



Tax Rates 2006/07

Contents

Personal tax	1
Indirect taxes	6
National insurance contributions 2006/07	8
Business tax	10

These tables are a summary and do not cover all situations. They are based on information in the Budget announcements on 22 March 2006. These may be subject to amendment during the passage of the Finance Bill through Parliament.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Personal Tax

Income tax rates 2006/07 (2005/06)

Income Band (£)	Dividends (%)	Other Savings Income (%)	Capital Gains (%)
Up to 2,150 (2,090)	10	10	10
2,151 – 33,300 (2,091 - 32,400)	10	20	20
Over 33,300 (32,400)	32.5	40	40

Income Band (£)	Other Income (%)	Cumulative Tax (£)
Up to 2,150 (2,090)	Starting rate: 10	215 (209)
2,151 – 33,300 (2,091 - 32,400)	Basic rate: 22	7,068 (6,877)
Over 33,300 (32,400)	Higher rate: 40	

Broadly speaking, the income bands are used in the following order:

- Income other than dividends, other savings income and capital gains.
- Other savings income.
- Dividends.
- Capital gains.

For lower or basic rate taxpayers the liability on UK dividend income is met by the tax credit attached to the dividend. For non-taxpayers, the tax credit is not refundable.

Dividend income of discretionary trusts and accumulation and maintenance trusts is taxed at 32.5% (2005/06 32.5%) (rather than the normal trust's income tax rate of 40% (2005/06 40%)), subject to a 'standard rate' band which for 2006/07 is £1,000 (2005/06 £500).

Personal allowances

	2006/07 (£)	2005/06 (£)
Basic individual	5,035	4,895
Individual aged 65-74 ^a	7,280	7,090
Individual aged 75 and over ^a	7,420	7,220
Married couple (born before 6 April 1935) ^{a,b,c}	6,065	5,905
Married couple (elder aged 75 and over) ^{a,b,c}	6,135	5,975

- a. *Reduced by £1 for each £2 of income (less deductions) which exceeds £20,100 (£19,500 for 2005/06). However, this reduction cannot take the*

allowance below that for an individual. The personal allowance is reduced first, then the married couple's allowance.

- b. Restricted to relief at 10%.
- c. The minimum age-related married couple's allowance is £2,350 (£2,280 for 2005/06).

Income tax reliefs and incentives

Annual limits	2006/07 (£)
Enterprise Investment Scheme (EIS) (maximum) ^a	400,000
Venture Capital Trust (VCT) (maximum) ^b	200,000
Individual Savings Account (ISA)	
– total investment (maximum) ^c	7,000
– stocks and shares component (maximum) ^b	7,000
– cash component (maximum) ^b	3,000

- a. Income tax relief restricted to 20%. Capital gains tax deferral relief is also available.
- b. As of 6 April 2006 the rate of income tax relief for investors in VCTs will be 30%.
- c. These limits will apply until 5 April 2010. Detailed conditions and additional restrictions may apply where one or more mini-ISAs are taken out with different ISA managers for each component. You can only invest in one maxi ISA or up to two mini ISAs in each tax year.

Relief is available at the taxpayer's marginal rate of income tax for charitable donations via the Gift Aid and Payroll Giving schemes and for charitable gifts of quoted shares and securities and real property.

Pensions

A completely new pensions tax regime takes effect from 6 April 2006. The key points are as follows.

- The changes apply to all individuals who draw any pension benefits after 5 April 2006;
- The normal minimum pension age will be 50, rising to 55 from 6 April 2010;
- There will be an annual cap (£215,000 for 2006/07) on contributions to registered pension schemes (or growth in value of defined benefit schemes). Where the cap is exceeded a tax charge of 40% will be payable by the individual;
- There will be an effective tax charge of up to 55% on the value of the pension funds used to provide benefits, when those benefits are taken, insofar as they exceed the individual's available lifetime allowance (£1.5 million for 2006/07) subject to transitional relief – see below;

- The maximum tax-free lump sum that may be drawn from pension funds will be 25% of the value of an individual's uncrystallised pension rights, subject to a cap of 25% of the lifetime allowance and transitional relief – see below;
- Transitional reliefs are available to protect pension rights built up before 6 April 2006 by registering and protecting those rights, including lump sum rights in excess of 25% or £375,000.

