information about products notified to them by the Commissioners, which represent a significant proportion of the UK illicit market. In addition, they will in certain circumstances be required to provide information about smuggled product that has been seized by the Commissioners.

If manufacturers do not comply with the duty imposed by the legislation, they face a penalty of up to £5 million.

VAT: Power for HMRC to Direct Additional Record-Keeping Requirements

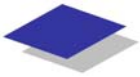
Who is likely to be affected?

Businesses dealing in goods that may be the subject of a fraud in which VAT charged on the supply of the goods is not paid to HM Revenue and Customs (HMRC).

General description of the measure

The measure will allow directions to be issued by HMRC to individual businesses to require them to keep specified records relating to goods that they have traded (for example, IMEI numbers for mobile phones).

The measure will only be exercised where HMRC has reasonable grounds to believe



that the additional records might assist in identifying supplies on which VAT might go unpaid. This fraud most commonly arises from supplies of mobile phones and computer chips, but the scope of the measure will not be limited to goods of this type.

Operative date

Will have effect when the Finance Bill 2006 receives Royal Assent.

Current law and proposed revisions

The measure requires an amendment to Schedule 11 of the Value Added Tax Act 1994, which will give HMRC the power to specify record-keeping requirements through a notice of direction, and will lay down the conditions under which HMRC may issue a direction.

The measure will supplement HMRC's existing power to specify in a published notice record-keeping requirements for all businesses of a particular description. It will enable record-keeping requirements to be imposed where they are necessary to help combat fraud, without imposing a burden on every business of a particular description. The measure will be supported by a specific penalty for failure to comply with the terms of a direction. The notices of direction will contain details of the penalty, so that recipients will be fully aware of their obligations and the consequences of non-compliance. There will be a right of appeal against the issue of a direction and against the imposition of a penalty for non-compliance.

Tobacco Duty: Deregulatory Changes

Who is likely to be affected?

Manufacturers of tobacco products.

General description of the measure

Under this measure the tobacco products regulations are clarified with respect to the occupancy of registered premises, the inter-premises movement of tobacco products, and the use of tobacco products for testing.

Along with these regulatory changes, tobacco manufacturers are allowed to apply for the registration of 'open-air' stores.

Operative date

The various changes will come into effect with the Regulations. The decision to permit

the registration of 'open-air' stores came into effect in January 2006.

Protecting VAT Revenues: Taxation of Phone Cards

Who is likely to be affected?

Businesses which in future may seek to avoid VAT on phone cards and other face-value vouchers.

General description of the measure

There are two elements to this measure:



first, it introduces enabling legislation which allows the Government to make orders in the future which specify additional circumstances in which VAT is to be charged on sales of "credit vouchers"; and



second, this measure clarifies an existing provision without changing its meaning.

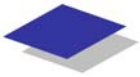
Operative date

Will take effect from when the Finance Bill 2006 receives Royal Assent.

Current law and proposed revisions

The first element of this measure concerns the VAT treatment of face-value vouchers. This change concerns credit vouchers, which are face-value vouchers issued by one person and redeemed by another. Credit vouchers are not subject to VAT because it is expected that VAT will ultimately be charged on the goods or services provided when the voucher is redeemed. Where VAT will not be paid on those goods and services, an existing rule says that the credit vouchers are subject to VAT. This element of the measure will allow the Government to introduce new rules by statutory instrument which can specify additional circumstances in which credit vouchers are subject to VAT.

The second element of this measure concerns Article 21 of the VAT (Place of Supply of Services) Order 1992 SI 1992/3121. The current wording of this provision is ambiguous. The measure therefore seeks to clarify the wording of this provision, to make it clear and help combat avoidance involving face value vouchers (which are defined in law as a "right to receive services").



VAT: Schedule 10- Buildings and Land: Rewrite of Existing Tax Law

Who is likely to be affected?

Virtually all businesses registered for VAT, in particular those acting in a capacity of landlord, tenant or owner-occupier.

General description of the measure

Rewrite of the option-to-tax provisions in Schedule 10 of the Value Added Tax (VAT) Act 1994 into language that is clearer and easier to use, removing redundant material and adopting a more modern drafting style. The opportunity is also being taken to introduce appeal rights and to make some minor changes to improve practical administration.

Operative date

The Finance Bill enabling legislation will come into effect at Royal Assent. A Treasury Order containing the new Schedule will be laid shortly after that.

Current law and proposed revisions

Section 51 of the Value Added Tax (VAT) Act 1994 gives effect to Schedule 10 which covers buildings and land, and can be amended by Treasury Order.

The law will be changed by primary enabling legislation in the Finance Bill. A Treasury Order subject to the affirmative resolution procedure will be made under that legislation following Royal Assent.

The Order made pursuant to the new legislation will make provision for a wholesale rewrite of the Schedule together with incidental, consequential, supplemental or transitional provisions and amendments, such as granting new appeal rights relating to Schedule 10.

The Finance Bill will also enable the repeal of rules on developmental tenancies (Schedule 9 Group 1 para 1(b)) and introduce transitional provisions. This would coincide with the repeal of provisions relating to the developer's self-supply charge in Schedule 10.

Introduction of a Change of the Person Responsible for Accounting for and Paying VAT on the Sale of Certain Goods

Who is likely to be affected?

Any business selling or purchasing specified goods such as mobile phones, computer chips and some other similar electronic items.

General description of the measure

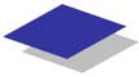
This measure introduces a new legal provision to combat Missing Trader Intra Community (MTIC) fraud in goods such as those referred to above. It changes the person who is liable to account for and pay the VAT on the sale of such goods. Normally the seller of the goods accounts for and pays the VAT chargeable on the sale but this change, when implemented, will require any VAT-registered business purchasing certain goods, which will be specified in secondary legislation, to do so instead. It also introduces a consequential change allowing adjustment of the VAT on the sale when full payment in relation to it has not been made within 6 months.

Operative date

It will come into effect at a future date once we have agreed the proposal with other European Union Member States.

