

Taking Account

MARSHALL ROCHE
Newsletter – Spring 2011

BUDGET COMMENT

So now we have the extra 2.5% on VAT (introduced in January) plus the extra 2% on National Insurance that came into force from 6 April. The latter is offset slightly for lower earners by the rise in the starting level for NI from £110/wk to £136/wk, but for higher earners the impact is considerable. The irony is that NI, which started life many years ago as a small charge to pay for state pensions etc., now works out at 25.8% (12% employee and 13.8% employer) – well above the 20% basic rate of tax. So for each extra £100 earned by a basic rate tax-payer, the Tax Man now gets a whopping £45.80!

To try to stave off economic collapse following the credit explosion of the last decade, the whole economy is now being managed with one aim in mind – to encourage borrowing and spending rather than saving:

- Despite talk of cuts, government **spending continues to rise**, while the government taxes us more to keep it all going.
- Interest rates have been held at ‘**emergency levels**’ – lower than ever seen before in 300 years of the Bank of England’s history – for over two years, which discourages saving and encourages spending.
- The pension rules introduced in 2006, designed to encourage pension saving, have been **further watered down**.
- The government is doing all it can to **prop up the housing market** – aware that when people move house, they tend to borrow as much as they can, then spend money on furnishings, improvements etc.

They talk about ‘growth’ getting us out of this mess, but for growth read inflation: they hope that incomes will rise enough to pay off all the debts eventually. **But we can only hope that they do not give in to the temptation to print yet more money**, which simply erodes the value of the Pound, so increasing the cost of fuel, wheat etc., so adding to the inflationary spiral.

In the 1970’s, prices quadrupled in a decade and the base rate had to be raised to 16% to avoid a Zimbabwe style melt-down (some of us had mortgages to pay and remember it well ...!). Let’s just hope that George Osborne (born 1971) has read his history books.

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Declare untaxed earnings by 31 May and limit your penalties

HMRC have introduced a scheme, primarily aimed at plumbers, but open to all tax-payers, to enable disclosure of previously undisclosed income – and they are offering a substantial ‘discount’ on the penalties for those who come forward.

If you have any undisclosed earnings, (eg ‘cash-in-hand’ or ‘private’ jobs) that you want to ‘get off your chest’, or maybe rental or investment income that was overlooked, then now is the time to do it.

The latest date to register for the scheme is 31 May 2011 and full details have to be provided by 31 August 2011.

Most people know someone who doesn’t declare all their income, so if you want to help out a friend, please pass this on to them or get them to give us a call. We can help to minimise the tax (and any resulting penalties) they will pay.

New tax return penalties

Oh, how things have changed since the days when the Tax Man asked us if we wouldn’t mind submitting our tax returns at some time...

The following deadlines and penalties apply to the 2011 tax return **even where there is no tax due or you are due a refund:**

<u>Tax return filed</u>	<u>Penalty applied</u>
After 31/1/12	£100
After 30/4/12	A further £10 per day, up to £900
After 31/7/12	A further £300 or 5% of the total due (if greater)
After 31/1/13	A further £300 or 5% of the total due (if greater)

Therefore, even someone with no tax liability or a refund could find themselves with penalties totalling £1,600 for a late tax return.

This represents a significant increase from the existing £200 maximum penalty and must be taken seriously.

Note also that for partnership tax returns the penalty is multiplied by the number of partners – in addition to the charge for late personal tax returns.

In addition, as well as the existing 30 days and 6 months charges, the **late payment surcharge is extended by a further 5%** of the amount due (i.e. 15% in total) where payment is more than 12 months late.

Mileage allowance

For employees and small businesses, the mileage allowance (for the first 10,000 miles per annum) **has been raised from 40p/mile to 45p** per mile. This rate can be used by sole-traders / partnerships that are below the VAT threshold and employees of limited companies.

Keeping tax return costs down

Inflation is running at 5%, but as an extra incentive to encourage early submission of tax returns, this year we shall be delaying our annual review of hourly rates.

Instead of raising rates on 1st June as normal, this year our hourly rates will be kept frozen until 31st October.

If you would like to use our tax return helper / checklist, please go to www.marshallroche.co.uk/tax_return_help_2011.pdf.

VAT registration

The threshold has risen, in line with inflation, to £73,000pa. If your turnover looks like it might exceed this, you need to monitor it monthly – if the total for any consecutive 12 month period exceeds the threshold, you then have one month to register – or face penalties.

Corporation Tax and dividends

The small companies corporation tax rate is down from 21% to 20%, so those who can operate their business through a limited company (and draw income as dividends instead of salary) are now saving even more.

However, with National Insurance on salaries now standing at 25.8% in total, the need to pay and record salaries and dividends separately from each other becomes even greater.

At the same time, service companies that find themselves on the edge of IR35 need to brace themselves for the possibility of stronger enforcement action on the part of HMRC.