

2004 END OF TAX YEAR PLANNING MARCH 2004

As always at this time of year, its time to look at whats hot or not in the tax world. A few things which may be worth thinking about at the moment:

Capital Allowances on IT and Telecoms Equipment:

The 100% Capital Allowance regime ends (allegedly) on 31 March 2004 – this is the 3rd or 4th time its end has been programmed to end, but previously has always got a last minute reprieve. Prior to that date you can write 100% of ICT (information and communications technology) investments off against tax immediately; after that date, relief is given at 40% in the first year, and thereafter 25% a year until written off. So you achieve the same tax relief but over a longer period.

E.G., for an investment of £1,000 and assuming a 19% Corporation Tax rate, on a pre 31 March investment you would get relief of £190 in year one and nothing thereafter. For an investment after 1 April you would get £76 in year one, £29 in year two, £22 in year three, etc.

So is it worthwhile? If you need to make ICT investment in the next month or so then it may be worth bringing it forward to pre 31 March – if you do not need to spend just yet then you are probably as well off waiting.

Pensions and ISAs:

If you have not used your (or your spouses) ISA allowance, it is worth thinking about this before 5 April. There are a couple of years to go of the guaranteed £7k contribution limit (to 2005-06).

Likewise consider topping up your pension; yes, pensions have got a bad press of late, and a lot of this is because of poor stock market performance. However, a lot of the bad press is on Company schemes which will not affect the self-employed/small company directors. If you treat a pension like any other investment, and buy now whilst the market is still in recovery as a long term investment, then the prognosis on an equity backed pensions should be fairly good and certainly well in access of bank returns.

Also, think about funding a pension at stakeholder level (£3,600 pa gross) for a spouse who does not work, or for a grandchild (alas, not your own child).

Remember the new contribution rules from last year allow your income for this tax year to be the basis of your pension contributions for the next six years. If you want to make large personal (including stakeholder) contributions in the future then, particularly for company directors, it may be worth paying a high salary for this year and then reverting to five years of low salaries with the last year as the basis year for the next five years.

If you want a referral to an Independent Financial Advisor to discuss the above please let us know.

Check your Mortgage:

Interest rates are now rising having been at an all time low. Is your mortgage competitive? Would you benefit from an offset mortgage?

Again, if you want a referral to an Independent Financial Advisor to discuss mortgage possibilities, please let us know.

What's Hot for 2004/05:

- IR591 – (see below) – and dependant on what IR591 brings, incorporation may still have advantages to the smaller business.

- VAT flat rate scheme – for businesses with gross income below £150K the flat rate scheme can offer useful savings, improved from January 2004 onwards. Contact us if you want an appraisal, or see more details at <http://www.garbetts.com/download/frs.pdf>.

- Tax Credits – now coming into their second year in their revised format, with renewals due between April and June. We will be putting a separate briefing out on renewals soon. Remember unlike old style tax credits which were claimed on your tax return, new style credits need a separate application and cannot be backdated more than three months. Why not join up for our tax credit support service at £75+VAT per annum, and we will deal with all of the forms, provisional, in year revisions and final.

IR591:

The budget speech is 17 March 2004 and undoubtedly all eyes will be on announcements relating to the so called IR591 reforms. This is the threat which the Chancellor made in the December pre budget report to “ensure that the right amount of tax is paid by the owner managers of small incorporated businesses” – in other words putting up tax rates for small companies having had 18 months of encouraging everyone to go limited. We don't yet know what form IR591 will take, although NIC on dividends or a minimum salary requirement look likely. Rumours – and no more than that – abound as to abolition of IR35 or S660a, but don't hold your breath. See <http://www.garbetts.com/download/IR591.pdf> for more details.

As soon as the budget is published we will get a briefing to clients as soon as possible, and we have organised post budget seminars for Monday 22 and Tuesday 23 March – please let us know if you have not had a invite to one of these yet.

Pass it on or pass it to Gordon:

Time to review Inheritance Tax and estate planning? Notable by its absence in recent years is any serious reform of the Inheritance Tax regime – when the Blair government came in during 1997 this was thought to be high up the list. However rather than be complacent its best to keep your IHT planning under review, as changes could be announced at any time.

There have been some threatened reforms relating to “Pre owned assets” – the press have picked up some scare stories about these changes, but the coverage is wide of the mark. The only people with anything to fear here are those who have engaged in planning exercises involving giving an asset away but still retaining the benefit of it.

The best approach to IHT planning is often jointly IFA and accountant led; Garbetts can review your IHT position and advise on the best way forward, and can introduce you to IFAs to assist the process.

Take the Pain out of Payroll:

Do you employ staff?

Did you know Garbetts offers bureau payroll and CIS services so we can deal with the paperwork you hate – and the costs are reasonable too. We can deal with PAYE/CIS deductions, payslips and vouchers and (subject to your authority) BACS submissions.

If you find payroll a pain, why not talk to us – the best time to start is a new tax year.