

proactive

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Simplifying taxes

The government has acknowledged the need to simplify the tax system, but the Pre Budget Report shows how complicated simplification can be.

The proposal to withdraw the basic personal allowance (detailed on page 4 of this edition of Proactive) sounds straightforward, but is it? The short answer is “no”.

Currently, once you are paying higher rate tax, every additional pound of income attracts tax at 40%. From 6 April 2010, this will still be true up to £100,000 but income between £100,001 and £106,475 will be taxed at 60%. The complications do not stop there though, as income between £106,476 and £140,000 will be taxed at 40%. The rate on income between this figure and £146,475 then rises again to 60% before dropping to 40% again.

If you think this is confusing, the situation will be even more complicated when the new 45% rate is introduced in April 2011 on income over £150,000.

New E-news service

If you would like to receive future editions of Proactive and occasional updates between editions electronically, please email newsire-subscribe@acmole.co.uk



Stormy weather

With the UK economy in recession, businesses and individuals are facing difficult times. In this edition of Proactive we look at some ideas for weathering the financial storm and avoiding the need to board the lifeboats.

We also look at the Chancellor's second Pre Budget Report, delivered on 24th November. His first, in October 2007, contained several shocks. His second was no less dramatic.

The reduction in the main rate of VAT from 17.5% to 15% (until 31st December 2009) had been widely leaked in the press. Allowing traders only a week to change the VAT rate in their accounting software, tills and on price labels has given rise to some practical difficulties. Many commentators have questioned whether such a small cut – even though it is the largest the government can make under EU law – will actually boost consumer spending.

There are a number of technical issues for businesses, particularly those supplying goods before the change and issuing credit notes afterwards, those in the special VAT flat rate scheme and those supplying services spanning the change of rate. H M Revenue and Customs (HMRC) has issued detailed guidance, which is available on their website at <http://www.hmrc.gov.uk/pbr2008/measure1.htm>. This is a very expensive measure – costing over twelve billion pounds – and represents a huge gamble: it will only work if the tax lost to the Exchequer is actually pumped back into the economy rather than being added to consumers' savings.

More about the Pre Budget Report on page 4

Unburdening the business

For businesses struggling with profitability and cash flow, administration and red tape are unwelcome burdens.



Contracting out some administrative tasks such as payroll could free you to focus on areas that make better use of your time and business expertise.

Operating a payroll can be a time consuming task. Attention to detail is vital as is keeping up to date with apparently never ending changes to legislation. There are a variety of forms to cope with – P11s, P11Ds, P45s, P46s and P35s to name a few – and some serious tax traps for the unwary.

If you have 50 or more employees, there are now penalties for failing to submit the annual P35 return online and from April 2009, as well as the P35, you will have to submit the “in year” forms P46 and P45 online as well. For businesses with fewer than 50 employees, this will come into force in April 2011. By 2012 it is expected that all businesses will be required to submit their payroll returns online as HMRC move away from paper returns to electronic filing.

Does it make sense to look at contracting out at the very time you are trying to cut costs? Certainly, if the effect is to free up valuable time to concentrate on driving sales, looking after key customers, preparing profit and cash flow forecasts or negotiating better cost deals.

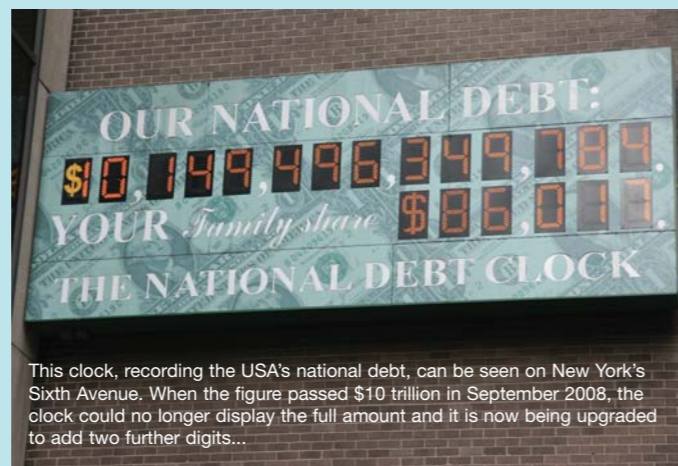
A C Mole & Sons filed the UK’s first ever electronic tax return in 1997 and we acted as a test site for HMRC as they developed their PAYE on line system. If running the payroll is burden to your business, why not consider outsourcing it to us?

Taking care

Ambridge may be a fictional village, but the issues faced by Jack and Peggy Woolley in Radio 4’s The Archers will be very real to many listeners. Jack’s struggle with the onset of dementia and Peggy’s struggle to keep him out of a care home highlights a subject most of us would prefer not to think about.

Taking the decision and then choosing a care home or arranging care at home, whether for you or a close relative can be difficult and stressful. There are important decisions to make, not least of which is how much the care is going to cost. Will the Local Authority pay? How much will you have to contribute? Will you have to sell your home? These financial concerns simply add stress at the worst possible time.

A common worry is that the cost of care will use up a lifetime’s savings, leaving nothing to be passed on to the family. Another worry is that the family home may have to be sold. There are potential solutions to these problems, but the earlier any financial planning is done the more effective it will be.



This clock, recording the USA’s national debt, can be seen on New York’s Sixth Avenue. When the figure passed \$10 trillion in September 2008, the clock could no longer display the full amount and it is now being upgraded to add two further digits...

