

Taking Account

MARSHALL ROCHE
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CONSTRUCTION INDUSTRY SCHEME – IMPORTANT CHANGES

If you work in the construction industry, whether as a contractor or subcontractor, it is very important that you are aware of the **new rules that come into effect from 6 April 2007**. There are serious financial risks, whether you are a contractor or subcontractor. The advice below is relevant to everyone who works in the construction industry.

No More Vouchers!

As from next April, there will be no more CIS vouchers. Therefore, if you work as a subcontractor, you **MUST** keep your own record of what you get paid – gross pay, tax deducted and the net amount received. If you do not, it will be extremely difficult to prepare your tax return and you may not get any refund due to you.

The Inland Revenue will check their records to make sure that the tax you claim for ties up with what they have received, but it seems unlikely at this stage that they will be able or willing to provide the information that is currently included on the vouchers.

So keeping records is essential!

Penalties for not reporting that you've nothing to report!

If you subcontract work to someone else, you **MUST** register as a contractor. Before you use a subcontractor, you **MUST** check with the Inland Revenue to ensure that he is a registered subcontractor – this will be done either by telephone or electronically. So you can't just get someone in to plaster that ceiling – you **MUST** go through the system!

It makes no difference if he is VAT registered, gives you an invoice, or is a blood relative of the

Queen – you **MUST** apply the rules! Failure to do so will lead to serious penalties.

Once registered, you **MUST** submit monthly returns, ***EVEN IF THERE IS NOTHING TO REPORT!*** Failure to do so will lead to a penalty of £100 per month for each month that passes. ***So if you employ no one for six months, but don't report this, then your penalties will by then be running at £600 per month!***

Frightening, isn't it?!

Be prepared for the new system - for further advice, call us

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Buy to let – pension or poison?

Buy-to-let has been a gold-mine for some, but could it end in a nightmare for others?

In the mid 1990's, when property prices had slumped and interest rates were falling, it became cheaper to buy a property than to rent. However, not everyone was in a position to buy, so investors realised that if they borrowed the money and bought the property, then let it out, they could make a profit.

Gradually, property prices started to recover and landlords realised that they were on to a good thing – not only were they making a profit on the rents, but they saw their investment increase in value. This encouraged them to buy more and to tell their friends, who also went out and bought property.

All this extra interest in property helped to push up prices, so more people jumped on the bandwagon. Other factors, such as immigration, more relaxed lending by the banks and the general rush to get on, and up, the 'property ladder' helped push prices to the levels we see today.

So is buy-to-let still a good investment? If you can find somewhere that will produce more in rent than it costs in mortgage interest, agents' fees, insurance and maintenance, then possibly. But don't forget to allow for anticipated further rises in interest rates and 'void periods', ie. when you have no tenant. As the standard tenancy is for 6 months, after which they can give you one month's notice, it is prudent to allow for one vacant month per year on average, but it could of course be longer if there are plenty of comparable properties around.

The simple fact is that prices have risen so high that few properties would now generate a profit, unless you happen to have most of the purchase price tucked away in a bank account. And even then, you would probably get a better return from a good building society account than from rental income at today's prices.

Many regard buy-to-let as a form of pension. The logic is that inflation will make the mortgage seem small in 15–20 years' time and it can either be sold for a big profit or let out to provide an income in retirement. Some are even prepared to subsidise the place in the meantime, by paying more in interest than it can generate in rental income, paying the rest from other income. This is a particularly risky strategy – unlike an ordinary pension, you cannot simply increase or decrease payments as it suits you.

What if interest rates rise? What if other income drops? If you are looking ahead 15-20 years, you need to bear in mind that within the last 15-20 years, mortgage rates have been in excess of 15% - economics is cyclical and it may be 'unthinkable' that we would be back at these levels, but it's certainly not impossible. And who would buy the place off you then, when the mortgage interest is two or even three times the rent? In short, it could ruin you at a time of life when you were hoping to see your finances on a more secure footing.

The rapid rise in property values has made buy-to-let seem like a 'no brainer' in recent years, but buying at today's prices requires full engagement of brain before proceeding.

If you would like to discuss your plans in more detail, please contact us.

Taxed on nothing...

If you give an asset away, such as some shares or an investment property, you might assume that there is no tax to pay, because no money changes hands.

However, a gift to a 'connected person' is treated as a sale at market value for capital gains tax purposes and tax is payable, just as if you had sold the asset.

'Connected person' includes primarily family members

Age Discrimination

As from 1 October 2006, it is illegal to discriminate against employees on the basis of age. For example, employers can no longer:-

- *force older employees to retire*
- *pay younger employees less, just because they are young*
- *refuse someone a job on the basis of age.*

However, the minimum wage is unaffected by the legislation.

Minimum wage

As from 1 October 2006, the minimum wage levels are as follows:-

<i>16/17 yrs old</i>	<i>£3.30</i>
<i>18 – 21 yrs</i>	<i>£4.45</i>
<i>22 and over</i>	<i>£5.35</i>

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