

# Taking Account

**MARSHALL ROCHE**  
**Quarterly Newsletter – Spring 2005**

## BUDGET COMMENT

With an election in the very near future, no-one was expecting this to be a hard-hitting Budget – many commentators believe that the real Budget will come after the election. The overall effect was said to be ‘neutral’, ie increasing taxes to balance what he was giving away, but to listen to the speech, you would be hard pressed to identify any tax increases! The conclusion must be that the ‘giveaways’ are mainly cosmetic, like the one-off reduction in Council Tax for pensioners – very welcome, but not dealing with the longer-term problem. However, he is to be congratulated for exercising self-control, although this suggests that he is confident that he will be back in office after the election, so does not want to store up problems for himself...

A major purpose of the Budget appears to have been to “shoot the other parties’ foxes”, ie to use ideas suggested by the other parties to try to remove any electoral advantage they may have had.

Mr Brown’s spending figures assume a large jump in tax receipts next year, based on assumptions about economic growth. However, if it doesn’t happen, he will have to look elsewhere and taxes will rise...

Key rates and allowances at a glance		2005/2006			2004/2005		
Personal tax rates – lower / basic / higher		10%	22%	40%	10%	22%	40%
Basic rate / higher rate thresholds		£2,090	£32,400		£2,020	£31,400	
Standard tax free allowance		£4,895			£4,745		
Allowance for older single person (65 - 74) / (75 or over)		£7,090	£7,220		£6,830	£6,950	
Older married couples (65 - 74) / (75 or over) – tax reduced by - (NB – only if at least one partner was born before 6/4/35)		£590.50	£597.50		£572.50	£579.50	
NIC threshold - (Employer / employee)		£94.00/wk for both			£91.00/wk for both		
NIC employees / employer’s rate (not contracted out)		11%	12.8%		11%	12.8%	
NIC self-employed Class 2 - weekly contribution / earnings over		£2.10	£4,345 pa.		£2.05	£4,215 pa.	
Inheritance Tax - total tax free allowance		£275,000			£263,000		
Capital Gains Tax - annual tax free allowance		£8,500			£8,200		
VAT registration threshold - turnover in last 12 months		£60,000 (wef. 1/4/05)			£58,000 (wef. 1/4/04)		
Corporation tax:	Tax rates	0%	23.75%	19%	32.75%	30%	
	On profits between – and -	£1 £10k	£10k £50k	£50k £300k	£300k £1.5m +		

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## Forms P35 – Tax free £825 subsidy for employers

If you have employees or subcontractors from whom you deduct tax, you must submit your end of year P35 (CIS36 for subcontractors) by 19 May 2005 to avoid a penalty.

This year, if you are a small business and file your P35 on-line, you will get an incentive payment of **£250 tax-free from the Inland Revenue**, which should cover the costs of making the arrangements. If subsequent years are filed on-line, the incentive is a further £250, then tapering off, but totalling £825 over 5 years.

The subsidy does not apply to CIS forms, which cannot as yet be filed on-line.

*For all clients where we already handle PAYE end of year forms, we shall file on-line on your behalf. If we do not handle your paperwork and you would like us to do so, please contact us in plenty of time, as the issue by the Inland Revenue of passwords etc., can take some time.*

Act early to avoid any risk of a penalty. The penalty for late returns is £100 *per month*, so it can very quickly become a serious situation.

## Inheritance Tax Planning – part 2

Raising the threshold for inheritance tax to £275,000, with only modest increases fixed for the next few years, the Chancellor claimed that only a very small proportion of estates would pay the tax. *Possibly this is based on dividing the value of the family home between husband and wife.* Locally, many family homes are now worth considerably more than this.

As most family homes are held as “joint tenants”, they automatically pass to the survivor on the death of the first spouse. **As a result, the survivor may then have an estate that puts them into the 40% Inheritance Tax bracket.**

The solution is to sever the joint tenancy so that each spouse can leave their half to the family, if necessary in a trust. The result is that the property is held as “tenants in common”.

**It is very simple to sever the joint tenancy** - all that is required is for one joint owner to write to the other joint owner, stating that they are severing the joint tenancy. For the avoidance of doubt, the letter should be acknowledged. So a simple exchange of letters is sufficient.

*However, once this is done, the survivor no longer automatically inherits, so you should ensure that your Wills correctly reflect your intentions, for which it would be advisable to take legal advice.*

## Stamp duty – not much help locally

The Chancellor ‘generously’ announced that the starting point for stamp duty would be doubled, from £60,000 to £120,000.

*Unfortunately, once a property is over the threshold, the **entire purchase price** is subject to stamp duty. Therefore, this measure will be of little value locally, where few properties change hands for less than £120,000.*

## Company vans – save tax?

*If you enjoy private use of a company van, then you currently pay tax on this as if it was £500 of income (£350 if over 4 years old). For most people this produces a tax charge of £110.*

*Private use includes getting from home to work, but from 6 April 2005, if you only (repeat only..!) use it to get home and back, then the tax charge is waived.*

*Therefore, for those who only make very occasional private use of a company van, it might be worth restricting this to getting between home and work, saving themselves £110 in tax each year.*

## Self employed NIC

*When someone is employed, they pay NIC and their employer also pays NIC based on their income. However, self-employed people have no employer. They therefore pay 2 lots of NIC themselves.*

*Class 2 NIC is paid at the rate of £2.10 per week (2005/06) whilst Class 4 NIC is a straight percentage of earnings over the tax threshold. Class 4 buys no benefits at all and is therefore no more than an additional 8% tax.*

*People with profits below £4,345 need not pay Class 2 NIC, but as this buys your state pension, the modest cost of £109.20 per year is generally a very sound investment (assuming that there is still a state pension when you retire...)*

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