Expert advice from someone who has guided others through the process of making the necessary financial arrangements can make things very much easier. If you do not currently have an Independent Financial Adviser with experience in this area to give you unbiased impartial advice on the options, we would be pleased to recommend one to you.

By its very nature, this issue is one that most people find they are unprepared for. Finance may not be a problem for Jack and Peggy Woolley, but in that respect they are more fortunate than most.

Taxing times?

It can be hard to see anything good about falling share and property prices, but a falling market can offer some interesting opportunities for tax planning.

When share and property prices are low, any gifts made for inheritance tax (IHT) purposes (whether directly or via trusts) are fixed at this low level: any subsequent increase in the value of the assets given away will be outside the estate of the person who has made the gift. If you are thinking about IHT planning therefore, this may well be an opportune time to take action.

Low values can also represent an opportunity for capital gains tax (CGT) planning, crystallising losses to be used against gains elsewhere or simply minimising the tax on a gift that was going to be made anyway by taking advantage of the low current value. CGT problems can arise where gains were realised in the last tax year but losses are crystallised in the current year, as losses can only be offset in the same year or carried forward. Where there are significant gains and losses it may be worth considering whether the Enterprise Investment Scheme (EIS) can be used to get around this problem. By investing in an EIS company, capital gains on the disposal of any assets in the previous three years can be deferred.

The deferred gains re-crystallise when the EIS investment is disposed of. If this is in the same year as there are losses or in a subsequent year then the gains will effectively have “leapfrogged” forward from a year in which they could not be offset against losses to a year in which they can. This will not always be an appropriate technique as EIS investments are often high risk.

One tax break businesses operating from buildings with a rateable value below £15,000 may be missing is a business rates rebate under the small business rate relief scheme. The amount due back where the rateable value is between £15,000 and £10,000 can be marginal, but where the value is below £10,000 the refund will generally be worthwhile. In some cases it can be as much as 50%.

Even in these taxing times, there are still tax breaks to take advantage of.

IT matters

Whether your business is large or small, you need to be sure – especially now - that your accounting system is recording data accurately and giving you the information you need to make the right decisions at the right time. Moving to a computerised accounts system is a big step – and one that we can guide you through, from advising on and supplying a software package to installing it and training you to use it. If you already have a computerised system we can review the way that you are operating it and offer advice on changes or upgrades.

As dealers for leading software brands such as Sage, QuickBooks and IRIS we can supply a package that is right for you. We also have considerable experience of many other packages including TAS Books, Microsoft Office Accounting, Sum-IT and Farmplan. While some clients prefer to teach themselves to use new software we have found that some time invested at the beginning on training can save on accountancy costs at a later stage.

Our IT Manager, Richard Graham, can also advise on data security options and can assist with sourcing new IT equipment including servers, PC’s, laptops, printers and the infrastructure to allow these devices to communicate with each other in a local area network (LAN) or wide area network (WAN), between different locations.

For more information please contact Richard on 01823 624450 or by email at rgraham@acmole.co.uk.



The 2008 Pre Budget Report

Business taxation

The lower rate of corporation tax will not now rise from 21% to 22% as planned next April. This is helpful, but two years ago the rate was only 19% and until April 2006, the rate on the first £10,000 of profit was zero.

A new relief will allow limited business losses to be set back against profits of the previous three years. Companies will be able to set back losses of accounting periods ending between 24 November 2008 and 23 November 2009 and unincorporated businesses - the self employed - will be able to set back any losses for the 2008/9 trading year. The relief will permit the full loss to be set back one year and up to £50,000 of the remaining loss to be set back to the two years before that.

One very welcome measure which received little publicity was the shelving of plans to attack "income shifting", where husband and wife companies or partnerships split income between the shareholders or partners in a way that HMRC regards as non-commercial with the result that tax is saved.

Another welcome announcement was the launch by HMRC of a new Business Payment Support Service. This restores the approach taken during the foot and mouth crisis to help struggling businesses meet their tax liabilities by agreeing less rigid payment terms in appropriate cases.

The Chancellor proposes to pay for the reduction in the rate of VAT in a number of ways, including an increase in national insurance (NI) from 5 April 2011. The rate of NI for both employers and employees and the class 1A and 1B NI on benefits will increase by 0.5%. Class 4 NI paid by the self employed will also increase by 0.5%.

Business funding

A non-tax announcement of interest to small businesses is the Small Business Finance Scheme, a new initiative to be launched early in 2009 to provide £1 billion of government supported lending by banks. There will also be a new £50 million fund to provide equity to some small and medium sized businesses and a temporary special guarantee scheme for smaller exporters.



Personal taxation

There is good news and bad news on personal taxation. The £600 increase in the basic personal allowance designed to compensate for the abolition of the 10% tax rate in April 2008 will be extended to the next tax year, when its value will be further increased to £730 taking the basic personal allowance to £6,475. Pensioners will receive an extra one-off payment of £60 in January and from April there will be an increase in the basic state pension to £95.25 a week. There will also be increases in Child Benefit and Child Tax Credits.

From 6 April 2010 the basic personal allowance will be reduced in two stages for those with income above £100,000. Half of the allowance will be progressively clawed back by £1 of allowance for every £2 of income above £100,000; the remaining half will be clawed back at the same rate when income is above £140,000. From 6th April 2011 there will be a new tax rate of 45% for income above £150,000 and a new rate for dividends over that amount of 37.5%. The trust rate of tax will also be increased from 40% to 45%.

Summary

The Chancellor has taken a huge gamble with this package. Significant government borrowing will be needed to fund it until the economy recovers. If recovery is delayed, further tax measures can be expected.