

# Taking Account

MARSHALL ROCHE  
Newsletter – Spring 2007

## BUDGET COMMENT

The Chancellor announced that the rate of corporation tax would be cut by 2%, but what he did not emphasise was that this was for larger companies only (and then only from 2008) – *whilst small companies see their corporation tax rate rise from 19% to 22%* over the next few years. As from 1 April 2007, the rate of corporation tax for small companies stands at 20% and this will rise again next year and the year after.

The businesses hardest hit will be those struggling to grow and make the transition from small business to large. It has to be said, though, that a large number of very small companies were formed to take advantage of the 19% rate, compared to 22% income-tax on unincorporated businesses. In addition, there has been no mention in this budget of increasing or imposing National Insurance on the dividends drawn from small companies, so many will breath a sigh of relief, although that cannot be far away.

Despite the 1% increase in corporation tax on small companies, the absence of National Insurance on dividends and the opportunity to draw profits in this way still makes the limited company option favourable for many small businesses. However, the additional administration involved in running a limited company, compared to being a sole trader, means that for the smallest businesses it remains more cost-effective to remain a sole trader.

The decision whether to operate as a sole trader or limited company involves a number of factors and, if you would like to review your current arrangements, please contact us to discuss this.

### National insurance to rise for some

Until recently, National Insurance contributions were capped at an upper limit, on the basis that having paid your bit, nothing more was due. This changed a couple of years ago, when a 1% rate was introduced for all earnings above the upper limit.

Now Gordon Brown has announced that, as from next year, the upper limit rises to the higher rate tax threshold. This will mean someone earning more than £35k will pay up to £500 a year more in NIC from next year.

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## VAT on fuel

A VAT registered business (other than under the flat rate scheme) has the option of claiming VAT on vehicle fuel or not. If you claim, then if the vehicle has any private use whatsoever, a fixed quarterly amount of VAT must be paid for this. These scale charges are quite high and, for businesses with low mileage, often exceed the amount of VAT that can be recovered on fuel receipts. If that is the case, it is clearly not worth claiming VAT in the first place.

Up to April 2007, the scale charges are based on engine size. From 1 May they are based on engine emissions. Therefore, more efficient cars will result in a lower VAT charge, whilst higher emission cars will result in a much higher charge. It is therefore necessary for anyone who claims VAT to review their situation and those who do not claim VAT on fuel may wish to consider doing so if their car has low CO<sub>2</sub> emissions.

To make life more difficult, the new rules do not follow a simple formula. We have therefore reproduced here the full quarterly table. If you would like us to review your decision whether to claim VAT on fuel, please contact us.

Quarterly figures		
CO <sub>2</sub> g/Km	Scale charge	VAT payable
Up to 144	£ 182	£ 27.11
-149	£ 195	£ 29.04
-154	£ 207	£ 30.83
-159	£ 219	£ 32.62
-164	£ 231	£ 34.40
-169	£ 243	£ 36.19
-174	£ 256	£ 38.13
-179	£ 268	£ 39.91
-184	£ 280	£ 41.70
-189	£ 292	£ 43.49
-194	£ 304	£ 45.28
-199	£ 317	£ 47.21
-204	£ 329	£ 49.00
-209	£ 341	£ 50.79
-214	£ 353	£ 52.57
-219	£ 365	£ 54.36
-224	£ 378	£ 56.30
-229	£ 390	£ 58.09
-234	£ 402	£ 59.87
-239	£ 414	£ 61.66
240 or above	£ 426	£ 63.45

## Capital gains tax on gifts

If you give away shares or property to your offspring, it would not be unreasonable to think that capital gains tax was not payable, because you made no profit – but you would be wrong.

Gifts to a 'connected person' (mainly family, but contact us for a full list) are treated as having been sold at market value. Therefore, you could end up paying tax on the increase in value since you owned it, even though no money changes hands...

Gifts between spouses are exempt. Your home is free of capital gains tax, but you still need to consider Inheritance Tax. For further advice, contact us before making any substantial gifts.

## Avoiding a penalty for late filing

*Of course, the easiest solution is to file all documents, accounts and returns on time, but most penalties can be set aside in exceptional circumstances.*

*Not surprisingly, the various authorities do not publish a list of such circumstances, as they would not then be 'exceptional' – for example, hospitalisation at a critical time would probably be accepted, but not if it was a long planned operation and there was plenty of time to file the paperwork beforehand.*

*Companies House require notification of circumstances in advance of the filing date for company accounts.*

*If you will be unable to meet a particular deadline due to exceptional circumstances, contact the authority concerned, or get us to do so – they may or may not agree, but it may be worth a try.*

## Company Vans

*If you have private use of a company van, then from 6 April 2007 you will be taxed as if it was £3,000 of income. If you also get fuel for private journeys, then this is worth and additional £500.*

*In other words, a 22% tax-payer will pay tax of £660 for the van benefit and £110 for the fuel.*

*For vans only (not cars), driving between home and work is not counted as private travel.*

*So if you have a clapped out old van, avoid using it for those trips to the dump – or agree (with your employer) a reasonably commercial rate to pay for those odd trips, to avoid paying all that extra tax.*

## Early call...

*31 January 2008 seems an age away now, but unless we get the information to prepare accounts and tax returns in a steady stream between now and then, it becomes an ever greater battle to get it all done on time.*

*In the 10 years since Self Assessment started, we have never missed a deadline yet – don't make this year the first - please help by letting us have the information sooner rather than later – Thank you*