Current law and proposed revisions

A new section 55A of the Value Added Tax (VAT) Act 1994 is being introduced which specifies the person who is liable to account for and pay the VAT on the sale of certain goods. The new section enables the introduction of secondary legislation to specify the goods to which the section will apply and to specify certain excepted supplies. It also makes provision for the purchase of certain goods to which the section will apply to be included in the taxable turnover of a person for VAT registration purposes. A new section 26AB is also being introduced to allow for an adjustment of output tax (as the bad debt relief scheme will not apply) where entitlement to input tax is disallowed under section 26A of the VAT Act 1994. The secondary legislation is not yet available but will set out in detail the goods to which the reverse charge will apply and will specify certain excepted supplies.



VAT: Supplies of Goods Under Finance Agreements

Who is likely to be affected?

Finance companies who sell goods under hire purchase, conditional sale and similar agreements.

General description of the measure

Goods may be returned to finance companies before an agreement is completed, either when the customer exercises their right to return the goods and make no further payments, or where the finance company exercises its rights when the customer defaults on the agreement.

The measure removes the entitlement of finance companies to treat returned goods as 'neither a supply of goods nor services' for VAT purposes, when sold for a second time, where there is a requirement to adjust the VAT charged on the initial sale.

Operative date

The change applies to all finance agreements entered into on or after 13 April 2006 where the goods concerned are delivered on or after 1 September 2006.

Current law and proposed revisions

Regulation 38 of the Value Added Tax Regulations 1995 requires an adjustment to the original VAT amount charged where there has been a reduction in the price paid for the goods.

Article 4 of the Value Added Tax (Cars) Order 1992 will be amended to introduce a new exclusion to the circumstances where a sale of returned cars can be treated as 'neither a supply of goods or services' and so not be chargeable with VAT. The exclusion will apply where VAT on the first sale can be adjusted. This amendment will impact solely on the sale of returned cars under finance agreements.

Article 4 of the Value Added Tax (Special Provisions) Order 1992 will be amended to introduce a new exclusion to the circumstances where a sale of returned goods can be treated as 'neither a supply of goods or services' and so not be chargeable with VAT. The exclusion will apply where VAT on the first sale can be adjusted. This amendment will impact on the sale of a wide range of returned goods under finance agreements.

VAT: Auctioneers' Fees

Who is likely to be affected?

Businesses and individuals buying works of art, antiques, collector's items and second hand goods at public auction when the goods concerned are subject to temporary importation (TI) arrangements. No VAT is currently due on auction sales of goods held within TI arrangements, but VAT becomes due if the goods concerned are then finally imported into the European Union (EU).

General description of the measure

The changes to VAT law will ensure that the commission charged by an auctioneer will be taxed in the same way irrespective of whether the auctioned goods are within TI arrangements or are in free circulation within the EU.

The United Kingdom has previously interpreted European VAT law in such a way that one form of commission, the Buyer's Premium, in respect of goods auctioned within TI was taxed by including the commission in the valuation of the goods at final importation into the EU. The effect of this approach was that the commission was taxed at an effective reduced rate of VAT equal to 5%. The European Court of Justice has recently decided that the commission should in fact be taxed by the United Kingdom at the standard rate of VAT (17.5%).

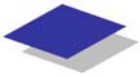
Operative date

The measure will take effect shortly after Royal Assent to the Finance Bill.

Current law and proposed revisions

Sections 21(1) and 21(2) of the Value Added Tax Act 1994 stipulate that the value of goods being imported into the United Kingdom shall be taken to include incidental expenses such as commission. Section 21 will be amended to ensure that auctioneers' commissions (including Buyer's Premium) will be excluded from the valuation calculation for Import VAT purposes. The effect of the change means that commissions will no longer be taxed at the effective reduced rate of VAT.

As a result of the Value Added Tax (Treatment of Transactions) Order 1995 (SI 1995/958), auctioneers' commissions (including Buyer's Premium) relating to sales of goods by auction within TI arrangements



are not treated as a supply for VAT purposes. As such commissions will no longer be taxed within the value of goods at final importation, the Order will be amended so that normal taxation provisions will apply to the auctioneers' commissions.

VAT: Partial Exemption

Who is likely to be affected?

Businesses that operate or intend to operate a partial exemption special method to calculate the VAT they can recover. Users of the standard method are not affected.

General description of the measure

Businesses that make both taxable and exempt supplies operate a partial exemption method to calculate the VAT they can recover on their costs and purchases. Many large partly exempt businesses operate a bespoke special method that must be approved by HM Revenue and Customs (HMRC).

An informal consultation will be held on two changes that will strengthen and simplify the special method regime.

The first change would require a business to declare that its proposed special method is fair and reasonable before gaining approval for its use. HMRC could then set aside a method that the business should have known was not fair and reasonable in order to recoup VAT that has been incorrectly reclaimed. This change would help HMRC approve special methods more quickly. The second change would facilitate 'combined methods' that cater for the recovery of VAT relating to overseas supplies. This change will simplify the rules for partly exempt businesses that make overseas supplies.

Operative date

The Government intends to introduce the changes from April 2007.

Current law and proposed revisions

Section 26(3) of the Value Added Tax Act 1994 requires HMRC to make regulations that secure a fair and reasonable recovery of VAT. To this end, Regulation 102 of the VAT Regulations 1995 (SI 1995/2518) allows HMRC to approve a special method. A special method only provides for the recovery of VAT on costs that relate to taxable supplies made in the UK.

The first change means that HMRC would no longer approve a special method without a declaration from the business that 'to the best of its knowledge and belief' it will produce a fair and reasonable recovery of VAT. If the approved method fails in this respect, HMRC could set it aside and require the business to recalculate past returns to ensure that it only recovers a fair and reasonable amount of VAT.

The second change means that HMRC would be able to approve a special method that deals with the recovery of VAT on costs that relate to supplies made outside the UK that confer the right of deduction (for example, supplies of finance and insurance made to customers outside the EU). The changes only require amendments to the VAT Regulations 1995 which would be made by secondary legislation.

Capital Gains Tax: "Bed and Breakfasting Rules"

Who is likely to be affected?

Individuals and trustees.