	Earnings cap (£)	Annual allowance (£)	Lifetime allowance (£)
2005/06	105,600	-	-
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

Taxable car and fuel benefits

The taxable car benefit is calculated as a percentage of the car's list price based on carbon dioxide (CO₂) emissions as follows:

- Car emitting 144 or less CO₂ g/km – 15%.
- For each additional 5 CO₂ g/km – add 1%.
- Maximum benefit where CO₂ at least 240 g/km – 35%.

A 3% supplement applies to certain diesel cars, up to the maximum charge of 35% of list price. The price of the car is reduced by up to a maximum of £5,000 for capital contributions made by an employee. Employees' contributions for private use reduce the taxable benefit pound for pound.

Private use of vans attract a scale charge of £500 pa (£350 pa if the van is more than four years old at the end of the tax year). From 6 April 2007, the charge will increase to £3,000.

Fuel benefit is calculated by applying the relevant car CO₂ emissions percentage to a pre-set figure (frozen at £14,400 for 2006/07).

Approved mileage rates

Employers can make tax- and NI- free payments to employees using their own vehicle for business travel, as follows:

- cars and vans – 40p per mile for the first 10,000 miles and 25p per mile thereafter (for NIC the 40p rate applies to all miles);
- motor cycles – 24p per mile;
- bicycles – 20p per mile; and

- passengers – an optional 5p per mile for each passenger who is an employee travelling on business.

Capital gains tax (CGT)

Capital gains are tapered. For non-business assets acquired before 17 March 1998, an additional year is added to the actual period of ownership. An indexation allowance applies up to April 1998 to assets held before then. If an asset moves between non-business and business, the gain is time apportioned and tapered.

Number of complete years asset held after 5 April 1998	Business Assets		Non-business assets	
	% of gain chargeable	Effective tax rate (%) ^a	% of gain chargeable	Effective rate (%) ^a
0	100	40	100	40
1	50	20	100	40
2	25	10	100	40
3	25	10	95	38
4	25	10	90	36
5	25	10	85	34
6	25	10	80	32
7	25	10	75	30
8	25	10	70	28
9	25	10	65	26
10 or more	25	10	60	24

a. *Effective tax rate for a higher rate (40%) taxpayer.*

The annual exemption for individuals in 2006/07 is £8,800 (2005/06 £8,500) and for trusts up to £4,400 (£4,250 2005/06). A chattels exemption applies for proceeds up to £6,000.

Inheritance tax (IHT)

IHT is charged on the estate at death, on gifts within seven years of death and on chargeable lifetime transfers of value. For 2006/07 the first £285,000 (£275,000 for 2005/06) of cumulative chargeable transfers are exempt. Over this amount the rate is 20% for lifetime transfers, 40% on death. A tapered inheritance tax rate applies to gifts made between three and seven years before death. Transfers between UK-domiciled spouses are exempt.

Indirect taxes

Value Added Tax (VAT)

From 1 April 2006, VAT registration is required where taxable supplies exceed £61,000 (previously £60,000) for the previous 12 months or are expected to do so within the next 30 days. The deregistration threshold is increased to £59,000 (previously £58,000).

Rates	(%)
Zero rate (newspapers, children's clothes etc)	0
Certain fuel and power; some energy saving materials; some residential property works etc	5
Standard rate	17.5
VAT fraction for inclusive price	7/47

Insurance premium tax

The standard rate of insurance premium tax applicable to most general insurance is 5%. Life and other long-term insurance is exempt. A higher 17.5% rate applies to mechanical breakdown and travel insurance, and insurance sold with certain goods.

Stamp duty land tax (SDLT)

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

Relevant consideration (£) -residential	Rate (%)	Relevant consideration (£) - non-residential or mixed	Rate (%)
0 – 125,000	0	0 - 150,000	0
125,001 – 250,000	1	150,001 - 250,000	1
250,001 – 500,000	3	250,001 - 500,000	3
Over 500,000	4	Over 500,000	4

In disadvantaged areas residential sales of land and buildings up to £150,000 are exempt. Commercial property sales entered into after 16 March 2005 are no longer exempt.

