

news release



March 2006

Green/goldfinger: MacIntyre Hudson predicts environmental incentives and city bonus busters in budget

Chartered accountants and business advisers, MacIntyre Hudson, predict that in his forthcoming Budget speech, Gordon Brown will highlight his green credentials, further cut down on tax avoidance and boost Treasury coffers by attacking the very wealthy.

Victor Dauppe, Tax Principal at MacIntyre Hudson, comments: "This is going to be a tricky Budget for Gordon Brown as it is now almost certain that he will fight the next General Election as leader of the Labour Party. Whilst he will undoubtedly be thinking about his future relationship with the tax-paying electorate, there is still the small matter of a budget deficit to contend with. However, he is likely to seize upon the recent figures showing bumper tax receipts for January (albeit for the now historic year ended 31st March 2005 – a long time ago in economics) to provide some much-needed breathing space. This means that any nasty shocks, such as an increase to NICs or the standard rate of VAT, are unlikely. Instead, the Budget could provide the Chancellor with the opportunity to pursue some of his current hobby horses: promoting 'green' policies; attacking city bonuses and tax avoidance."

MacIntyre Hudson's Budget Report odds table:

Higher band on vehicle excise duty to hit gas guzzlers	2 – 1
Penalties for local councils that don't meet green targets	4 – 1
Introduction of local income tax	150 – 1
Introduction of new, higher bands for Stamp Duty Land Tax	8 – 1
Consultation announced on wholesale changes to inheritance tax regime	15 – 1
More inheritance tax anti-avoidance	3 – 1
Extension of review period for Venture Capital Trusts	2 – 3 on
Introduction of a tax holiday for enterprise	10 – 1

Who's the greenest of them all?

With David Cameron keen to espouse his green credentials, Gordon Brown may want to use the Budget to introduce some clear red water between the Government and the rejuvenated Tory party under David Cameron.

Towing in the 'Chelsea Tractor'

Despite the bad press about gas guzzling SUVs, the top band for excise duty includes every car which produces in excess of 185g/km – in effect covering both 'Mondeo Man' and the 'Chelsea Tractor' driver.

MacIntyre Hudson predicts that the Chancellor will introduce a higher tier of Vehicle Excise Duty to capture vehicles that produce over 200g/km of carbon dioxide.

Victor Dauppe, Tax Principal at MacIntyre Hudson, comments: "Introducing a higher band of excise duty for gas guzzling cars is an easy way to introduce a so-called ethical taxation, whilst eking out more revenue for the Treasury."

Council funding linked to green policy

Britons still lag behind many of their European counterparts in terms of recycling household waste, with DEFRA estimates suggesting that only 17% of household waste is recycled. At the same time, there is concern about the local councils' increasing reliance on central Government grants, despite massive council tax inflation.

MacIntyre Hudson predicts that the Chancellor will link council funding to levels of municipal waste produced, encouraging local councils to implement a surcharge on council tax for every bag of waste that exceeds the household limit.

Victor Dauppe, Tax Principal at MacIntyre Hudson, says: "Whilst this kind of tax is incredibly difficult to implement centrally, the Government could force the hand of local councils by making central funding dependent on each council's environmental performance.

"If the Chancellor was feeling really brave, he could take the self-reliance concept further and introduce a **local income tax** of between 5-8%, deductible through payroll, to try and halt the increasing levels of central government funds being dished out to the councils. This system, used in many other countries, may not be as far-fetched as it seems and would certainly win favour amongst pensioners struggling to meet high council tax rates."

Bankers beware – potential changes to Stamp Duty Land Tax

As the City celebrated its best bonus season in many years, HMRC made it clear to all advisers that Inspectors will take a dim view of any clever schemes to mitigate the tax bills on bonuses. As a result, many City workers may decide to invest their earnings in property, yet even that could give the Government a nice bonus if the Chancellor decides to introduce higher bands of stamp duty for the most expensive homes.

MacIntyre Hudson predicts that the Chancellor will announce two new bands for stamp duty of 5% for property over £750,000 and 6% for property over £1 million.*

Victor Dauppe, Tax Principal at MacIntyre Hudson, comments: “Stamp Duty Land Tax is one of the Chancellor’s favourite stealth taxes and he could use this Budget to target the very wealthy. If he was feeling particularly generous and wanted to boost his popularity, Gordon Brown could couple this with an increase in the nil rate band of Stamp Duty for the second year in a row to cover residential property with a value of up to £150,000.”