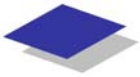
General description of the measure

This measure amends the capital gains tax (CGT) "bed and breakfasting" rules to counter tax avoidance schemes, which exploit the bed and breakfasting rules in certain circumstances to ensure that no CGT is chargeable on substantial gains. One such scheme was used in the case of *Davies v Hicks*, in which it was held in the High Court that no such tax was payable in respect of a disposal of shares made by the trustees of a settlement. The trustees had ceased to be resident in the United Kingdom after making the disposal but before acquiring identical shares (within 30 days after the disposal). There has also been a disclosure to HM Revenue and Customs of a different scheme, which purports to exploit these rules.

Operative date

The amendment will apply in relation to acquisitions made on or after 22 March 2006, as explained in paragraphs 7 to 9 below.

The amendments will apply in relation to acquisitions made on or after 22 March 2006 irrespective of when the disposal was made.



Landlord's Energy Saving Allowance

Who is likely to be affected?

Individual landlords (and other landlords who pay income tax) who let residential property.

General description of the measure

The scope of the Landlord's Energy Saving Allowance (LESA) will be extended to include draught proofing and insulation for hot water systems.

Operative date

Will have effect from 6 April 2006.

Climate Change Levy: Rates

Who is likely to be affected?

Suppliers and others liable to account for climate change levy (CCL).

General description of the measure

The rates of CCL will remain unchanged for 2006-07 and will increase in line with inflation for 2007-08.

Climate Change Levy (CCL) – Abolition of 50% Discount for Energy used in Horticulture

Who is likely to be affected?

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

General description of the measure

The temporary 50 per cent rate for 2006 energy used in horticulture will be abolished. However, since March, many businesses in the horticulture sector have been eligible to sign climate change agreements and instead benefit from an 80 per cent reduction from the levy in exchange for meeting specific energy efficiency targets.

Operative date

On and after 1 April 2006.

Climate Change Levy (CCL): Extension of Exemption for Gas Used in Northern Ireland

Who is likely to be affected?

Suppliers of natural gas in Northern Ireland.

General description of the measure

When the CCL was introduced on 1 April 2001, the UK obtained state aid approval for

an exemption from the levy for natural gas in Northern Ireland, for a period of 5 years. Following renewed state aid approval, the exemption is to continue for another 5 years.

Operative date

The original exemption was due to expire after 31 March 2006, but will now be extended to 31 March 2011.

Landfill Tax

Who is likely to be affected?

Businesses registered for landfill tax.

General description of the measure

The standard rate of landfill tax will be increased from £18 per tonne to £21 per tonne. The lower rate of tax, which applies to inactive wastes disposed at landfill, as listed in the Landfill Tax (Qualifying Material) Order 1996, remains unchanged at £2 per tonne.

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 Landfill Tax Credit Scheme, is to be changed from 6 per cent to 6.7 per cent. This should result in an extra £10 million being available to the scheme in 2006-07 with the expectation that this will be targeted at projects using youth volunteers.

Operative date

The £21 per tonne rate applies to any standard rated disposal of waste made, or treated as made, on or after 1 April 2006. The change to the credit percentage claimable 'under the landfill tax credit scheme' will come into effect at the start of the new landfill tax contribution year, 1 April 2006.

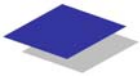
Alcohol Duties: Reducing Administrative Burdens

Who is likely to be affected?

All businesses across the alcohol sector, in particular those that produce spirits, beer, cider, wine and made-wine.

General description of the measure

This measure consists of a wide range of changes to excise legislation covering the alcohol sector. It removes a large number of regulatory requirements that are onerous or obsolete. It also introduces a number of






simplifications and measures designed to facilitate legitimate trade.

Operative date

The repeals to the Alcoholic Liquor Duties Act 1979 will come into force on the date at which the Finance Bill 2006 receives Royal Assent. The Beer, Cider and Perry, Spirits and Wine and Made-wine (Amendment) Regulations 2006 will come into force on 1 May 2006.




Charities: Anti-Avoidance Provisions

Who is likely to be affected?

-  Individuals and companies who misuse charitable reliefs through the use of charities they control.
-  Charities with substantial donors.
-  Non-close companies making cash donations to charity and receiving large benefits in return for the gift.

General description of the measure

These additional rules will act to protect charitable reliefs from misuse. They will penalise certain behaviours that can reduce the amount of charitable funds that are used for good causes. There are three strands to the action HM Revenue and Customs (HMRC) are taking:

-  the first strand will restrict the dealings that a charity can have with its substantial donors those giving £25,000 or more in a single 12-month period, or £100,000 or more over a 6 year period and remove tax relief from the charity where the restrictions are breached;
-  the second strand will provide a direct link between non-charitable expenditure incurred by a charity and loss of tax relief, restricting the income and gains eligible for tax relief by £1 for every £1 of non-charitable expenditure incurred; and
-  the final strand will make non-close companies subject to the same limits on benefits received as a result of a gift to charity as currently apply for individuals and close companies. Non-close companies will also become subject to the same rules as close companies and individuals that apply when gifts are potentially repayable or are associated with the acquisition of property by the charity from the donor or connected persons.

Operative date

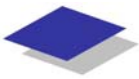
The first strand will affect transactions that take place on or after 22 March 2006. The second will have effect in relation to non-charitable expenditure incurred in a chargeable period commencing on or after 22 March 2006. The final strand will affect payments to charity made on or after 1 April 2006.

Current law and proposed revisions


Section 505 of the Income and Corporation Taxes Act 1988 ("ICTA") contains a mechanism that reverses tax relief granted to a charity where it incurs (or is treated as incurring) non-qualifying expenditure. The restriction of relief applies when a charity has relevant income and gains (broadly those on which tax relief is granted) of more than £10,000, the charity incurs non-qualifying (non-charitable) expenditure and the charity's qualifying (charitable) expenditure does not equal or exceed its relevant income and gains. Where this is the case relief is restricted on the relevant income and gains that exceed the charity's qualifying expenditure to the extent that non-qualifying expenditure is incurred. The remaining balance of non-qualifying expenditure can be carried back to the preceding 5 years.

These changes will remove the £10,000 de minimis limit and reverse the order in which charitable and non-charitable expenditure is set against the charity's tax relieved income and gains. This will mean that for every £1 of non-charitable expenditure incurred by the charity, there will be a corresponding restriction of the income and gains that attract tax exemption. Where there is an excess of non-charitable expenditure over total income in the current year the excess can be carried back to an earlier period.

