



Financialupdate

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The emergency budget

There was much speculation and dread about what this would bring, but on the whole, it could have been much worse!

Capital Gains Tax increases to 28% but only for higher rate tax payers

Many expected that the capital gains tax rate would be targeted for two reasons. The first being that the effective rate of 10% for certain business assets and the standard rate of 18% were significantly lower than the 20% and 40% for income tax. This meant there was much consideration given as to whether transactions were capital or income in nature. Secondly, the 10% rate of capital gains was the lowest we have ever seen and so, in reality could afford to be increased.

This is the first time we have had a basic rate and higher rate of capital gains. It effectively means that gains up to the higher rate threshold of £43,875 will suffer capital gains at 18% and any surplus above this will be taxed at 28%. Even more reason to hold second properties in joint name so that both of you can use the annual allowance for capital gains of £10,100.

What about the other taxes?

Corporation Tax will reduce from 21% back to 20% as from 01/04/11 for small companies.

VAT will be increasing to 20% from 17.5% as from 04/01/11 which could produce a consumer spending spree in the final quarter of 2010. Those who are/will be VAT registered and who deal with consumers will need to think carefully about whether they pass this on through their prices or absorb the increase themselves.

The Annual Investment Allowance which is the limit where expenditure on capital is given immediate tax relief has been reduced from £100,000 to £25,000 (note last year it was £50,000). However, even at this lower rate, 95% of businesses are expected to benefit.

The individual tax free personal allowance will be increased next April from £6,475 to £7,400. Changes will also be made to the higher rate thresholds so that there will be no benefit to these earners. This move will mean that as from next April, approximately 880,000 of taxpayers will pay no tax.

For further information on the budget announcements, see the news page on our website

Easy ways to save tax

They do exist!! Here are some of our favourites!

Use of home as office – if you spend a significant amount of time working from home, make sure you keep good records of mortgage interest, insurance, rates, repairs and utility bills. Providing there is a logical and sensible apportioning of these costs, you will be able to claim tax relief. Major construction works such as garage conversions and extensions are viewed by HMRC as being capital in nature and cannot be claimed as a business cost.

Childcare vouchers – did you know that as an employee/director/contractor, you can earn up to £55 per week tax and NI free by joining a childcare voucher scheme? We have partnered with Abacus Solutions to provide you with a scheme which will be tax compliant and is easy for you to use. Contact Anthony Rentoul on 0845 257 0046 or visit their website: www.abacusvouchers.co.uk. Remember to check whether childcare vouchers could affect your tax credit award first by using the HMRC calculator which can be found at <http://www.hmrc.gov.uk/calcs/ccin.htm>,

Director's wages

Directors of limited companies want to know how they can get the cash out of the business in the most tax effective way. There are various options. First, pay yourself a market rate and take any remaining amount out as dividends, second, pay yourself at the National Minimum Wage and take the rest as dividends, third, take the minimum salary you can without incurring any tax or NI – this is currently £5,715. Which one is correct?

Options 1 and 2 will mean that you end up paying more tax (PAYE) and NI. As a director, you are also an employee but without a contract. This means you can work hours in excess of the EU working time directive and at a rate which is much lower than the minimum wage.

Some clients have concerns that taking such a low wage as in the third option will flag them up to HMRC.

This practice is widespread amongst owner managed businesses and is a recognised form of tax planning.

You may wonder how the £5,715 is fixed. The annual tax free allowance for this year is £6,475 but at this level, you will be paying NI.

The lower level of earnings that is required to ensure you have a qualifying year for state pension and benefits is £5,044. After that you would normally have to start paying NI. At the moment, the rate of NI that you pay between £5,044 and £5,715 is set at nil%. This is why, taking wages of £5,715 per annum entitles you to benefits even though you have paid no NI.

Finally, a word on dividends. The key to remember is that they are paid out of profits after corporation tax at 21% not before, so make sure you have sufficient funds to meet your tax liabilities otherwise your dividends may be deemed illegal.

You are able to take dividends as

frequently or as seldom as you require. Setting up a monthly dividend of the same amount each month will not attract HMRC attention and arguments about the dividends being salary in nature.

The end of the tax year may also seem a long way off but be careful about taking dividends close to the 5th April and tipping into the higher rate tax bracket. If in doubt, contact us and we will review your earnings to date and advise of any headroom that you have left.

And, never, ever write a cheque to yourself for dividends and put "bonus" on the cheque stub as HMRC will argue that your intention was to pay yourself wages and not a dividend and will seek to collect the necessary tax and NI.

C & M Services News

We are now in our sixth year of business and referrals from clients and from new contacts we have met at recent networking events has really worked well for us.

.....So much so that we have now engaged some extra help! If we are unavailable/on training/with a client, your call will be answered by the lovely team at Professional Call Minders. They will take your message, and contact details and let me know you have called.

Our phones will be manned between 9am and 5.30pm daily. If you need to contact us outside these hours, the best ways are by email or text.

Making sure that all your accounts and returns are in on time is important to us. This is because late filing brings with it financial penalties and undue stress and anxiety. As an example, accounts that are up to 6 months late at Companies House will incur a fine of £750!!!

So, please make sure you start getting your paperwork together and check it is complete. If documents/bank statements

are missing, please obtain them first.

We are also now offering some new services to our clients as we continue to grow:

Umbrella company trading for contractors who are on short contracts, caught by IR35 or who do not want the administration of running a limited company. We are especially keen to work with IT and engineering contractors.

Credit checks – maybe you have a potential new supplier or customer or even want to just check out the competition!

Shareholder and partnership agreements for simple arrangements – they work like a pre-nup and are invaluable in the event of a dispute or parting of ways with your business partner.

Do you know?.....

YES!! We probably do! We have a varied and extensive client and contact base.

So, next time you need a mortgage broker, HR advice, printing, ink cartridges, e-shop help, wills, conveyancing, health and safety, marketing, gardening, photographer, free venue finding service, electrician, plumbers, book keepers, back massage, reflexology, training, music teachers, IT consultants etc etc why not contact us instead of picking up the Yellow Pages and taking a chance?.

If you found these articles of interest you can read more on our web site: www.candmservices.co.uk

For more information on our services please contact Kath Docherty for a no-obligation appraisal of your business requirements.

You can reach Kath on 07743 767 687 or email info@candmservices.co.uk

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