

Taking Account

MARSHALL ROCHE
Quarterly Newsletter – Spring 2004

BUDGET COMMENT

Everyone was holding their breath for the promised measures to remove the “longstanding differences in tax treatment between earned income and dividend income” referred to in the Chancellor’s pre-Budget speech in December – but in the end it was nowhere near as bad as it could have been. Ironically for a left-of-centre government, the hardest hit are very small businesses – companies with profits over £50,000pa are unaffected. See over for full details.

Personal allowances, frozen last year, have been increased in line with inflation - although not in line with earnings growth, which is higher, so that means more tax to pay. Having increased National Insurance bills by around 10% last year, this has been left alone.

Child Tax Credits remain a minefield, with many fearing that they will have to repay some, whilst others are missing out due to underpayments. Its days must be numbered – it’s far too complex to administer.
Should you be claiming? – See over for details.

Key rates and allowances at a glance	2004/2005			2003/2004				
Personal tax rates – lower / basic / higher	10%	22%	40%	10%	22%	40%		
Basic rate / higher rate thresholds	£2,020	£31,400		£1,960	£30,500			
Standard tax free allowance	£4,745			£4,615				
Allowance for older single person (65 - 74) / (75 or over)	£6,830	£6,950		£6,610	£6,720			
Older married couples (65 - 74) / (75 or over) – tax reduced by - (NB – only if at least one partner was born before 6/4/35)	£572.50	£579.50		£556.50	£563.50			
NIC threshold - (Employer / employee)	£91.00/wk for both			£89.00/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	£2.05	£4,215 pa.		£2.00	£4,095 pa.			
Inheritance Tax - total tax free allowance	£263,000			£255,000				
Capital Gains Tax - annual tax free allowance	£8,200			£7,900				
VAT registration threshold - turnover in last 12 months	£58,000 (wef. 1/4/04)			£56,000 (wef. 1/4/03)				
Corporation tax:	Tax rates			0%	23.75%	19%	32.75%	30%
	On profits	between -	and -	£1	£10k	£50k	£300k	£1.5m +
				£10k	£50k	£300k	£1.5m	

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Marshall Roche opening new office soon

We are delighted to announce that we have acquired premises in the Fareham area and shall be opening a new office very soon. The office is in Fareham Park Road, just off the Highlands Road shopping area.

Reflecting the open and friendly style of our existing offices, Fareham will offer the same wide range of services.

If you would find it more convenient to deal with us at the new location, please let us know.

Small business loop-hole closed

A couple of years ago the Chancellor introduced a 0% tax rate for company profits up to £10,000, with a sliding scale rising to 19% at £50,000. He seemed to overlook the fact that a sole trader earning (say) £14,800pa could form a company, then draw a salary of £4,800 and take £10,000 as dividends, paying only a few pounds in tax and NI in total.

Now he has woken up and will charge 19% Corporation Tax on all profits drawn as dividends. The result is that in the example above, the company will pay £1,900 in corporation tax, when before they paid nothing.

However, as a sole trader, the same person would pay £2,774 in tax and NIC, compared to £1,918 in total tax and NIC as a company – **still a saving of £856pa**, although this has to be weighed against the extra administration.

On higher profits, the benefit of a company is greater, because income tax at 22% on self-employed profits, plus NIC of 8%, comes to more than half as much tax again as the 19% corporation tax bill.

There remains the risk that he will try to charge NIC on dividends in the future, but we appear to have been spared that for the time being.

Taxing your garden?

If you own land that might have development value, beware of the following gobbledy-gook quote from the Budget Press Release:-

“The Barker Review concludes that a Planning-gain Supplement based on the uplift when land is sold for development would be an efficient source to release resources to help in the expansion of housing supply”.

In English, this means taxing the profit on land sold for development, even if it would normally be exempt from capital gains tax by being part of your garden...

Change in ISA rules

As from April 2006, the annual limit for ISA investments in unit trust and the like will be reduced from £7,000 to £6,000.

As from 6 April 2004, ISA's cannot reclaim the tax on dividends received. They remain free of capital gains tax, so the change mainly affects those invested in income generating shares, rather than growth orientated.

Small business rate relief

If you have business premises with a rateable value up to £8,000, contact your local authority about relief available.

Tax avoidance or evasion?

The Chancellor announced that accountants promoting tax avoidance schemes will be required to register these with the Inland Revenue - ie the Tax Man must be told at the same time as the Tax-payer!

This will not make the scheme illegal, but it will give the Government a chance to close the loop-hole before too many people get through it...

PAYE end of year forms

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 2004 at the very latest to avoid a penalty.

If you would like our assistance with the forms, please contact us.

The penalty for being late is £100 per month, so it can very quickly become a serious situation.

Child tax credit

This is payable to all but the very highest earners, so if you have children and are not claiming, call the Helpline on 0845 300 3900 or go the Inland Revenue web-site at www.inlandrevenue.gov.uk.

Note: The content of this newsletter is necessarily of a general nature and no liability can be accepted for any action or inaction on the part of any person without first consulting us.

A J Marshall t/a Marshall Roche is authorised by the Financial Services Authority to conduct investment business

A circular logo with a red border. Inside the circle, the words "TAX" and "STOP" are written in large, bold, blue capital letters, stacked vertically.