

# Taking Account

MARSHALL ROCHE  
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## BUDGET COMMENT

The Budget was a bit of an anti-climax, as the Chancellor had announced most of the significant changes in advance. Basic rate tax is down from 22% to 20%, but paid for by doing away with the 10% rate band, a measure that hits those on low incomes hardest. At the same time, having done away with 10% tax on small companies a while back, he has pushed the rate up to 21%, with a further rise to 22% next year, possibly in an attempt to claw back some of the national insurance lost through taking profits as dividends.

**Capital gains tax** sees one of the biggest changes in the rules since it was invented (by a Labour government) in 1965. Out go the reliefs designed to encourage investors to hold onto investments or property for longer (indexation and taper relief) and in their place we have a single 18% tax rate across the board.

As this would hit those with small businesses when they sell up and retire, a lower rate of 10% will apply for the first £1m of gains from selling a small business. Again this hits the smallest businesses hardest, who may well have paid nothing under the original rules.

But the higher earners do not escape completely - the **'upper earnings limit'** for NIC rises from £34,840 to £40,040, so that an extra £5,200 gets caught for 11% NIC, costing higher paid employees an extra £10 per week.

**One welcome allowance is the 100% relief on new capital equipment, up to £50k in each financial year** – few small businesses spend more than this and this will mean capital expenditure getting tax relief in full in the year you spend it, rather than having to wait years, although the allowance on balance brought forward from earlier years will only get relief at the reduced rate of 20% on the reducing balance each year.

**Pensioners** with modest earnings have done reasonably well, seeing their allowances rise by £1,480 (£1,490 over age 75), worth a few hundred pounds a year in saved tax. This disappears once income (including from pensions and investments) rises much above £21,800. Many will also breath a sigh of relief that the **allowance for Inheritance Tax is now transferable** between spouses, so if one dies and leaves everything to the other, it doesn't waste the deceased spouse's allowance.

## Marshall Roche

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## Living on the Margin

The word 'Margin' is going to take on a greater significance in the coming months and years. Most people understand 'profit margin' to be the difference between income and outgoings – and so long as the difference is enough to live on, what's the problem?

Well, margin is what boating people might call 'freeboard' – how close the water is to coming over the side of the boat. ***Think of your assets as the boat and your regular outgoings as the cargo – the larger your cargo in relation to the boat, the greater the risk of sinking when things get rough.***

The problem is that economic conditions have been so calm for so long that people have got used to filling their financial boats to the brim, without fearing that a big wave will swamp them. The same applies both to business and personal finances. But it never stays calm forever – and there is a storm brewing...

So, before it's too late, take a close look at your financial position – how would you fare if your income or turnover dropped 10% or 20%, or if your main customer / employer were to go out of business (or make cut-backs to avoid this...) - **it may be too late now to build a bigger 'boat', but make repairs where you can and think seriously about throwing some of your unnecessary 'cargo' over the side – when the storm hits, it may be too late.**

## Taxed on thin air...

As the economic climate deteriorates, you may well spend days looking for work or maybe accepting less than a full day just to make ends meet. Or maybe you will just take more time off.

### **But will the Tax Man believe you?**

In the Tax Man's eye's, if your accounts show less income, this could be a sign that you earned it but 'forgot' to record it...

So you could get taxed on what you might have earned, but didn't - unless you can demonstrate that you didn't.

The best defence is to have a detailed record of what you actually did – keep a diary in which you can record what you spent the time doing, whether this was working, looking for work or sitting around doing nothing. ***The bigger the apparent gap in your income records, the more important it is to have a detailed and verifiable record of what you have done with your time when you were not earning money.***

## Dividends paid to a spouse / partner

Following their defeat in the Arctic Systems case, the government had threatened legislation to come into effect in April, whereby dividends could be allocated (for tax purposes) according to which shareholder actually generated the income.

As a result of strong lobbying from small business groups, this has been put off for another year, while they consult further. **But this is only a reprieve – be prepared for new rules on this sooner or later.**

## **VAT fuel scale**

*If a business claims VAT on fuel and any of this is used for private mileage, then there is a scale of VAT charges that the business must pay over. The rates have changed and will be notified by HMRC in 'VAT Notes' or can be found on our website at*

[www.marshallroche.co.uk/fuelvat](http://www.marshallroche.co.uk/fuelvat)

*The scale is now so high that many businesses will not even claim as much VAT as they would be required to pay over – if this applies to you, simply don't claim any VAT on fuel purchases.*

## **Not UK domiciled?**

*The rules for 'non-doms' are complex, but anyone who was not 'born and bred' in the UK, who has more than £2,000 of non-UK income that they keep outside the UK (to avoid UK tax), needs to take action to avoid becoming liable to the new £30k annual fixed tax charge on overseas income.*

## **VAT errors**

*As from July 2008, errors of less than £10k or 1% of turnover, if greater, can be adjusted on the next VAT return, without a separate form.*

## **Tax returns already ...**

*It may not seem that long ago that you signed last year's tax return, but a new tax year is upon us and returns will be due again soon.*

*Please try get it all together before your summer holiday, so you can relax and leave it with us.*

*Also, if you know your tax bill well in advance, then you can plan – far better to have the cash put by and enjoy Christmas, than to spend Christmas worrying about January's tax bill!*