

April 2007

ALL CHANGE, BUT LITTLE CHANGE

In his Budget last month, the Chancellor of the Exchequer announced some fundamental changes to the rules for taxing both individuals and businesses. However, although almost everybody will be affected, for better or worse, by these changes, it was neither a 'give-away' nor a 'tax-and-spend' Budget – the overall revenue raised will remain much the same. For example, on the personal side, the culmination of the Chancellor's Budget Speech was his closing announcement, that the basic rate of income tax will, in April 2008, fall by two percentage points to 20%. However, the revenue lost to the Exchequer will be almost exactly balanced by the additional tax raised by the abolition of the 10% starting rate for earnings and pension income and by increasing the Upper Earnings Limit for employees' National Insurance contributions (and for Class 4 contributions paid by self-employed people).

The whole web of interrelated changes is so complicated that it is impossible to state, in simple terms, who will gain and who will lose. For example, people claiming Tax Credits will find that the 2% reduction in the basic rate of income tax is, from April 2008, neatly balanced by a 2% increase in the 'taper' – the rate at which their Tax Credit entitlement reduces as their income increases. True, the taper will begin at a higher income level (potential gain £444), but against that must be set the loss of the 10% starting rate of income tax (a loss of about £230, or £460 if a couple are both working).

Although it is difficult to discern any overarching policy in the Chancellor's personal tax decisions, the following summary may help clarify his proposals:

Income tax	2006/07	2007/08	2008/09	2009/10
Starting rate of tax on earnings and pensions	10%	10%	<i>abolished</i>	<i>abolished</i>
Basic rate of tax	22%	22%	20%	20%
Higher rate of tax	40%	40%	40%	40%
Higher rate of tax charged on income in excess of	£38,335	£39,825	£41,000 *	£43,000 *

National Insurance contributions

Upper earnings limit	£33,540	£34,840	£39,800 *	£43,000 *
Cumulative increase in employee's contributions	—	£110	£591 *	£895 *
Cumulative increase in Class 4 contributions	—	£78	£414 *	£626 *

* Approximate figures

Working Tax Credit and Child Tax Credit

Claim tapered when annual income exceeds	£5,220	£5,220	£6,420	£6,420
Rate of taper	37%	37%	39%	39%

The overall picture, accordingly, is income tax up for lower earners (because of the abolition of the 10% starting rate), but down for higher earners (because of the reduction in basic rate and the higher income point at which 40% tax becomes payable). However, those earning over about £35,000 will pay higher National Insurance contributions. Overall, the highest earners will be a little worse off if they are employees or directors (about £100 in 2008/09) but a little better off if self-employed (about £70 for that year).

Tax Credit claimants will gain more by the increase in the income point at which their claim begins to be tapered than they will lose by the increased rate of taper. Single claimants will generally gain enough also to cover the loss of the starting rate of tax, but couple claimants, where both are working (and so both will lose the benefit of the starting rate) will lose out overall.

BUSINESS TAX CHANGES

The Chancellor announced that the 50% first-year allowance for purchases, by small businesses, of most types of machinery and equipment, which was due to end in April 2007, will be extended for a further year. It will then (in April 2008) be replaced by a new 'Annual Investment Allowance' – a 100% first-year allowance for the first £50,000 spent, in any one year, on most types of machinery and equipment.

However, it is not all good news, because at the same time (April 2008) the annual writing-down allowance for machinery and equipment in the capital allowances 'pool'

will fall from 25% to 20% – and the Government estimates that the extra tax revenue raised from reducing the writing-down allowance will make good the revenue lost by introducing the new Annual Investment Allowance, more than twice over. That said, overall small businesses are likely to gain (because a high proportion of their capital spending will be within the £50,000 annual limit), while larger businesses, which will continue to run substantial capital allowance ‘pools’, are likely to lose.

Under the new scheme, it appears that the balance of expenditure over £50,000 will not qualify for any first-year allowance at all, but only for the 20% writing-down allowance. Accordingly, a small business may well enjoy a substantial tax advantage if it spreads a major capital investment programme over two or more years.

The Government has also decided to phase out industrial and agricultural buildings allowances. The annual allowance will fall from the current 4% to 3% in April 2008, 2% in April 2009 and 1% in April 2010, with full abolition from April 2011.

