

dmc newsletter

AUTUMN 2007

WELCOME

dmc news We are delighted to announce that Rob has passed the final stage of his accountancy exams and is now a fully qualified Chartered Accountant. Sandra and Sam also had exam successes this summer and are both well on the way to their accountancy qualifications. Alison, who left to study at university, has gained her degree and we are pleased that she has come to work with us for a few months before she starts her Master's course at Leeds University in January. Earlier this year we were joined by a new accounts trainee, Peter Fuller (yes they are related) - so now when you phone you may need to specify whether you want to speak to Peter senior or junior.....

The Pre-Budget Report

The new Chancellor Alistair Darling has made his presence known with proposals of significant changes to certain areas of the tax system:-

Capital Gains Tax

From 6th April 2008 there will be a single rate of 18% applying to all assets and all taxpayers other than limited companies - taper relief and indexation are to be completely withdrawn. Inevitably this will result in winners and losers. Broadly there will be less tax payable by higher rate taxpayers on their non-business assets but it could mean a virtual doubling of the 10% CGT rate payable on business assets held for two years or more. There is no doubt that the new proposals are a simplification in CGT and 18% is still not a bad rate of tax but this completely removes the incentive to entrepreneurship introduced by Gordon Brown. There may be some of you who will be able to benefit from the 10% CGT rate before it disappears in April - do give us a call if you think this might apply to you.

Income Splitting

As promised, following the well-publicised 'Arctic Systems' case, the Chancellor's statement contained a threat to the tax efficiency of arranging income between spouses. No details were given as to how this will be introduced other than the intention to legislate from 2008/09. We believe that our clients' companies are as well placed as they can be in this respect. We will keep you updated as matters unfold.

Non-domiciled residents have also received the Chancellor's attention. After 7 years of residence in the UK they will no longer benefit from the advantage of only being taxed on income and capital gains brought into the UK. They now face either an annual charge of £30,000 or being taxed as residents on their worldwide income and gains.

Inheritance Tax

On the plus side, Mr Darling has announced a change to the inheritance tax rules which will enable any unused nil-rate band on a person's death to be transferred to the estate of their surviving spouse or civil partner. For example if on the death of the first spouse the estate was left entirely to their surviving partner as an exempt transaction, then the whole nil rate band, currently £300,000, will be available to the survivor in addition to their own £300,000. This is good news for couples where the major asset in their estate is the family home often worth more than the exempt band.

Capital Allowances

Next April also sees radical changes to the Capital Allowance regime. For small businesses there will be a new Annual Investment Allowance giving 100% tax relief for the first £50,000 of expenditure on all plant, machinery fixtures and equipment (other than cars). There is however to be a reduction in the rate of writing down allowance from 25% to 20%.

VAT Flat Rate Scheme

For small businesses with a taxable turnover of £150,000 or less it may be advantageous to use the 'flat rate scheme' to account for your VAT. This scheme allows you to calculate the VAT you pay over to the Revenue as a reduced percentage of your gross sales. However you do not claim back VAT on your costs/expenses (other than some expensive assets and those on hand at registration). The rate used will be less than 17.5%, but varies depending on the business sector you are in. For some businesses this scheme will reduce the VAT bill but the figures need to be reviewed to make sure this is the case. The other advantage of the flat rate scheme is that the record keeping is easier. If you think this may benefit your business we can run a quick check for you to assess the potential tax savings. We also have a guide to operating the scheme for those of you that go ahead (or perhaps are already using it). If this is of interest to you please give us a call.

Limited Companies Remain Tax Efficient

The corporation tax rate has risen this year from 19% to 20% but you should still save tax by running your business through a limited company instead of as a sole trader. For example net profits of £30,000 will result in tax savings of around £1,700. It becomes beneficial once the net profit level reaches about £15,000 or more and that's after allowing for the extra administration and accountancy costs.

Accounting Software

We are often asked to recommend accounting software to our clients. There are a number of commercial packages and options available but Sage is by far the most widely used. If you are thinking of purchasing a new system we can help you find the right one for your business. We will also be able to assist with initial training and on going support if you find that you need it. Do give us a call if you would like some advice.

Bits and Pieces

- The new CIS has now been in operation for six months. Hopefully you are all getting to grips with it but just in case here are a couple of reminders
 - subcontractors need to be verified. The Revenue will tell you whether to pay them gross or net and if net whether at 30% or 20%
 - from 19th October 2007 monthly returns need to be sent on time as penalties will be charged for late returns, even those confirming that no payments have been made.
- Corporation tax rates are changing over the next couple of years. If your profits are less than £300,000 then the rate of tax applicable this year is 20%. This will be increasing from 1st April 2008 to 21% and from 1st April 2009 to 22%. The rate for large companies (profits over £1,500,000) will drop from 30% to 28% from 1st April 2008 onwards. Marginal rates for profits falling in-between are currently 32.5%
- If you run your business through a limited company it is usually better to keep the car ownership in your own name and charge 40p per mile to cover business travel rather than suffer the 'benefit in kind' tax charge. However there are some smaller cheaper cars where ownership by the company may not be so bad. Take for example a Peugeot 207 1.6 HDi SE Premium 90, the tax cost to you would be £350 (£700 higher rate taxpayer) and the company would pay National Insurance of £225. The company gets 100% first year capital allowances as the CO2 emissions are 120 g/km or less. This generous allowance currently only applies until 31st March 2008 when the new Capital Allowance rules are brought in.

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