The new rules will place additional restrictions on transactions that can take place between a charity and its substantial donors without the charity's tax relief being restricted. An individual or a company will be a substantial donor if they give to a charity £25,000 or more in any 12-month period or £100,000 over a 6-year period. The donor will be a substantial donor for the chargeable period in which they exceed these limits and the following 5 chargeable periods. The limits will apply only to amounts on which tax relief has been claimed.






The new rules will apply to the following transactions unless the transaction is otherwise exempt:

-  the sale or letting of property, or provision of services by a charity to a substantial donor, or by a substantial donor to a charity;
-  an exchange of property between a charity and a substantial donor;
-  the provision of financial assistance (such as the provision of a loan,
-  guarantee, indemnity or financial arrangements compliant with Islamic law) to a charity by a substantial donor, or to a substantial donor by a charity;
-  payment by a charity of remuneration to a substantial donor apart from a payment for services as a trustee approved by the appropriate charity regulator or the courts; and
-  investment by a charity in the business of a substantial donor as long as the business is not listed on a recognised stock exchange.

Certain transactions by a substantial donor to a charity will be exempt from the new rules. These are transactions that HMRC is satisfied that a charity engages in for genuine commercial reasons, on terms that are no

less beneficial to the charity than those that might be expected of an identical arm's length transaction, so long as the transaction is not part of an arrangement for the avoidance of tax. The exemption will apply to:

-  financial assistance given to a charity by a substantial donor; or
-  the sale or letting of property, or the provision of services, where the transaction forms part of the business of the substantial donor; or
-  transactions that are provided by a charity to a substantial donor in furtherance of the charitable purpose of the charity and which are no more beneficial to the substantial donor than could be obtained on arm's length terms.




The new rules will not apply to a disposal at less than market value by a substantial donor to a charity to which section 587B ICTA (gifts of shares security and real property to charity etc) or section 257 Taxation of Chargeable Gains Act 1992 (gifts to charities etc) applies.

The new rules will not apply to transactions that occur after the commencement date

where the transaction is the result of a contract entered into by the charity and substantial donor before the commencement of the new rules.

Where a charity takes part in any of the transactions that are not otherwise exempt, any payments made by the charity in connection with the transaction will be treated as non-charitable expenditure. Where the transaction is not on arm's length terms any difference between the actual terms and arm's length terms, so far as it favours the substantial donor, shall be treated as non-charitable expenditure and the charity will have its tax relief restricted.

Section 339 ICTA provides tax relief for companies making a cash donation to charity. No relief is available for close companies (broadly those under the control of five or fewer persons) where the company receives benefits in consequence of making the gift that exceed the limits below:

-  for donations not exceeding £100, 25 per cent of the gift;
-  for donations exceeding £100 but not exceeding £1000, £25; and
-  for donations exceeding £1000, 2.5 per cent of the gift up to a maximum of £250.

Relief is also not available if a gift is made subject to a condition as to repayment or is made as part of an arrangement for the acquisition of property, otherwise than as a gift, from the company or connected persons.

The new rules will extend these restrictions and this limit on benefits received in consequence of a gift to charity - which also apply to gifts by individuals - to companies that are not close companies.

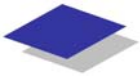
Charities: Income and Corporation Tax Relief for Trading Activities Undertaken by a Charity

Who is likely to be affected?

Charities that undertake a trade that is only partly carried on for a primary (charitable) purpose, or which is partly (but not mainly) carried out by the beneficiaries of the charity.

General description of the measure

This measure will provide tax relief for charities where only part of a trade is carried on for a primary purpose, or where a trade is partly (but





not mainly) carried out by the beneficiaries of a charity. Relief will be available on the profits that can reasonably be attributed to the part of the trade that is carried on for a primary purpose, or that is carried out by the beneficiaries of the charity.

Operative date

Chargeable periods commencing on or after 22 March 2006.

Current law and proposed revisions

Section 505 of the Income and Corporation Taxes Act 1988 (ICTA) provides charities with an exemption from income tax or corporation tax on profits attributable to a trade, carried on in the UK or abroad, so long as the profits are applied solely to charitable purposes. The relief applies in two situations:

-  where the trade is exercised in the course of carrying out a primary purpose, such as the provision of residential care for the elderly; or
-  where the work of the trade is mainly carried out by the beneficiaries of the charity.

In some cases a trade may amount, in part, to a primary purpose trade but may not be wholly a primary purpose trade. For instance, the trade might deal in a range of goods or services some of which are within a primary purpose and some of which are not. Where this is the case, there is a risk that the trade as a whole will become tainted, resulting in the loss of tax relief on the primary purpose part of the trade. Tainting occurs where the non-primary purpose element of the trade is substantial - typically more than 10% of the turnover of the trade, or more than £50,000.

Alternatively the trade may be partly (but not mainly) carried on by beneficiaries of the charity. Where this is the case the trade could also be tainted, leading to a loss of tax relief on the whole of the trade.

HM Revenue and Customs (HMRC) have traditionally mitigated the risk of tainting a charity's trade by taking the view that a charity may have more than one trade. Where HMRC could identify distinct activities, they would treat those activities as separate trades. However, case law does not support such an approach and it is likely that for most charities they will have only a single trade (control and management of activities being conducted by the same persons).



The new rules will legitimise the effect of the current HMRC approach in relation to charities with primary and non-primary purpose trading activities, or with trading activities that are partly (but not mainly) carried on by the beneficiaries of the charity. It will split a trade into two separate parts, a primary purpose part and a non-primary purpose part, with tax relief under section 505 ICTA given on the profits of the primary purpose part, or on the profits of the part carried out by the beneficiaries of the charity.

Where tax relief is not available under section 505 ICTA it is still possible that a charity may be granted tax relief by virtue of Section 46 Finance Act 2000 (the "exemption for small trades").

The exemption for small trades provides relief from income or corporation tax for charities where they conduct a small non-primary purpose trade within the charity.

Exemptions for Computers & Mobile Phones

Who is likely to be affected?