Stamp duty

Stamp duty applies to transfers of shares and securities at a rate of 0.5%. Payment of the appropriate amount of stamp duty cancels the parallel charge to stamp duty reserve tax.

National insurance contributions 2006/07
Class 1 (employees and employers)

Weekly earnings (£)	Employees	Employers
84.00 or less ^a	–	–
84.01 – 97.00 ^b	0%	–
97.01 – 645.00	11%	12.8%
Over 645.00 ^c	£60.28 plus 1% on earnings over £645 pw	12.8%

Contracted out – salary related

84.00 or less ^a	–	–
84.01 – 97.00 ^b	0%	–
97.01 – 645.00 ^d	9.4%	9.3%
Over 645.00 ^{c,d}	£51.30 plus 1% on earnings over £645 pw	£50.51 plus 12.8% on earnings over £645 pw

Contracted out – money purchase

84.00 or less ^a	–	–
84.01 – 97.00 ^b	0%	–
97.01 – 645.00 ^d	9.4%	11.8%
Over 645.00 ^{c,d}	£51.30 plus 1% on earnings over £645 pw	£64.53 plus 12.8% on earnings over £645 pw

- a. Monthly and annual lower earnings limits are £364 and £4,368 respectively.
- b. A zero rate of NIC applies to earnings between the lower earnings limit of £84 pw and the earnings threshold of £97 pw to protect employees' contributory benefit entitlements. Monthly and annual thresholds are £420 and £5,035 respectively. A contracted out rebate is due at the relevant rate (not shown in table on these earnings).
- c. Monthly and annual upper earnings limits are £2,795 and £33,540 respectively.
- d. Contracted out rebates apply to the difference between the upper earnings limit and the lower earnings limit (not the earnings threshold).

Employees' qualifying business travel and subsistence expenses are excluded from earnings for Class 1 NIC purposes. In determining the allowable cost of business travel by employees in their own cars employers should use the Inland Revenue authorised mileage rate of 40p per mile.

For contracted out – money purchase schemes, in addition to the flat-rate abatement shown above, the Inland Revenue pay an age-related rebate directly to the pension scheme.

Class 1A (employers providing benefits-in-kind)

Employers are liable to Class 1A NIC at 12.8% on most benefits-in-kind subject to income tax. Benefits-in-kind covered by a dispensation or included in a PAYE Settlement Agreement (but see below) are not subject to Class 1A NIC. Certain other benefits are specifically exempt from both income tax and Class 1A NIC.

Class 1B (employers settling tax liabilities via PSAs)

Class 1B NIC is an employer-only charge, similar to Class 1A, payable by employers on the value of the tax and on certain benefits paid via PAYE Settlement Agreements (PSAs). The rate is tied to the Class 1 secondary rate (12.8%) and contributions are payable by 19 October following the end of the tax year, along with the tax under a PSA.

Class 2 (self-employed)

Weekly rate	£2.10
Small earnings exception (annual)	£4,465

Class 3 (voluntary)

Weekly rate	£7.55
-------------	-------

Class 4 (self-employed)

Lower limit of profit or gains	£5,035
Upper limit of profit or gains	£33,540
Rate on profits between lower and upper limits	8%
Rate on profits above £33,580	1%

Business tax

Corporation tax rates

	Year ended 31 March	
	2007	2006
Normal main rate	30%	30%
Starting rate (up to £10,000) ^{a, c, d}	19%	0%
Fraction for 'starting rate' marginal relief ^d	-	19/400
Small companies' rate ^{b, c}	19%	19%
Fraction for 'lower' marginal relief	11/400	11/400

- Until 1 April 2006 marginal relief applies to profits between £10,000 and £50,000 with an effective marginal rate of 23.75%.*
- The upper threshold for the small companies' rate is £300,000. Marginal relief applies to profits between £300,000 and £1.5 million, with an effective marginal rate of 32.75%.*
- The limits are reduced pro rata for associated companies and for accounting periods of less than 12 months.*
- The starting rate, and hence starting rate marginal relief, have been repealed with effect from 1 April 2006. Thus profits which used to be subject to the starting rate will now be subject to the small companies' rate.*

Corporation tax payments

Large companies pay tax in instalments. Large companies are broadly those with taxable profits of at least £1.5 million (see note c above) and a corporation tax liability in excess of £10,000 for a 12-month accounting period (AP). The £10,000 is reduced proportionately for shorter accounting periods.

