

Income Tax and Personal Savings

Income tax rates		2008/09	2007/08
Starting rate band		* see below	£2,230
Tax rate		10%	10%
Basic rate band		£36,000	£32,370
Basic rate		20%	22%
Savings rate		* see below	20%
Dividend ordinary rate		10%	10%
Higher rate – income over		£36,000	£34,600
Tax rate excluding dividends		40%	40%
Dividend upper rate		32.5%	32.5%
* 10% starting rate for savings income up to £2,320. Not applicable if taxable non-savings income exceeds £2,320.			
Personal allowances (ages are as at the end of the tax year)			
Allowances that reduce taxable income		2008/09	2007/08
Personal allowance (PA)	under 65	£5,435	£5,225
	65 to 74*	£9,030	£7,550
	75 and over*	£9,180	£7,690
	minimum	£5,435	£5,225
Allowances that reduce tax			
Married couple's allowance (MCA)			
Age of elder partner	74*	£653.50	£628.50
	75 and over*	£662.50	£636.50
	minimum	£254.00	£244.00
* Higher allowances for those aged 65 or more are scaled back when income exceeds £21,800 (2007/08 £20,900). MCA is only available where at least one partner was born before 6 April 1935.			

Individual Savings Accounts (ISAs)

From 6 April 2008 the subscription limits to the ISA will be increased, which will mean that an individual can subscribe up to £3,600 per tax year to a cash ISA and up to £7,200 per tax year into a stocks and shares ISA subject to an overall limit of £7,200.

The regulations will allow transfers from cash subscribed in previous tax years into stocks and shares without affecting current year investment limits.

Retrospective legislation will allow investors who withdrew cash from their Northern Rock ISAs between 13 and 19 September 2007 inclusive to reinvest in a new ISA between 18 October 2007 and 5 April 2008 without breaching their annual investment limits.

Gift Aid Transitional Relief

Because the basic rate of tax is being reduced from 22% to 20%, the amount of tax reclaimable by UK charities, and community amateur sports clubs, under gift aid will be reduced. In order to compensate for this a transitional relief supplement of 2% will be applied to qualifying donations in the years 2008/09, 2009/10 and 2010/11.

Child Trust Fund (CTF): Voucher Requirement

For applications from 6 April 2009, regulations will be amended so that the parent will no longer have to hand over the voucher when opening a CTF account. Instead, CTF providers and distributors will be able to open accounts using essential information from the CTF voucher provided by the customer, such as the unique reference number, the child's date of birth and the voucher expiry date. This change will allow, for example, telephone and internet applications for CTF accounts to be made in a single paperless transaction without the need for the customer to post the voucher separately.

Saving Gateway

The Saving Gateway is a cash saving account for those on lower incomes. It provides a financial incentive to save, through the Government making a contribution for each pound that people save into the scheme. The Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010.

Income Shifting

Following the protracted case of husband-and-wife business Arctic Systems, which finally ended in defeat for HMRC last year, the Government has proposed legislation intended to undo the tax advantage gained by income shifting arrangements. The Government has considered the responses received to the recent consultation and believes that a further period of consultation will ensure that legislation in this area provides clarity and certainty for businesses and their advisers. The Government now intends to introduce legislation through Finance Bill 2009 and will not enact legislation effective from 6 April 2008.

Taxation of Personal Dividends

When dividends from UK resident companies are charged to tax, shareholders are entitled to a non-payable tax credit of one ninth of the distribution. Because tax is charged on the gross dividend received, including the tax credit, this lowers the effective rates of tax on these dividends at the personal level to 0% (basic rate taxpayers) and 25% (higher rate taxpayers).

The legislation in Finance Bill 2008 will extend the non-payable tax credit of one ninth of the distribution to UK resident individuals and UK and other EEA nationals in receipt of dividends from non-UK resident companies, if they own less than a 10% shareholding in the distributing non-UK resident company. This change will have effect from 6 April 2008. The other previously announced condition, that in total the individual must receive less than £5,000 of dividends a year from non-UK resident companies, will not be introduced.

Tax Payment and Repayment

A package of measures will be introduced, with effect from Royal Assent, to make it easier for taxpayers to pay what they owe on time and effectively tackle those who seek to avoid their obligations by paying late. The measures involve accepting payment by credit card, setting off repayments of one tax against the debts in another, and aligning and modernising HMRC's civil debt enforcement powers.

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