-  Employees who are loaned a computer and/or mobile phone for private use by their employer.
-  Employers (and third party facilitators) who loan computers and/or mobile phones to their employees for private use.

General description of the measure

This measure will change the tax exemption that applies to the benefit in kind that arises when employers loan mobile phones to their employees and members of the employee's family or household for private use. It will also remove the tax exemption that applies to computers loaned to employees for private use.

Operative date

Will have effect from 6 April 2006.

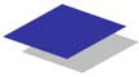
VDU Users: Eye Tests & Glasses

Who is likely to be affected?

Employees and employers who obtain or provide eye tests and corrective spectacles for Visual Display Unit (VDU) use.

General description of the measure

Employers are required by law to provide, or meet the cost of, eye care tests and/or corrective glasses for VDU use for their employees. HMRC would not normally expect a tax charge on the benefit in kind. However,



this would not be the case if eye tests and/or glasses were provided by means of a voucher.

The purpose of this measure is to ensure that there is no tax charge however an employer pays for an eye test and/or corrective glasses, whether direct to the provider, by reimbursing the cost to the employee or by providing a voucher.

It also provides a regulation-making power that will allow HMRC to exempt similar benefits in kind from a tax charge when provided by vouchers.

Operative date

Will have effect from 6 April 2006.

Dormant Accounts of Holocaust Victims

Who is likely to be affected?

Holocaust victims, or their heirs, receiving certain compensation payments made in relation to dormant accounts. In particular those receiving payments made under the Restore UK initiative or the Claims Resolution Tribunal arrangements for dormant accounts in Switzerland.

General description of the measure

This measure, which was first announced in July 2005, will exempt payments made by foreign banks and building societies from tax. It also takes the opportunity to legislate an existing Extra Statutory Concession, A 100, which already exempts payments made by UK banks and building societies under the Restore UK initiative.

Operative date

The exemption will apply to payments made in the tax year 1996-97 or any later year of assessment.

Protecting Revenues: Employment-Related Securities

Who is likely to be affected?

Employers and employees who participate in avoidance schemes and arrangements that use options over shares and securities.

General description of the measure

Legislation will ensure that any reward of employment obtained by employees from avoidance schemes using options over shares and securities will be fully subject to tax through PAYE and National Insurance Contributions.

Operative date

This took effect from 2 December 2004.

Relief from Special Trust Rates for Service Charges Held by Social Landlords

Who is likely to be affected?

Registered Social Landlords and other social landlords.

General description of the measure

This is a new relief for income arising on service charges/sinking funds held in trust by Registered Social Landlords (RSLs) and local authorities. Instead of being taxed at the special trust rates such income will be taxed at lower, basic or dividend ordinary rate as appropriate. The relief will also apply to service charges held in trust by the Housing Corporation, housing action trusts and charitable housing trusts.

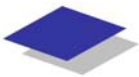
Operative date

The changes will take effect for income arising from 6 April 2006. Current law and proposed revisions

Most landlords (be they individuals, partnerships or companies) are required to hold service charge payments made by tenants and leaseholders in trust. RSLs and local authorities are not required to hold service charge payments in trust but in practice they often do so. If they do hold funds on trust and the income can accumulate then the income will be taxed at the special trust rates (40%/32.5%). The measure will exempt the income arising from service charges held on trust by RSLs and local authorities from the special trust rates. The income will instead be chargeable at no more than the basic rate of tax. As well as RSLs and local authorities, relief will be available for housing associations in Northern Ireland, charitable housing trusts, charitable housing associations, housing action trusts, and the Housing Corporation.

Section 686 of the Income and Corporation Taxes Act 1988 (ICTA) will be amended so that any income arising to any of those social landlords from service charges held in trust is exempt from the special trust rates.

The relief will apply to all of the UK.



Trust Tax Modernisation

Who is likely to be affected?

Trustees, beneficiaries and settlors of settlements.

General description of the measure







A package of changes to modernise the tax system for trusts, in particular by increasing the standard rate band for trustees who pay tax at the special rates applicable to trusts, and bringing the main trust-related definitions and tests for tax on income and chargeable gains into line with each other. These measures follow the introduction in Budget 2005 of the standard rate band and a new tax regime for certain trusts with vulnerable beneficiaries.

Operative date

The changes will take effect from 6 April 2006, with the exception of the harmonised residence test for trustees, which will take effect from 6 April 2007.



Changes

The main changes introduced by the new measures are:

-  an increase of the standard rate band from £500 to £1,000;
-  a common meaning of "settled property", leading to a common meaning of "settlement";
-  a common meaning of "settlor";
-  provision for the trustees of a settlement to be treated as a single person;
-  a common test to determine whether the trustees of a settlement are resident in the United Kingdom;
-  provision for the trustees of a settlement to elect that a sub-fund of the settlement be treated as a separate settlement in certain circumstances.

All the above changes, with the exception of the increase in the standard rate band, are to apply for the purposes of the Income Tax Acts and the TCGA, subject to separate provision being made in certain circumstances (such as in provisions designed to counter tax avoidance).

In addition, the following changes are being introduced:

-  the income of settlor-interested settlements is to be treated as though it had arisen directly to the settlor;
-  a measure to legislate the existing practice of not taxing beneficiaries who receive discretionary income payments from the trustees of settlor-interested trusts; and



modifications to some of the provisions in the TCGA which determine whether a person who is a settlor in relation to a settlement has an interest in the settlement, so that account is taken of dependent minor children.

Some of the proposed changes included in the consultation exercise, such as income streaming and changes to the way estates in administration are charged to capital gains tax, are not being taken forward by HMRC at this time.

Excise: Duty Deferment Guarantees

Who is likely to be affected?

All businesses making payments of excise duties when excise goods including alcohol, tobacco and oils are removed to the UK home market from either a producer's premises or an excise warehouse.

General description of the measure

Radical reform of the excise duty deferment guarantee system. Following the response to the consultation document issued at PBR, HMRC will introduce a new risk based system for excise duty deferment guarantees along similar lines to the current Simplified Import VAT Accounting (SIVA) system. The exact details of the system, in particular those relating to new or small businesses will be announced after further dialogue with business.

Operative date

Date yet to be finalised but no later than 31 March 2007.

