



COBLEY DESBOROUGH & CO

chartered certified accountants - chartered tax advisers

Tax Data 2007/08

Income Tax

Personal Allowance:
£5,225

Tax rates:

First £2,230 @ 10%
Next £32,370 @ 22%,
Gains @ 20% Divs @
10%
Above £34,600 @ 40%,
Divs @ 32.5%

National Insurance

Class 1 employers:
12.8% over £5,225
Class 1 employees:
11% on £5,225 to £34,840
plus 1% above £34,840
Class 4:
8% on £5,225 to £34,840
plus 1% on profits above
£34,840
Class 2: £2.20 per week
Class 3: £7.80 per week

Capital Gains Tax

Annual exemption: £9,200

Inheritance Tax

Nil rate band: £300,000
Excess taxed at 40% on
death.

Pension Contributions

No earnings: £3,600 gross
Otherwise 100% earnings.
Tax relief per year cap:
£225,000
Pension fund cap: £1.6 m

Corporation Tax

Small co: 20% to
£300,000
Marginal: 32.5% to £1.5 m
Large co: 30% over £1.5m

VAT thresholds:

Registration over: £64,000
Deregistration under:
£62,000
Flat rate scheme up to:
£150,000
Cash Accounting up to:
£1.35m
Annual accounting up to:
£1.35m

Stop Press

Small businesses can claim a 50% first year allowance for the cost of equipment purchased before April 2008. After that the capital allowance system is going to change significantly

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Take from the small and give to the big

This is exactly what Gordon Brown has done to companies in this Budget. The corporation tax rate for small companies with profits of up to £1.5 million increases immediately from 1 April 2007 from 19% to 20%, then it will increase again in April 2008 to 21%, and once more in 2009 to 22%. Meanwhile the corporation tax rate for large companies with profits of £1.5 million or more drops from 30% to 28% on 1 April 2008.

These corporation tax changes for small companies are intended to discourage businesses from incorporating just to save tax, as the corporation tax rate will be higher than the basic rate of income tax, which will apply on profits of up to about £43,000 by 2009. However, an individual also has to pay class 4 NI at a further 8% on his self-employed profits, on top of the income tax due.

To assess the overall effect of these different tax charges, consider a business making profits of £50,000 in 2009. As a company it will pay corporation tax of £11,000. Trading as an individual the total income tax and NI payable will amount to £12,614, (assuming allowances increase in line with inflation). The tax saving for the company is thus expected to be about £1,600 per year. However the funds are held within the company, transferring the money to the shareholder may create a further tax charge.

If you are considering forming a company, or want to cease using one, please come and talk to us first so we can help you work through the numbers. There will be a different answer for each business.

Managed Service Companies

Managed service companies (MSCs) are the latest target for HMRC. They are set up to allow contractors to avoid paying national insurance contributions (NICs) on their income. Typically each MSC employs a number of freelance contractors, who each own a share in the same MSC, although they may not personally know each other. The contractor receives a small wage with the majority of his money paid as a dividend with no NICs deducted.

From 6 April 2007 the MSC will have to deduct PAYE and NICs from all payments to the contractor, including dividends. The expenses rules are also revised so contractors working through an MSC will not be able claim a tax deduction for the cost of travelling to work. These changes have prompted providers of MSCs to split-up the large MSCs and form individual personal service companies (PSCs) for each contractor. This strategy may not work, as each PSC can be treated like an MSC where the provider controls aspects of the PSC such as the finances, the payments to the contractor, or how the contractor finds work.

Genuine employment agencies will not be classed as MSC providers, if the payments they make to the contractor do not exceed what the individual would receive if they were employed directly by the client. As from 6 August 2007 any tax debts left by an MSC when it folds will be collectable from the MSC provider, or from the directors of the MSC.

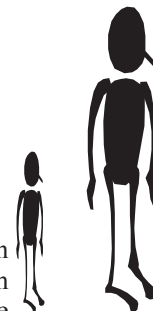
Practice News

New Partner

We are very pleased to announce that Tim Cobley has accepted our offer of partnership. Tim has been with us for many years so will be known to most of our clients.

