Taking Account

MARSHALL ROCHE
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ECONOMIC COMMENT

Gordon Brown is caught in a conundrum – the government has borrowed heavily to fund public spending (or 'investment' as he prefers to call it), but he is reluctant to increase headline tax rates to finance this. The result has been a string of 'stealth taxes' and a growing level of government debt. As millions find that the value of their home puts them into the Inheritance Tax bracket, originally a tax on the wealthy, he has introduced a tax on trusts, to stop people using these as a means to avoid Inheritance Tax.

At the same time, the Great British Public are personally in debt to the tune of £1.2 trillion (ie. £1,200,000,000,000), or about £20,000 for every man, woman and child in the country. Evenly distributed amongst a nation of homeowners, this would not sound too bad, but we all know that this is not the case – more and more people are overstretching themselves.

It seems to be this extra borrowing, both by the government and by individuals, that funds the economic prosperity that Mr Brown takes the credit for. Take away the loans and credit cards and people would not be able to afford to go shopping so often.

Low interest rates have helped to fuel the borrowing and spending spree, but all the signs are that these are coming to an end. The US has raised their base rate steadily from 1% in June 2003 to 4.75% in March 2006, whilst Eurozone rates have increased from 2% to 2.5% in that time and look likely to rise further. These figures may not sound large, but it's not surprising that US consumers are starting to feel the pinch and even the Eurozone increase pushes up the cost of borrowing by a quarter – how many UK borrowers would be in difficulties if their mortgage and loan payments increased by a quarter?

So what should Mr Brown be doing? Well, it's back to basics – if you are spending too much, you have to cut back – rather than encouraging us as a nation to spend more on imported goods, the government should be backing local producers and manufacturers. If you ship your goods from Hampshire to somewhere in the UK, you pay VAT and duty on the fuel, then tax and NIC on transport wages and tax on any profit you make – if someone ships them in from abroad, there is no duty or VAT on the transport, the transport workers are paid tax free and the manufacturers pay no UK tax (possibly no tax at all). Is it any wonder that it's cheaper to import than to buy in the UK? Instead of pilfering the profit we make on our homes, perhaps Mr Brown should be designing a fairer tax system that tips the balance back in favour of UK firms, so that instead of borrowing heavily to fill the pockets of foreign suppliers, UK spending benefits UK business.

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

1.b Fareham Park Road, Fareham, PO15 6LA 01329 505035
Fareham@MarshallRoche.co.uk

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

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Thinking of using a subcontractor?

If you are self-employed or in business in the construction industry, you might think of taking on someone to give you a helping hand, or maybe farming some of the work out to another tradesman. Either way, beware of the tax pitfalls.

If you are in the construction industry and you use the services of another person to do any of the work, you must have a scheme in place to deduct tax. This applies whether they are just 'casual labour' or an established business that invoices you for the work they do.

There is a common misconception that, if you use an established business and get a VAT invoice or similar, then no tax deduction needs to be made. This is not necessarily correct – the rules apply to everyone, no matter how big or small.

Penalties for failing to operate the rules are harsh and they are about to get a whole lot harsher from next April. Failure to make the relevant returns will result in **penalties of £100 per month for each and every month involved**.

Therefore, if you subcontract work and don't submit the forms, you will owe £100 penalty for the first month, £200 for the second, £300 for the third, and so on, until you get the paperwork sorted out. ***You can see how quickly this could become a major cost.***

If they are an established business, you may be able to pay them gross, but only if they have the necessary certificate. Even if they do not have a gross payment certificate, they must be registered with the Inland Revenue before you can take them on. Then you must deduct 18% tax from everything you pay them.

If they are a regular worker, effectively your employee, you will need to operate PAYE. This involves paying employer NIC, which will add to your costs. As a rough guide, allow an extra 13p for every pound you pay them over £100 per week.

Failure to apply the rules attracts penalties. The rules are set to get tougher next year and so are the penalties, so beware.

Pension 'A-Day' arrives

The new rules on pension contributions open up some very interesting planning options for owners of limited companies who previously could not invest more that £3,600pa into a pension. The company can now contribute up to £215,000pa into your scheme (more than enough for most!), even if you only take a modest salary. Speak to us about how this could work to your advantage.

July tax payments

If you are self-employed or have other substantial income that is not fully taxed at source, don't forget your tax payment due on 31 July. You should get a statement from the Inland Revenue, but as always, they will not accept failure to send this out as an excuse for you not paying!

Computers provided for private use

Business assets that have some private use normally result in a tax charge for that use, but computers provided to employees have been exempt. However, this exemption has been withdrawn - from this year, if your company provides you with a computer available for personal use this will be treated as a taxable benefit.

As everyone (even Inland Revenue staff!) who uses a computer for their work probably has some personal use, we have yet to see how this will be applied in practice. However, if your work is not mainly based around your computer, beware of a tax charge if you also use it other than for work.

Telephones for private use

When a company provides a mobile phone to an employee for private use, no tax charge arises. However, this does not apply to self-employed (ie not a limited company), who must continue to claim only the work element of the cost in their accounts.

Tax relief for training costs

A self-employed person who undergoes training in the basic skills to do their job cannot claim the expense as a deduction in their accounts. However, a company that pays for its employee to do the same course can do so. Therefore, if you are considering a change of direction that involves considerable training costs, it may be worthwhile setting up a limited company from the word go.