Modification and Extension of the Disclosure Regime

Who is likely to be affected?

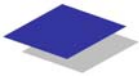
Accountants and lawyers who devise and market certain tax schemes and arrangements, and clients who use them. It also affects others who devise their own schemes in-house.

General description of the measure

The disclosure regime is to be extended to include the whole of income tax, corporation tax and capital gains tax. The schemes required to be disclosed will be those that fall within certain hallmarks. The time limit for disclosure of schemes devised in-house is to be reduced to 30 days from the date that the scheme is implemented and a de-minimis provision added so that neither individuals nor businesses that are SMEs will have to disclose in-house schemes.

Operative date

Will have effect from 1 July 2006.



Tax Tables

On this and on the following pages, you will find Tax Tables - they will provide a useful reference source throughout the 2006-07 tax year.

Personal Allowances and Tax Rates

All income tax allowances will automatically be increased in line with inflation. The personal allowance will increase to £5,035.

The age-related personal allowances will rise to £7,280 for people aged between 65 and 74 and to £7,420 for those aged 75 and over. This will mean that in 2006-07 no one aged 65 or over need pay tax on an income of up to £140 a week. Around half of all pensioners pay no tax on their income.

Income tax personal and age-related allowances 2006-2007	£
Personal allowance (age under 65)	5,035
Personal allowance (age 65-74)	7,280
Personal allowance (age 75 and over)	7,420
Married couple's allowance* (aged less than 75 and born before 6 April 1935)	6,065
Married couple's allowance* (age 75 and over)	6,135
Married couple's allowance* – minimum amount	2,350
Aged income limit	20,100
Blind person's allowance	1,660
* Married couple's allowance given at the rate of 10%	

Personal Tax Rates	2006-2007	2005-2006
Lower rate band	£2,150	£2,090
(Tax rate)	10%	10%
Basic rate band (next)	£31,150	£30,310
(Tax rate)	22%	22%
(Savings Income rate)	20%	20%
(Dividend Income rate)	10%	10%
Higher rate band - income over	£33,300	£32,400
(Tax rate)	40%	40%

National Insurance

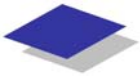
The standard main rate of employee's Class 1 contributions below the upper earnings limit will continue to be 11 per cent, and above the limit the rate will continue to be 1 per cent.

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

Increases in the NI Contribution thresholds are set out in the Table below. The rates are unchanged.

NIC Contributions 2006-07	
Lower earnings limit, primary class 1	£84 a week
Upper earnings limit, primary class 1	£645 a week
Primary threshold	£97 a week
Secondary threshold	£97 a week
Employees' primary class 1 rate	11% on £97 to £645 a week 1% above £645 a week
Employees' contracted-out rebate	1.6%
Married women's reduced rate	4.85% on £97 to £645 per week 1% above £645 a week
Employers' secondary class 1 rate	12.8% on earnings above £97 a week
Employers' contracted-out rebate, salary-related schemes	3.5%
Employers' contracted-out rebate, money-purchase schemes	1%
Class 2 rate	£2.10 a week
Class 2 small earnings exception	£4,465 a year
Special class 2 rate for share fishermen	£2.75 a week
Special class 2 rate for volunteer development workers	£4.20 a week
Class 3 rate	£7.55 a week
Class 4 rate	8%
Class 4 lower profits limit	£5,035 a year
Class 4 upper profits limit	£33,540 a year
Class 4 rate above upper profits limit	1%





Inheritance Tax

Inheritance Tax: Years from 6 April	2006	2005
IHT tax rate	40%	40%
Chargeable lifetime transfers	20%	20%
Exempt band (within 7 years of death)	£285,000**	£275,000
Business property relief	100%	100%
Agricultural property relief	50-100%	50-100%
Gifts out of income	no limit	no limit
Annual exemption per donor	£3,000	£3,000

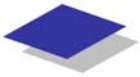
** The exempt band will rise to:
 £300,000 in 2007/8
 £312,000 in 2008/9
 £325,000 in 2009/10

Corporation tax

As in 2005-06, the corporation tax main rate is 30 per cent. Changes to the corporation tax regime from 1 April 2006 are shown in the table opposite.

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: Years from 1 April	2006	2005
Companies earning less than £50,000:		
Starting rate (on profits up to £10,000)	Not applicable	0%
Lower Marginal rate (excess over £10,000)	Not applicable	23.75%
Companies earning under £300,000	From £1 to £300,000 @ 19%	Between £50,000 and £300,000 @ 19%
Non Corporate Distribution rate	Not applicable	19%
Companies earning between £300,000 and £1.5million:		
First £300,000	19%	19%
Upper Marginal rate (excess over £300,000)	32.75%	32.75%
Companies earning over £1.5million:		
Main rate	30%	30%









Pensions

Personal Pensions - Contribution Limits	2006-2007	2005-2006
Age at start of tax year	% Limit of net relevant earnings	
Under 35	See new allowances following A-Day changes from 6 April 2006	17.5
36 to 45		20.0
46 to 50		25.0
51 to 55		30.0
56 to 60		35.0
61 to 74		40.0
Pensions cap		£105,600

Retirement Annuity - Contribution Limits	2006-2007	2005-2006
Age at start of tax year	% Limit of net relevant earnings	
Under 35	See new allowances following A-Day changes from 6 April 2006	17.5
36 to 45		17.5
46 to 50		17.5
51 to 55		20.0
56 to 60		22.5
61 to 74		27.5
Pensions cap		Not applicable

Pension Changes from 6 April 2006 (A-Day)

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

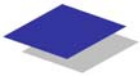
-  make all pensions subject to the same tax treatment;
-  replace the current limits on your pension payments and benefits with 'allowances';
-  allow a much wider range of assets to be included in your pension fund;
-  allow a tax-free lump sum at retirement of up to 25% of the fund for all pensions;
-  allow more options for taking an income at retirement;
-  raise the minimum age for taking benefits to 55 (from 6 April 2010).

Amongst the changes 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 below show the allowance levels from A-Day 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 will be 50, increasing to 55 from 6 April 2010).