In a 12-month AP, four instalments are payable as follows:

- 6 months and 13 days from the first day of the AP;
- 3 months after the first instalment;
- 3 months after the second instalment; and
- 3 months and 14 days from the last day of the AP.

Companies are not required to make instalment payments in the first year in which the £1.5 million threshold is reached unless their profits exceed £10 million.

Capital expenditure

	First year/ initial allowance	Writing-down allowance
Plant and machinery	50% ^a 40% ^b	25% reducing balance
Long-life assets ^c	–	6%
Cars ^d	–	25% reducing balance
Industrial/agricultural buildings, hotels	–	4% on cost
Research and development (R&D)	100%	–

- a. *Only available to small businesses – currently defined as those meeting two of the following criteria: turnover up to £5.6 million, assets up to £2.8 million, or up to 50 employees – for a period of one year only.*
- b. *Only available to medium size businesses – currently defined as those meeting two of the following criteria: turnover up to £22.8 million, assets up to £11.4 million, or up to 250 employees*
- c. *Applies to businesses spending more than £100,000 pa on certain assets with a useful life of 25 years or more.*
- d. *Maximum allowance £3,000 pa.*

Under the enhanced capital allowance (ECA) scheme, a 100% first year allowance is available for expenditure on designated energy-saving or water-related plant and machinery and for the purchase of 'green' vehicles or refuelling equipment.

Tax relief is available for the cost of intangible assets (including goodwill and intangible property). This will, in most cases, be the level of amortisation/impairment recognised in the accounts. A fixed rate of 4% *pa* may be applied on election.

Research and development: revenue costs

An additional deduction of 50% of qualifying R&D expenditure is available to companies that meet the EU definition of an SME (see below). Large companies (i.e. those that are not SMEs) can claim an additional 25% deduction on their qualifying costs.

For non tax paying SMEs a cash refund alternative of up to 24 pence in the pound of qualifying expenditure may be available.

For this purpose the latest definition of SME (effective from 1 January 2005) requires a company, together with certain related companies, to have fewer

than 250 employees and either turnover of less than €50m or total assets up to €43m.

The Government has announced proposals to provide additional support to enterprises with between 250 and 500 employees, subject to the outcome of state aid discussions with the European Commission. Further details of the proposals will be published later this year.

The meaning of R&D for these purposes and for the Capital Research & Development Allowances is set out in the DTI guidelines issued on 5 March 2004.

In addition to the above, qualifying R&D expenditure in relation to specified vaccines and medicines will attract a further 50% deduction from taxable profits for both SMEs and large companies.

Offices

Aberdeen	01224 625888	Leeds	0113 243 9021
Belfast	0289 032 2861	Liverpool	0151 236 0941
Birmingham	0121 632 6000	London	020 7936 3000
Bristol	0117 921 1622	Manchester	0161 832 3555
Cambridge	01223 460222	Newcastle	0191 261 4111
Cardiff	029 2048 1111	Nottingham	0115 950 0511
Edinburgh	0131 221 0002	Reading	01189 508141
Gatwick	01293 510112	St Albans	01727 839000
Glasgow	0141 204 2800	Southampton	023 8033 4124

For further information, visit our website at www.deloitte.co.uk

In this publication references to Deloitte are references to Deloitte & Touche LLP and its UK subsidiaries.

Deloitte & Touche LLP is a member firm of Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu is a Swiss Verein (association), and, as such, neither Deloitte Touche Tohmatsu nor any of its member firms has any liability for each other's acts or omissions. Each member firm is a separate and independent legal entity operating under the names "Deloitte", "Deloitte Touche Tohmatsu", or other, related names. The services described herein are provided by the member firms and not by the Deloitte Touche Tohmatsu Verein.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Deloitte would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© Deloitte & Touche LLP March 2006. All rights reserved.

Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675. A list of members' names is available for inspection at Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, United Kingdom, the firm's principal place of business and registered office.

Tel: +44 (0) 20 7936 3000. Fax: +44 (0) 20 7583 1198.

Member of
Deloitte Touche Tohmatsu