

How to survive the New Year!

The news is now full of doom and gloom about the economy, with predictions of the 'credit crunch' resulting in less money all round. The Bank of England's ¼ % interest rate drop is unlikely to save the day, producing only a very small saving in monthly outgoings for most. The real impact is likely to be from the banks, scared of following in the footsteps of Northern Rock, becoming much more careful about how much they will lend - and who to.

So what can we all do to protect ourselves? Tighter lending will inevitably hit the property market, as borrowers find it harder to raise the money to buy / improve. So in particular, anyone whose income depends on property or construction must think very carefully – avoid increasing monthly commitments (eg delay buying that new van on HP..), beware of bad debts if the developer goes bust (get stage payments..).

But the knock on effect will be felt by us all - everyone needs to be prepared and think defensively about their finances – put a bit more by for that 'rainy day' and make fewer financial commitments generally. Sometimes easier said than done, we know...

In the meantime...

**Merry
Christmas**

and a

Best Wishes for the 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

**TAX
STOP®**

New Capital Gains Tax rules

Since the Labour Party introduced CGT in the 1960's, it has always been a complicated tax. Intended to tax gains on investments by the wealthy, it also fell on hard-working small businessmen, who had spent a lifetime building up their businesses and then sold them to provide a pension fund.

So Retirement Relief was introduced, allowing a substantial gain to be made, tax free, on retirement. Then 10 years ago, Gordon Brown had the bright idea of doing away with that and introduced 'Taper Relief', which only taxed 25% of the gain if you had been in business for at least 2 years (even if not retiring).

Not surprisingly, wealthy businessmen eventually caught onto this and realised that if you made your living out of buying and selling businesses, then you could get away with paying only a quarter of the tax you would normally pay (ie only 10% instead of 40% tax). Known as Private Equity Investors, **one of them pushed it too far when he stated in public that he paid a lower rate of tax than his cleaner! Something had to be done...**

So Alistair Darling announced that they will replace taper relief with a flat rate of 18% - which will apply not only to rich property investors, but also to small businessmen who sell up to retire.

Under pressure from small business organisations, the Government is considering re-introducing some form of Retirement Relief for small businesses – we await the Budget proper for further details.

In the meantime, as the new rules do not come in until after 5 April 2008, if you would like advice on whether to sell an asset before that date, please get in touch.

Inheritance tax allowance

The other major Pre-Budget item concerned the £300k allowance each person has before paying Inheritance Tax on death. With so many homes now worth more than this, more 'ordinary folk' are paying this wealth tax.

Everyone gets the allowance, so you would think that a married couple would get £600k, but normally one spouse dies first and their half passes to the survivor, so pushing them over the limit.

The plan is to allow widows / widowers to 'inherit' the allowance from their spouse, so that when they pass on, the family home is covered by the two lots of allowance. Again, we await the Budget for full details, but it means that a lot of carefully written Wills may have to be reviewed.

Taxable income or not??

If you receive money that is not taxable and you forget to record what it was, you face the very real risk that the tax-man will assume that it is taxable income. The onus is then on you to prove that it is not.

To avoid this risk, you should keep all bank statements (for at least 6 years) and write on them what it was, ideally keeping supporting paperwork as evidence to back this up.

The normal assumption in law is that you are innocent until proved guilty – unfortunately, where tax is concerned, this does not apply. **If you have received money and cannot say where it came from, it will be assumed to be income.**

Tax return last call

If you have still to let us have the information to prepare your tax return for 2006/07, 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.

Also don't forget - the payment date for any tax owing for 2006/07 (and the first instalment for 2007/08) is 31 January 2008. Tax not paid by then will incur interest. Any 2006/07 tax still unpaid at the end of February 2008 attracts an additional 5% surcharge.

Happy New Year!