Inheritance Tax

The IHT system is in an ever-growing state of confusion. The Treasury has still failed to issue the full and final regulations relating to pre-Owned Assets, even though the legislation was announced a year ago. Moreover, the new pensions regime, due to come into force on A-Day (6th April 2006), will allow people to leave their pensions savings to families. However, the IHT implications on this ‘inheritance’ are still unclear.

MacIntyre Hudson believes that the Chancellor should use the Budget to launch a wholesale review of the IHT tax regime.

Victor Dauppe, Tax Principal at MacIntyre Hudson, comments: “The Chancellor could easily befriend a lot of people by announcing a wholesale review into the structure of the IHT regime which, as a result of the property boom, affects more people than ever before.

“However, we should also prepare for the possibility of yet more tinkering with the current regime under his usual pretext of preventing abuse. Currently, there exists a longstanding arrangement called a **Deed of Variation on Wills**, by which the beneficiaries can, within two years of death, change the original Will which may result in the division of the estate being more tax efficient. This arrangement is perennially on the Chancellor’s hit list but has so far survived. The second is **IHT Business Property Relief** for AIM listed property company shares – an easy target.”

Nothing ventured, nothing gained

Since 2004, investors willing to put their money into higher risk Venture Capital Trusts, which invest in start-ups and smaller companies, have received 40% income tax relief. This incentive was due for review in 2006 and the Chancellor is likely to address it in his Budget speech.

MacIntyre Hudson predicts that the Chancellor will maintain the 40% tax relief for VCT investments for a further two years.

Victor Dauppe, Tax Principal at MacIntyre Hudson, comments: "The 40% relief on VCTs has yet to be fully tested and the Chancellor would have to be really desperate for extra pennies to consider abolishing or reducing it. By announcing 'no change,' Gordon Brown can demonstrate his desire to support and encourage investment into start ups and growing companies."

An Enterprising Chancellor?

Two of the Chancellor's major schemes to encourage innovation, the Enterprise Investment Scheme (EIS) and R&D Tax Credits, are currently under scrutiny for being too complicated, and not encouraging real investment into innovation. Although the EIS offers investors 20% income tax relief on investments of up to £200,000 in new shares in unquoted companies, it provides little direct support to the entrepreneur, whilst the R&D tax credits exclude any companies in the all-important services economy.

MacIntyre Hudson believes that the Chancellor should introduce a two year tax holiday for companies generating new business opportunities, to complement the existing EIS and R&D tax credits.

Victor Dauppe, Tax Principal at MacIntyre Hudson, says:

"If the Chancellor wishes to stimulate wider business opportunities, he should offer some support for entrepreneurs who have good ideas for new products or services by providing a tax holiday on corporation taxes for these extended business ventures. This is something that the Chancellor could put forward as a boost to innovation and entrepreneurship, without making too great a dent in the Treasury's tax take."

- Ends -

For further information, to request a photograph or to arrange interviews, please contact:

Dominic Weeks

Marketforce Communications

Tel: 020 7608 3222 / 020 7760 8632

Mobile: 07793 026 383

Email: dweeks@marketforce.eu.com

Amy Butler

Marketforce Communications

Tel: 020 7608 3222 / 020 7760 8616

Mobile: 07958 429 685

Email: abutler@marketforce.eu.com

Notes to Editors:

MacIntyre Hudson LLP is a leading firm of chartered accountants and business advisers specialising in the owner managed business and other key market sectors. The firm has 40 principals and 320 staff situated in 9 offices located across the Midlands, Home Counties and London. The firm is the UK member of CPA Associates International with member firms worldwide and is registered to carry on audit work and regulated for a range of business activities by The Institute of Chartered Accountants in England and Wales.

* Current bands of SDLT for non-residential property, where there is no exemption (for instance in a designated disadvantaged area

- Up to £120,000 exempt
- £120,001 to £250,000 1%
- £250,001 to £500,000 3%
- £500,000 + 4%