

2003 END OF TAX YEAR PLANNING **MARCH 2003**

One of the tensions this time of year, is that an accountancy practice is expected to come up with a raft of bright tax saving and other ideas in advance of the end of the tax year – however this isn't always easy when we try and communicate these over the course of a year as they come up. However 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 on 31 March 2003. 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.

EG 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 a investment after 1 January 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 don't need to spend just yet then you are probably as well off waiting.

Pension and ISAs

It may go against instinct but the current downturn in the stock market makes it an excellent time to invest – basically you get more for your money!

So, if you have not used your (or your spouses) ISA allowance, its worth thinking about this before 5 April.

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 effect the self employed/small company directors. If you treat a pension like any other investment – and buy now whilst the market is low, then you can benefit from a future up turn.

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

Finally on pensions, the new contribution rules allow your income this 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 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 2003/04

Well, the budget is not till 9 April so until then there is an element of crystal ball gazing! However:

- Incorporation – stunning tax savings for small business available at the moment – not sure if they will continue into 2003-04, but even returning to 2001-02 tax rates most small businesses would be better off as a company, providing dividend and salary decisions are taken advisedly.
- VAT flat rate scheme – for businesses with gross income below £100k – reputed to rise to £150k in the budget – the flat rate scheme can offer useful savings. Contact us if you want an appraisal.
- Business Asset Taper relief – one of the most generous Capital Gains Tax reliefs ever known! Planning opportunities exist for extracting profit from a trading company without incurring Higher Rate tax. Contact us to talk the possibilities through.
- NI rates are on the increase – 1% on everything from 5 April 2003 onwards plus a 1% surcharge for employees and the self employed on income over normal thresholds. Consider getting any bonuses paid before 5 April to minimise the cost.

Tax Credits

Don't forget applications can only be backdated three months, so apply for 2003-04 (the first year of the new tax credit regime) by 5 July 2003 or you may miss part of your entitlement.

If you don't think you will qualify (and a family with two children will receive benefit on an annual income of £55k maximum – without children £15k annual income is the cut off) then consider a protective claim which will not pay you anything now, but if your 2003-04 income turns out to be lower than expected it can be revised at any time. By contrast if you don't make a protective claim and simply apply if your income falls then you will lose part of your annual entitlement.

Applications for 2003-04 are based on 2001-02 income, but revised to current if your circumstances are different now. However for all claimants the claim is provisional and is revised in 2004 to reflect your actual 2003-04 income. The revised 2003-04 claim and provisional 2004-05 claim must be made by 5 July 2004, which is only three months after the end of the tax year and will be a problem for self employed tax payers who need accounts prepared.

Why not join up for our tax credit support service at £75+va pa, and we will deal with all of the forms, provisional, in year revisions and final.

Finally don't worry about 2002-03 tax credits – under the old regime – you will get this automatically via your tax return.

S660A

Scare stories are circulating about S660A – they do tend to surface every few years.

S660A ICTA 1988 is a wide ranging Inland Revenue anti-avoidance provision to stop one person artificially giving income and assets to another. Current concern relates to whether putting shares in a family business in to the name of your spouse invokes the provisions. Although widely written, their use by the Inland Revenue is quite rare, and the cases that are reported at present are probably the work of a maverick tax officer rather than a concerted Inland Revenue crackdown. If there is a crackdown then bear in mind that the legislation is very nebulous, and IR attacks can be fought successfully if the facts are right.

For most of our clients there is little to worry about here.

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.

Budget 2003

Last year we did post budget seminars in Fareham and Ryde.

It would be useful if you could let us know:

- If you attended, was the session useful – could the presentation have been longer, shorter, more detail, less detail?
- Would you have attended if you had known about them, or if you were not otherwise engaged?
- Would you be likely to attend a similar session this year – if so is your preference Ryde or Fareham?