Exam Success

Well done to Danielle who completed her AAT accountancy qualification earlier this year.



**Not equal
for tax**

Benefits in kind and Vans

Lots of people use a van provided by their employer as part of their job, but they may not realise that they could be hit with a large tax charge if they use the van for private journeys. The private use of vans is already taxed, but currently the tax charge is normally no more than £220. From 6 April 2007 this could leap to £770 per year.

Travelling to and from work, and picking up fellow employees for work, is not private use, but the weekly shopping trip or taking the van to the pub are private journeys. It only takes one non-work related trip to make the tax charge stick, so please make sure your van drivers are aware of the work-only journeys rule.

A good way to prove to HMRC that the van has not been used for significant private journeys is to keep good mileage records.



Home to work is OK

Each business related journey should be recorded and the total compared to the vehicle's actual mileage at regular intervals. Remember to count the mileage from the driver's home to the work site each day.

It is nearly time to start preparing the forms P11D to record all the expenses and benefits paid to your employees during the tax year. It can be easy to miss less obvious benefits like subscriptions paid directly by the company. As well as comparing the 2006/07 P11D to the 2005/06 form for the same employee, take a look at what has been paid through the business accounts under headings such as; staff welfare, professional fees, or even miscellaneous. Question any payment that could have had a personal benefit for a particular individual.

Looking behind the income tax cut

Gordon Brown wanted his last Budget to be remembered for the dramatic cut in the basic rate of income tax from 22% to 20%, but most taxpayers will see little benefit from this tax reduction, due to the tax increases which will come in at the same time.



Where's the Benefit?

We have to wait for over a year for the new 20% tax rate as it does not take effect until **6 April 2008**. On the same day the 10% tax band will disappear for earned income, and the upper income limit for the main rate of national insurance (11% for employees) will increase to approximately £40,000. As a result of all these changes a single person on a salary of £20,000 will pay about £28 less in tax per year, but someone currently in the upper tax bracket on a salary of £45,000 will reap a net saving of £390 per year.

The new 20% band will have a knock-on effect on personal

pension contributions. Currently if you want your pension fund to receive £4,000 you make a contribution of £3,120 net of 22% tax, and the pension scheme reclaims £880. From 6 April 2008 to achieve the same payment into your pension fund, you will have to pay £3,200 net of 20% tax, and the pension scheme will reclaim £800. So you end up paying £80 more into your pension scheme for the same result.

Charities will also be hit hard by the reduction in the basic rate. At present when you make a charitable gift of £100 and certify it under the gift aid scheme, the charity can claim back a further £28.20 from the Government. From 6 April 2008 the same gift of £100 will only be worth £125 to the charity, so they will lose £3.20 of income for every £100 of gift-aided donations.

Taxation of let property



Loft insulation qualifies

The landlords energy saving allowance was introduced in 2004 to encourage private landlords to improve the energy efficiency of their residential properties. Up to £1,500 spent on various types of insulation products installed in a let property can be deducted from the rents received in the year of expenditure. Such expenditure would normally be treated as a property improvement, so could not be deducted from the rental profits without this special tax relief.

The big improvement for this tax relief is that it will be claimable by landlords who are companies, rather than be restricted to individuals and partnerships. However this change for corporate landlords is subject to EU approval, so it will not come into effect immediately

The scheme will also be extended to 2015, from its previous life expectancy of 2009. Expenditure on floor insulation will be

added to the list of insulation products that qualify for the tax relief from 6 April 2007.

If you own commercial premises in Northern Ireland or in a designated disadvantaged area, you may want to take advantage of a new tax relief for renovation costs. When the property has been empty for at least 12 months you can claim a 100% allowance for the capital cost of making it useable again. There are a number of other conditions for this tax relief, so ask us before starting the renovation.

The rates of Stamp Duty Land Tax (SDLT) have not changed. The duty is payable on all homes valued at over £125,000, (or £150,000 in a disadvantaged area), and on all commercial properties valued at over £150,000. Zero-carbon homes will be exempt from SDLT for values up to £500,000 from 1 October 2007. If you find a zero-carbon home do let us know, as we don't know of any that have been built yet.