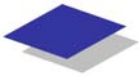
Tax Year	Annual Allowance	Lifetime Allowance
2006/07	£215,000	£1,500,000
2007/08	£225,000	£1,600,000
2008/09	£235,000	£1,650,000
2009/10	£245,000	£1,750,000
2010/11	£255,000	£1,800,000



Value Added Tax

VAT Rates: Years from 1 April	2006	2005
Standard rate	17.5%	17.5%
VAT fraction	7/47ths	7/47ths
Registration limit at	£61,000	£60,000
Deregistration limit at	£59,000	£58,000
Cash accounting turnover limit	£660,000 (assumed unchanged)	£660,000
Annual accounting turnover limit	£1.35m	£660,000

VAT Fuel Scale Charges - VAT Accounting period from 1 May 2006												
engine size (cc)	12 month period				3 month period				1 month period			
	£	£	£	£	£	£	£	£	£	£	£	£
	Scale charge diesel	VAT per car	Scale charge other	VAT per car	Scale charge diesel	VAT per car	Scale charge other	VAT per car	Scale charge diesel	VAT per car	Scale charge other	VAT per car
1400 or less	1,040	154.89	1,095	163.09	260	38.72	273	40.66	86	12.81	91	13.55
1401 to 2000	1,040	154.89	1,385	206.28	260	38.72	346	51.53	86	12.81	115	17.13
2001 or more	1,325	197.34	2,035	303.09	331	49.30	508	75.66	110	16.38	169	25.17



Tax Shelters

Tax Shelters etc	2006-2007	2005-2006
Venture Capital Trusts - investment limit and rate of tax relief (maximum)	£200,000 (relief at 30%)	£200,000 (relief at 40%)
EIS – relief at 20%	£400,000	£200,000
Tax-free employment termination	£30,000	£30,000
Tax-free "rent-a-room" income £4,250	£4,250	£4,250
ISAs	£7,000	£7,000

Capital Gains

Capital Gains Tax	2006-2007	2005-2006
Tax rate	See note	See note
Trusts etc	40%	40%
Annual Exemption		
- Individuals	£8,800	£8,500
- Settlements	£4,400	£4,250
Note: For 2006/7, gains up to £2,150 in excess of the annual exempt amount (£8,800) are taxed at 10%, taxable gains between £2,150 and £33,300 are taxed at 20%, and above the basic rate limit of £33,300 are taxed at 40%. Personal allowances are unavailable to offset CGT.		

Taper Relief – Business Assets

Indexation (except for companies) ceased at 5 April 1998. Since then, Taper Relief has applied:

Disposals in 2002-2003 and later years

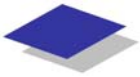
Complete years since 5 April 1998	% of gain chargeable	Effective CGT rate % (for higher-rate taxpayer)
0	100	40
1	50	20
2	25	10

Taper Relief – Non-Business Assets

Note:

Indexation (except for companies) ceased at 5 April 1998. Since then, Taper Relief has applied:

Complete years since 5 April 1998	% of gain chargeable	Effective CGT rate % (for higher-rate taxpayer)
0	100	40
1	100	40
2	100	40
3	95	38
4	90	36
5	85	34
6	80	32
7	75	30
8	70	28
9	65	26
10 or more	60	24



Cars

The car benefit charge for a full year is obtained by multiplying the price of the car for tax purposes (in most cases, its list price plus accessories less capital contributions) by the 'appropriate percentage'. A more detailed guide is available for employees in the IR203 self assessment helpsheet

(www.hmrc.gov.uk/helpsheets/ir203.pdf)

and for employers in booklet 480

(www.hmrc.gov.uk/guidance/480.pdf).

Changes to the car benefit rules in 2006/07

The appropriate percentage is based on the car's approved CO2 emissions figure. There are some supplements and reductions to take account of different fuels. The rules governing the supplements and reductions change with effect from 2006/07. The following Table summarises the new rules from 2006/07:



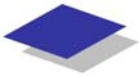
Type of fuel	Code	Standard adjustment	Other adjustments
Petrol	P	none	none
Diesel (not Euro IV)	D	supplement: 3% (see note 1)	none
Diesel (Euro IV) first registered on or before 31 December 2005	L	cancel type D supplement, above	none
Diesel (Euro IV) first registered on or after 1 January 2006	L	supplement: 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 CO2 emissions figure for gas (note 2)	B	reduction: 2%	use lowest CO2 figure
Bi-fuel conversion, or other bi-fuel not within type B	C	none	none

Notes

1. Subject to the overall maximum appropriate percentage of 35%.

2. 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.



The 2006 Budget Report



Vehicle Benefits	2006-2007
<p>From 6 April 2002 the tax charge is based on a percentage of the car's price graduated according to the level of the car's carbon dioxide (CO²) emissions. The charge builds up from 15 per cent of the car's price, for cars emitting 140 grams per kilometre (g/km) in CO² (for 2006/07 and 2007/08), in 1% steps for every additional 5g/km over 140g/km. There is a reduction for 2008/09 as shown below. The maximum charge is on 35 per cent of the car's price. The business mileage discounts have previously been abolished.</p>	

CO ² Emissions in grams/km	CO ² Emissions in grams/km	% of car's price taxed	% of car's price taxed
2006/07 and 2007/08**	2008/09	Petrol	Diesel
140	135	15	18
145	140	16	19
150	145	17	20
155	150	18	21
160	155	19	22
165	160	20	23
170	165	21	24
175	170	22	25
180	175	23	26
185	180	24	27
190	185	25	28
195	190	26	29
200	195	27	30
205	200	28	31
210	205	29	32
215	210	30	33
220	215	31	34
225	220	32	35
230	225	33	35
235	230	34	35
240	235	35	35

Notes:

- If the CO² figure doesn't end in a 5 or 0 round down to the nearest 5 grams per kilometre.
- Discounts will apply to certain environmentally extra friendly cars, eg electric cars and those running on LPG.

** The rates for 2008/09 will include a new lower 10% band for company cars with CO² emissions of 120 grams per kilometre

Fuel Benefit:

From 6 April 2003, a new fuel scale charge is linked directly to the carbon dioxide emission of the car. The same % shown in the Table above is applied to the relevant % figure which, for 2003/04 to 2005/06 is £14,400 (and for 2006/7).

