

Taking Account

MARSHALL ROCHE
Newsletter – Spring /Summer 2009

BUDGET COMMENT

The Budget can be summed up in one word – ‘tinkering’. The rise in the top rate of tax for high earners will hit some people, but it will raise only a tiny fraction of the money needed to fill the government’s economic ‘black hole’.

Over the past 10 years public spending has grown enormously, while the basic rate of tax has been cut from 23% to 20% and the ‘headline’ corporation tax rate cut from 31% to 28%. These have been partially offset by ‘stealth taxes’, such as the increase in employer NI (invisible to most people, but very visible to employers!) from 10% to 12.8%. But not enough to cover the increase in public spending – the difference has been made up by borrowing – both by government and individuals.

If Fred borrows money to buy a new car, then Joe the car salesman earns commission. Joe pays tax on this, so some of Fred’s borrowed money ends up in the government coffers. Joe is doing well, so he takes out a bigger mortgage and buys a new house – the developer makes a profit and –the government takes its cut. ***In fact, pretty much every time the money changes hands, the tax man takes a cut.***

So, even though tax rates are lower, tax revenue is higher because everyone has been borrowing and spending more.

The result is that expanding private debt over the last 10 years has helped to prop up government spending and, because it counts as ‘tax revenue’ and not ‘borrowing’ in the government’s books, it actually looks good on the government balance sheet. **And, into the bargain, all this activity counts as ‘economic growth’ so making it look as if they are doing a really great job!**

This is why the government is so keen to get banks lending again – to try to restart the process. But an economy built only on expanding credit is never going to work – Gordon Brown kept saying he would ‘balance the budget’ over the economic cycle, but he never did – and now it’s time to rein in spending and start paying off the debts.

The problem is that, as people stop spending and start saving, the process goes into reverse – profits fall, so tax revenues fall, so the ‘black hole’ gets bigger. Unless government spending can be cut fast enough, tax rates have to rise dramatically to make up the shortfall (***remember basic rate tax of 35% in 1975..?***).

We have to brace ourselves for higher tax rates, but (unless of course they have to call in the IMF in the meantime...), with an election due next year, until then expect only tinkering...

Marshall Roche

Chartered Accountants - Business & Finance Specialists

77 London Road, Cowplain, Waterlooville PO8 8UJ 023 9234 0775
Cowplain@MarshallRoche.co.uk

1 Portland Buildings, Stoke Road, Gosport PO12 1JH 023 9234 0770
Gosport@MarshallRoche.co.uk (Registered Office)

Marshall Roche Limited *Chartered Accountants*
Trading as Marshall Roche Director: A J Marshall BSc FCA FPC
Registered in England, Company No. 3000246

Check out our web-site at:-
www.MarshallRoche.co.uk

More relief for trading losses

Businesses can normally carry back losses one year, ie. use this year's loss to get a rebate on last year's tax bill. However, if you made no profit last year, the only option has been to carry the loss forward.

For 2008/09 and 2009/10, up to £50k of additional losses can be carried back up to two further years, so even if you had no profit last year (or your loss this year is bigger than last year's profit) you might still get some tax back from earlier years.

The same applies to companies, but only for accounting periods ending between 24 November 2008 and 23 November 2010.

Furnished holiday lettings – now you see it, now you don't...

Income from furnished holiday letting is currently treated as a business, with more favourable tax reliefs and a lower rate of capital gains tax on sale, compared to normal property letting. However, things are changing:-

- The definition has, for one year, been extended to all such holiday property in the EEA (ie the EU plus a few other countries).
- *From 6 April 2010 the favourable treatment is withdrawn completely and, from that date, all such property income will be treated as investment income and not as a business.*

Therefore, if you have furnished holiday lettings you may wish to review the impact of this. If it is sold before 6 April 2010, then you will be able to take advantage of the 10% entrepreneurs relief rate of CGT, but after that the rate becomes 18%.

Tax relief on cars

The rules have all changed for cars purchased from 6th April 2009 (1st April 2009 for companies). Existing cars will be depreciated for tax purposes at 20% as before (subject to the £3,000 pa maximum allowance), but cars purchased after this date will get tax relief at the following rates:-

<u>CO₂ emissions (g/km)</u>	<u>Annual rate</u>
Up to 110g	100%
Between 110g and 160g	20%
Over 160g	10%

The annual rate is applied on the reducing balance basis, so a 10% allowance on (say) a £10,000 car means you get tax relief on £1,000k in yr1, £900 in yr2, £810 in yr3 etc.

However, the £3,000 annual limit will not apply, so a £20,000 car with CO₂ of 150g/km will get £4,000 allowed in yr1, £3,600 in yr2 etc. and a small car with emissions under 110g/km will get the whole lot allowed in year 1.

These rules do not apply to vans or motorbikes, which get 100% if total capital spending is within the £50k Annual Investment Allowance.

Private use by sole traders and partnerships is adjusted for, as before.

PAYE monthly payments

At present, late payment of PAYE & NI only attracts interest if payment is after 19 April at the end of the tax year. However, as from April 2010, this will apply to each month. So anyone who is late with their PAYE or CIS tax payments will be charged interest.

The arrangements for quarterly payments, if monthly totals do not exceed £1,500, are expected to continue, but the interest will still apply if you miss the quarterly due date.

Top rates of tax increase next year

As from April 2010, people with incomes over £100k will gradually lose their personal tax allowance. The allowance will reduce by £1 for every £2 income, (with the result that the effective tax rate will be 60% on income between £100k and about £113k).

Then the tax rate will be 50% on all income above £150k.

Company penalties and deadlines

Company accounts filed late now attract a £150 penalty, rising to £375 after one month late, £750 after 3 months and £1,500 after 6 months.

Company accounts for periods starting after 6 April 2008 must be filed within 9 months of the period end.

Keep tax return costs down ...

A new tax year starts and tax returns will soon be due again. Please try to get it all to us before your summer holiday, so you can relax.

Also, don't forget that the VAT rate goes up again on 1 January, so any work not finished (or paid for) before that date incurs the higher VAT charge...

