

Are your profits lower since April 2006? Pay less tax now!

Tax payments in January include a 'payment on account' for the current tax year. If your profits look like they are going to be lower this year than last year, now is the time to apply to reduce those payments.

If you think that your profits in the current tax year are going to be lower, let us have an estimate of the figures and we shall apply to reduce the January tax payment accordingly.

However, you need to bear in mind that, if it turns out that more tax was in fact payable, then they will charge you interest from 31 January on the shortfall (up to the original figure). Also, if the payment on account is significantly below the eventual liability, then there is a chance that they will suspect 'foul play' and enquire as to how the reduced figure was arrived at.

Therefore, reducing the payments on account is a good idea when profits are lower, but should not be regarded as simply a means of delaying the inevitable...

Merry Christmas

and a

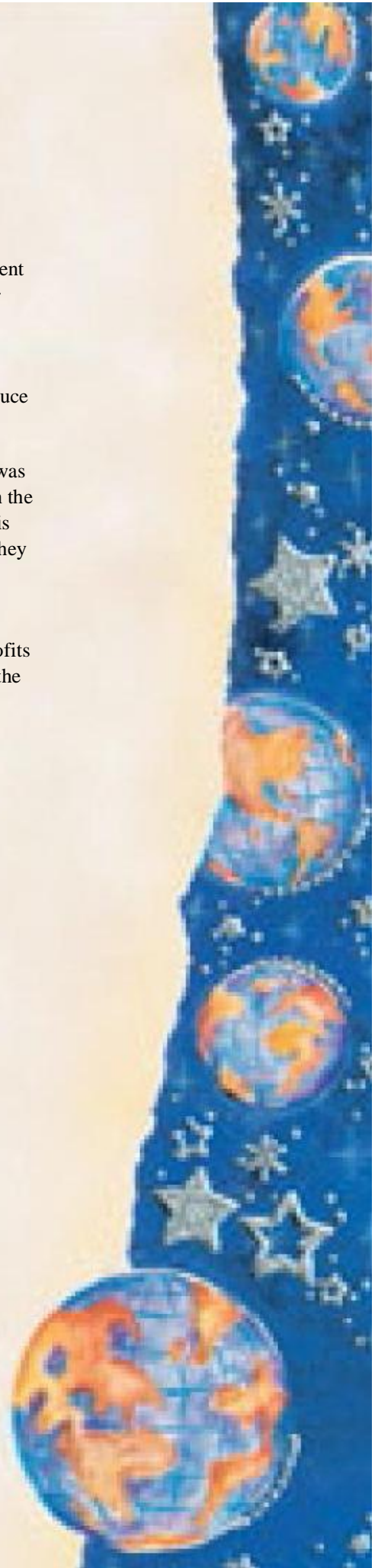
Happy & Prosperous New Year

from everyone at

Marshall Roche *Chartered Accountants*

As has now become our standard practice, we are not sending Christmas cards, but instead have incorporated our newsletter into this seasonal greeting and shall be donating the money saved to Cancer Research.

Thank you



Pre-Budget Report

Once again, Gordon Brown finds himself with less cash than he had anticipated and, once again, he is looking for ways of plugging the gap. With spending commitments ever increasing, we must brace ourselves for rising tax levels.

The Chancellor did not announce the tax rates for next year – these will come in March, but as this is almost certainly his last Budget, he is likely to be reluctant to raise the headline rates of tax.

This will lead to ever more pressure on H M Revenue & Customs to extract every last penny out of the tax laws as they stand. We have already seen the impact of this policy – ***normally the Inland Revenue would not pursue tax where no profit had been made, but we currently have a case where substantial tax is being claimed when the client did not in fact make a profit – the tax office acknowledges this, but are pursuing it on a technicality!***

The case involves a particular line of business and it would not apply in most cases, but the principle has been made clear – they don't care if you had the income or not – if they can get you, they will!

Managed Service (aka 'Umbrella') Companies

These employ people through one of a number of smaller companies, paying them a modest salary and the rest as dividends, thus saving on National Insurance. These companies are in fact covered by the personal service company legislation (known as 'IR35'), but lack of Inland Revenue resources and the need to inspect each individual assignment has enabled them to duck and dive the legislation.

So now the Chancellor has announced plans to set up a completely new set of rules, specific to MSCs. ***This will require them to operate PAYE in the normal way or the directors face personal liability for the tax and NI if they do not.***

These new rules will not affect companies where the management of the company is in the hands of the directors/shareholders, as is the normal arrangement for small businesses.

Work in progress

It has always been necessary to make an adjustment to the cost of purchases in the accounts to reflect stock carried forward. This is because it is expenditure which will relate to sales in the following year. The same has been the case in respect of work in progress, where costs have been incurred for sales not yet made in the relevant year.

However, it is now a requirement to include in your sales figure the value of work done but not yet invoiced. Of course, this would incorporate the cost of any materials etc already incurred, but also means that the profit element of the work in progress and the value of any of your own labour also becomes included in the accounts.

Therefore, when letting us have details of your income and expenses, please be sure to include income from work carried out, but not yet paid for, whether it has been invoiced or not.

Rule of thumb tax calculation

Now that tax and NIC thresholds are about the same, this makes estimating your tax liability a lot easier.

The tax and NIC free allowance is just under £100/wk this year and will rise to just over £100 next year. Above that, employed people pay a total of 33% (=22% tax+11% NI) and self-employed people pay 30% (=22%+8%).

In other words, work out your weekly income (ie net profit if you are self-employed), deduct £100 and put by around one third of the rest to pay the tax.

Once your total income exceeds about £40k pa, the tax rate rises by 18%, but the NI drops to 1%, so in round terms, you need to put by a further 10% of the surplus.

Tax return last call

If you have still to let us have the information to prepare your tax return for 2005/06, please do so without delay. As usual, the deadline is the end of January and the penalty for missing this is £100.

As always, we cannot undertake to process every return if a lot come in late.

The payment date for any tax owing for 2005/06 and the first instalment for 2006/07 is 31 January 2007. Tax not paid by then will incur interest. Any 2005/06 tax still unpaid at the end of February 2007 attracts an additional 5% surcharge.



Happy New Year!