Car Mileage Rates

Authorised Mileage Rates (AMRs) for use of personally-owned cars are:

2002/03 onwards (unchanged)

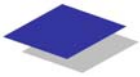
Cars and vans	Rate per business mile
Annual business mileage up to 10,000 miles	40p
Each additional mile over 10,000 miles	25p
Each passenger making same business trip	5p
Motor cycles	24p
Bicycles	20p

Enhanced Capital Allowances for Low Emission Cars

All businesses can claim 100% enhanced capital allowances (first year allowances) on buying new low-emission cars. The definition of these cars is as follows:

- are registered on or after 17 April 2002 and before 1 April 2008; and
- either emit not more than 120 gm/km CO²; or
- are electrically propelled.

Low emission cars are also removed from the special capital allowance rules for cars whose retail price exceeds £12,000.



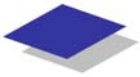
Advisory Fuel Rates for Company Cars from 1 July 2005 are:			
Engine Size	Petrol	Diesel	LPG
1400cc or less	10p	9p	7p
1401cc to 2000cc	12p	9p	8p
Over 2000cc	16p	13p	10p

Stamp Duty

Stamp Duty: Transfers of land and buildings (consideration paid)				
Rate	Land in disadvantaged areas		All other land in the UK	
	Residential	Non-residential	Residential	Non-residential
Value of total consideration				
Zero	£0 - £150,000	All	£0 - £125,000	£0 - £150,000
1%	Over £150,000 - £250,000	N/A	Over £125,000 - £250,000	Over £150,000 - £250,000
3%	Over £250,000 - £500,000	N/A	Over £250,000 - £500,000	Over £250,000 - £500,000
4%	Over £500,000	N/A	Over £500,000	Over £500,000

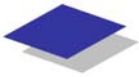
Stamp Duty: New leases (lease duty)		
Rate	Net Present Value of rent	
	Residential	Non-residential
Slice of NPV		
Zero	£0 - £125,000	£0 - £150,000
1%	Over £125,000	Over £150,000

New leases (lease duty)
 Duty on the premium is the same as for transfers of land (except that special rules apply for premium where rent exceeds £600 annually). Duty on the rent is charged on the Net Present Value (NPV). The rates indicated apply to the amount of NPV in the slice, not to the whole value.



2006/07 Tax Calendar

April 2006	
6	First day of 2006/07 tax year
14	Due date for income tax for the CT61 period to 31 March 2006
19	Quarter 4 2005/06 PAYE remittance due Interest will begin to accrue on unpaid PAYE/NI for 2005/06
30	Normal annual adjustment for VAT partial exemption calculations (monthly returns)
May 2006	
3	Last day for notifying car changes in quarter to 5 April - P46 (car)
19	Last day for filing forms P14, P35, P38 and P38A - 2005/06 PAYE returns, without incurring penalties. Last day for filing contractors returns, including CIS36
31	Issue 2005/06 P60s to employees
June 2006	
30	End of CT61 quarter Last day for UK businesses to reclaim EC VAT chargeable in 2005 Annual adjustment for VAT partial exemption calculations (March VAT year end)
July 2006	
5	File Tax Credit Claims (actual or protective) for 2005/06 to avoid any loss of benefit.
6	Last date to file Taxed Award Scheme Returns, P11Ds and P9Ds. Issue copies of P11Ds or P9Ds and car mileage details and/or FPCS details to employees. Deadline for relevant third parties to give non-employees information on benefits/expenses they have provided to them in 2005/06.
14	Due date for income tax for the CT61 period to 30 June 2006
19	Quarter 1 2006/07 PAYE remittance due Final date for payment of 2005/06 Class 1A NICs on relevant benefits provided to employees
31	Second self assessment payment on account for 2005/6 Annual adjustment for VAT partial exemption calculations (April VAT year end) Liability to 2nd £100 penalty arises for 2005 Tax Return still not filed Failure to pay any balance of 2004/05 tax leads to an additional 5% automatic surcharge
August 2006	
2	Last day for notifying car changes in quarter to 5 July - P46 (car)
31	Annual adjustment for VAT partial exemption calculations (May VAT year end)
September 2006	
30	Deadline for submission of the 2006 tax return if you wish the Inland Revenue to calculate the tax, or, if you are an employee, you wish to have a 2005/06 balancing payment of less than £2,000 collected through your 2006/07 PAYE code. End of CT61 quarterly period
October 2006	
1	Due date for payment of Corporation Tax for period ended 31 December 2005
5	Individuals/trustees must notify the Revenue of new sources of income/chargeability in 2005/06 if a tax return has not been received
14	Due date for income tax for the CT61 quarter to 30 September 2006
19	Quarter 2 2006/07 PAYE remittance due
November 2006	
1	Please ensure you are retaining your documents for the 2006 tax return
2	Last day for notifying car changes in quarter to 5 October - P46 (car)



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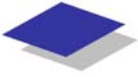
December 2006	
31	Last day for non-EC traders to reclaim recoverable UK VAT suffered in the year to 30 June 2005 End of relevant year for taxable distance supplies to UK for VAT registration purposes End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes End of CT61 quarterly period Filing date for Corporation Tax Return Form CT600 for period ended 31 December 2005
January 2007	
1	Due date for payment of Corporation Tax for period ended 31 March 2006
14	Due date for income tax for the CT61 quarter to 31 December 2006
19	Quarter 3 2006/07 PAYE remittance due
31	First self assessment payment on account for 2006/07 Balancing payment – 2005/06 income tax income tax/class 4 NICs Capital gains tax payment for 2005/06 Last day to file the 2006 tax return Last day to pay personal pension premiums and elect for carry back to 2005/06
February 2007	
1	£100 penalty if 2006 Tax Return not yet filed
2	Last day for notifying car changes in quarter to 5 January - P46 (car)
28	Failure to pay any balance of 2005/06 tax leads to an automatic 5% surcharge
March 2007	
31	End of corporation tax financial year End of CT61 quarterly period Filing date for Corporation Tax Return Form CT600 for period ended 31 March 2006
April 2007	
5	Last day of 2006/07 tax year Deadline for 2006/07 contributions to ISAs.

Further Information

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