

## UHY TAX BRIEFING PRE BUDGET REPORT SPECIAL EDITION OCTOBER 2007

In this briefing, we are focusing on the first pre-budget report delivered by Alistair Darling on Tuesday 9 October 2007.

### CAPITAL GAINS TAX REFORM

A number of sweeping changes to the CGT regime will come into effect for disposals made by individuals on or after 6 April 2008. The current CGT rules will continue to apply for disposals made up to 5 April 2008.

The biggest change is the introduction of a single rate of 18% which will apply to all disposals after that date and both indexation allowance (which currently applies to assets held before 6 April 1998) and taper relief will be withdrawn.

A single rate of 18% for  
Capital Gains Tax

Remittance basis no  
longer available for non  
domiciled individuals  
working in the UK.

Unused IHT exemption  
can be passed to the  
surviving "spouse".

Days of arrival and  
departure will now count  
towards UK residency.

Reform of personal tax  
rates

Change to tax filing date

### OUR VIEW

This will be unwelcome development. While this is still considerably more favourable than being taxed via the income tax regime at a 40% rate, the effective rate of tax will increase from 10% to 18% following implementation of the changes. Fortunately this will have little impact on migrants who remain non UK resident for at least 5 years after leaving the UK.

### TAXATION OF UK RESIDENT BUT NON UK DOMICILED

The Chancellor made some major, but not entirely unexpected, changes to the taxation of UK resident but non UK domiciled individuals. The new rules will take effect from 6 April 2008.

People who are non-domiciled or not resident of the UK can currently use the "remittance" basis of taxation meaning income and capital gains arising overseas are only taxed in the UK when the wealth is brought into the country.

But from April 2008, non-domiciled UK residents who have lived in the UK for more than seven years will have to pay £30,000 to have access to the remittance basis of taxation, or face UK tax on all their worldwide income and gains.

### OUR VIEW

For the very wealthy non domiciled individuals the £30,000 additional tax is likely to be a price worth paying for continuing to enjoy the benefits of the remittance basis. More worrying for these individuals might be the proposed detailed changes to the remittance basis and the extension of anti-avoidance rules.

Where a UK resident decides not to use the remittance basis (and not to pay the additional tax charge), he or she will be taxed on worldwide income and gains whether or not they are remitted to the UK and the personal allowances will not be available.

The additional £30,000 tax chargeable will not significantly affect the majority of foreign nationals working in the UK as they tend not to stay in the UK for more than 7 years. However, the loss of the personal allowances will increase their tax bills by over £2,000 per year.

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## INHERITANCE TAX REFORM

Changes are being made which will potentially reduce inheritance tax payable by married couples and civil partners.

From 9 October 2007, if one "spouse" has not used all or part of their nil rate band on death (which is currently £300,000 for 2007/08 and will be £312,000 for 2008/09) it will be transferred to the surviving spouse or civil partner. The transferred nil rate band has to be actually claimed, with a separate form, after the death of the widow or widower. This will apply even where the first 'spouse' died before that date.

The transferred nil rate band will increase in direct proportion to future increases in the nil rate band, until the widow or widower dies.

The benefit is capped so that no one can get the benefit of more than two nil rate bands on their death. This will apply where a widow or widower re marries.

### **UHY VIEW**

Going forward the changes will make it easier for married couples and civil partners to make best use of their nil rate bands. Until now, this has often been done by using will trusts. This will no longer be necessary.

For migrants, who remain domiciled in the UK for IHT and continue to hold assets in the UK, this change will mean less of their estates fall into tax. Those migrants with combined estates of more than £600,000 would continue to benefit from having appropriate IHT advice and a review of their wills.

## CHANGE TO RESIDENCE

There will be changes to the residence rules so that the day of arrival and departure will be counted as days or presence in the UK for residence test purposes. The rules will apply from 6 April 2008.

### **UHY VIEW**

The residence test changes will increase the chances of an individual visiting the UK being treated as resident if they visit in the UK frequently for short periods.

## REMINDER OF KEY CHANGES FROM PREVIOUS BUDGETS

### **Reform of personal tax rates**

The Chancellor announced changes to the structure of personal income tax from 6 April 2008. Although described as simplification, the income tax changes will not reduce the number of rates, but rather will limit the application of the 10% starting rate.

#### **From 6 April 2008**

10% band	Only applicable to savings income
20% band	On all other income and savings income exceeding 10% band. Rate down from 22%
Marginal tax to 40%	On all income exceeding the 10% and 20% bands

### **Changes to tax filing dates**

Currently self assessment tax returns have to be filed by 31 January following the end of the relevant tax year. From 6 April 2008, the filing dates are:-

For paper returns - 31 October

For returns filed online - 31 January

The tax payment deadline remains unchanged - 31 January

*This briefing is prepared by UHY Haines Norton. For further information on any of these developments; please ask your usual UHY Haines Norton contact.*

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