ACCOUNTANTS ARE BORING NUMBER CRUNCHERS, RIGHT?

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Chartax refreshingly different accountants: **0845 658 0968** | Issue 03 | February 2007 |

In this month's issue:

Welcome to the next instalment...

It's been a busy start to the year! We've survived another Silly Season (Tax Return deadlines) and while we're on the topic of Tax, there's a bunch of changes you need to know about. As always we've given you the key points in plain language but if you have any questions about how these changes affect you, just call our office.

Don't forget, this information is what you need to know and we think everyone should be getting it from their accountant so please forward it to friends and colleagues so they keep up to speed. (If you received it this way and want to be kept informed directly in the future, just email us and we'll include you in our distribution list).

This month's newsletter is pretty detailed but the capital gains tax changes are really, really important - especially if you have investment property.

Sue & Nick
- your refreshingly different accountants.

Income tax changes

On 6 April 2008 the basic rate of income tax will reduce from 22% to 20%. More importantly the starting rate of 10% is abolished from the same date. (In the tax year 2007-2008 the first £2,230 of taxable income is taxed at 10%).

As usual it is not all good – there are a few losers with these changes:

1. Low Incomes - if you have a low income you may actually be worse off! The drop in the basic rate to 20% may not fully compensate for the loss of the 10% starting rate band.

2. Pension Contributions (basic rate tax payers) - an unwelcome effect of the lower basic rate tax rate is a lowering of total contributions to your pension scheme. At present if you pay £78 into your scheme the Government will top up the contribution with the basic rate tax deducted, £22 - total contributions invested £100.

After 5 April 2008 you will need to increase your contributions to £80 per month, tax top up £20, to achieve your £100 total investment. If you do nothing your monthly contributions will decrease at the rate of £2.50 per month, for each £100 presently invested.

If you want to see the fancy numbers:

- 2007-2008 net contribution £78 plus tax credit £22 = total contribution £100.

- 2008-2009 net contribution £78 plus tax credit £19.50 = total contribution £97.50.

Capital Gains Tax

There are important changes from 5 April 2008. No doubt you've heard something about it in the news but here's the facts.

Capital gains tax is a tax payable when you sell an "asset" – often either an investment or a business. Most commonly we're talking about property, land, shares in a business, or the business itself if you are a sole trader, but it also applies to works of art and quoted shares.

The new rules only apply to individuals selling assets.

For individuals assets are classed as non-business, or business and to help make it crystal clear we've given you some examples below:

Non – business assets
- Rental properties
- Works of art
- Quoted shares

Business assets
- Shares in an unquoted trading company or trading group
- A stake in a partnership or a sole trader business
- Furnished holiday letting properties
- A property from which your business trades

Remember - capital gains tax is not usually payable on your main home!

Non-business assets – this is quite simple.
Tax is payable at a flat rate of 18% on the profit made on sale, after deducting the tax free annual allowance which is currently £9,200.

Continues overleaf....

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Company tax

Don't forget that corporation tax for small companies (under 1.5M turnover) is increasing year by year.

The corporation tax rates are:

2007-08 20%
2007-09 21%

Ouch!

When George spoke his first words you could tell he was destined for accountancy.

Capital Gains Tax continued...

Business assets – this is a little more complicated.

There are two main rates of tax which apply.

1. An entrepreneur (business owner) can make a profit of up to £1 million in his "lifetime" on business assets and pay 10% tax on the profit (after the annual allowance).

2. Then, once the £1M has been used up the tax rate reverts to the usual 18%.

There are winners and losers from the changes and there are two areas where planning might save some tax in the future, but any planning has to be completed BEFORE 5 April 2008. So if you want to look at these possibilities – you need to take action NOW!

1. A first possibility - sole traders and partnerships
Business owners currently have the benefit of taper relief. It could be possible for sole traders and partnerships to "bank" the taper relief and effectively uplift the cost of their business for capital gains tax relief by changing into a limited company before 5 April.

The calculations and issues are far ranging and complex and it is possible that the other implications might outweigh any possible future tax saving but now is the time to talk to your accountant and have them do the sums.

2. A second possibility - assets acquired before April 1998
If you purchased an asset (say a rental property) before 1998 you were able to deduct an allowance for any inflation between the date that you bought the asset and 1998.

This "inflation relief allowance" is being abolished from April 2008 and will be permanently lost.

If you are married it is possible to "bank" the inflation allowance by arranging for the asset to be transferred between spouses – but this needs to be done before April 2008.

Again, you need the help of a good accountant to do the sums and be sure that any changes you make are for the right reasons for your specific situation, and the time to that (you now it) is now.

"Chartax makes a positive contribution to our clients' businesses. We are happy to recommend them to anyone"

Bridget Juckes,
Partner and Head of Business Services,
Wards Solictors

"I would like to thank you for being exactly what it says on the tin - an accountant who is refreshly different and jargon free"

Cathy Penney, Reflexologist