

BUDGET SUMMARY 2004

As usual the chancellor used his Autumn statement to trail key areas to be covered in the budget. However, there are always one or two new surprises and a bit more detail in the budget itself. We highlight below those issues which we feel will be of most interest to you.

BUSINESS TAX

Corporation Tax - Tax rates remain the same as last year. The main change is the introduction of a minimum 19% tax on profits that are 'dividended' out after 1st April 2004.

Capital Allowances - The 100% first year allowance (FYA) on purchases of computer equipment ends on 31st March 2004. From then on computers will be treated like other plant and machinery which for the year from 1st April 2004 for companies will be entitled to a FYA increased from 40% to 50% (6th April 2004 for other businesses). Make sure you get the timing right on your new equipment purchases.

VAT - The registration threshold rises to £58,000 from 1st April 2004. Remember the threshold is tested on a 12 month running total.

Other Matters - Gordon Brown has followed his usual philosophy - 'tell early tell often' by announcing these measures for the future.

* **Employer provided Vans** - from 6th April 2005 there will no longer be a benefit in kind if the only private use of your company van (definition includes the double cab pick up) is to take it home at night. But from 6th April 2007 if there is any other private use there will be a taxable benefit of £3,000.

* **Builders** - from April 2006 there will be a revised Construction Industry Scheme - supposedly easier to administer.

* **Pensions** - from 6th April 2006 the current eight existing schemes will be replaced with one simplified set of rules - we shall wait in hope.

* **Childcare** - from 6th April 2005 employees will be able to receive up to £50 per week free of tax and NI for childcare with an approved provider - tax and family planning!

PERSONAL TAX

Income Tax - Income tax rates remain the same but the bands have been increased in line with inflation. The personal allowance rises to £4,745 and the 40% income tax rate starts once your total income exceeds £36,145.

Capital Gains Tax - The annual exemption rises to £8,200. Remember husband and wife each get an allowance, giving tax-planning opportunities.

Inheritance Tax - The nil rate band has been raised to £263,000 (again there are planning opportunities as husband and wife each get an allowance).

The chancellor wants to stop the growing number of schemes whereby people try to pass on assets free of inheritance tax whilst still enjoying the use of them. He will be introducing an income tax charge from 2005/06 on the 'annual cash value' of the benefit. We do not favour these types of scheme as they are often expensive to set up, costly to maintain and can be difficult to dismantle when the tax loophole is closed.

Trusts - From 6th April 2004 the tax rate on trusts will increase from 34% to 40%. There is to be a reform of the tax system affecting trusts - but not until 2005. There will still be situations where setting up a trust will be beneficial.

Landlords - From 6th April 2004 those who rent out residential property will be able to claim tax relief on the cost of loft or cavity wall insulation up to a maximum of £1,500.

Share Investment Schemes - Income tax relief on investments in Venture Capital Trusts is to increase from 20% to 40% for 2004/05 and 2005/06 but the capital gains tax deferral relief is to be withdrawn. The maximum limit on such investments and on those in the Enterprise Investment Scheme is to rise to £200,000 p.a.

Do call us on any of the above matters.

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