CORPORATION TAX RATES

The Chancellor announced a 2% reduction in the main rate of corporation tax, effective from April 2008 – but as this applies only to profits over £300,000, it will not affect many small businesses! Of more relevance is the phased increase in the small companies rate, from 19% in 2006/07 to 20% in 2007/08, 21% in 2008/09 and 22% in 2009/10.

The overall effect of the Budget changes on small companies will depend on whether they gain more from the Annual Investment Allowance than they lose in the higher rate of corporation tax – which in turn will depend on their equipment and machinery needs.

FAMILY FINANCIAL PLANNING

They say there’s no such thing as a free lunch, but there are two ways a family may be able to increase a member’s pension rights, at no cost to themselves:

Minimum wage to frank National Insurance record

There is a band of earnings which are subject to ‘nil rate National Insurance contributions’ – this apparent contradiction in terms means that no contributions are payable, by employee or employer, but the employee’s contribution record is still franked for pension and benefit purposes. For 2007/08, the ‘nil rate band’ runs from the ‘Lower Earnings Limit’ of £87 a week (£377 a month) to the ‘Earnings Threshold’ of £100 a week (£435 a month).

Where family members work part-time in a family business, it is important to remember that worthwhile pension rights can be accrued, at no cost, by paying them a salary just over, rather than just under, the Lower Earnings Limit. If you are already doing this, watch that the Lower Earnings Limit rises slightly each April – this year from £84 to £87 a week – so you must remember to increase wages accordingly.

Who's holding the baby?

Almost always, Child Benefit is claimed by the child's or baby's mother. However, if her husband or partner is not working, it should be claimed by him. This is because a 'househusband' will qualify for Home Responsibilities Protection, which will frank his National Insurance contribution record for pension purposes if, but only if, he is the named Child Benefit claimant.

For Home Responsibilities Protection to accrue, Child Benefit must be claimed by one parent or the other *for a complete tax year*. If the claim for 2007/08 is currently in the mother's name, it may be changed to her husband's or partner's, by making a transfer application no later than Thursday, 5 July 2007. This can be done by telephoning the Child Benefit Office on 0845 302 1444.

DO COLD CALLS MAKE YOU HOT UNDER THE COLLAR?

Unwanted telephone calls from pushy salesmen can be really, really annoying. They disrupt your working day, or intrude on your leisure time at home. But fortunately, there is a solution – to register with the Telephone Preference Service (TPS).

Businesses, charities and voluntary organisations are all prohibited from 'cold calling' telephone subscribers registered with the TPS. Registration is free and can cover both land lines and mobile numbers. Anyone can register, either online at www.tpsonline.org.uk or by calling 0845 070 0707.

Strictly speaking, there are three schemes: the TPS itself for householders and unincorporated businesses, the Corporate TPS for companies and the Fax Preference Service (FPS) for – you guessed! – fax numbers. The main difference is that Corporate TPS registrations have to be renewed annually.

The unwanted calls generally stop about three or four weeks after registration. Because it is unlawful to call a registered number, the TPS is very effective, except that it will not stop calls from 'bucket shop' brokers peddling fraudulent 'investments' – they generally work from overseas and, being essentially criminals, do not obey anybody's rules and regulations.

WHO OWNS THE BUSINESS?

It is generally known that a company is required to state, on all its letters, orders for goods, invoices, order forms and requests for payment (for example, monthly statements), its full name, registration number, country of registration (for example, 'England and Wales') and registered office address. If it is being wound up, it must also state that fact. At the beginning of this year, new Regulations made it clear that all this information must also be given in e-mails and on the company's website (if it has one). These requirements apply equally to Limited Liability Partnerships.

Turning to unincorporated businesses, sole traders are required to state their real name (including initials but not necessarily full personal names) and a physical address at which they may be contacted, on all business correspondence (including e-mails). Partnerships are required to give a full list of partners' names, unless there are more than 20 partners, in which case they may instead give a physical address at which a list of partners' names may be inspected.

Anecdotal evidence suggests that the requirement to provide information in e-mails is largely honoured in the breach. Best practice would be to set your e-mail software to create an automatic header or footer. Where an e-mail facility is used both for business and private messages (for example, because a business is conducted from home, or because staff are allowed to use the firm's facility for private messages), both 'business' and 'private' headers or footers should be provided, so it is clear what sort of message is being sent.

This newsletter deals with a number of topics which, it is hoped, will be of general interest to clients. However, in the space available it is impossible to mention all the points which may be relevant in individual cases, so please contact us for personal advice on your own affairs.