

BUDGET 2002- OVERVIEW

NATIONAL INSURANCE INCREASES

The increase in N.I. contributions is really an increase in income tax operating as it does on all earned income without a ceiling. 'A 1% increase' slips off the tongue so easily but in reality of course it is a 10% increase for employees (10% to 11%) and a 14.3% increase for the self-employed (Class 4 N.I. 7% to 8%). The extension of the 1% charge above the top limit of 30,420 adds to the increase.

Employers will face huge additional costs for employing staff and it is hard to reconcile this with the Chancellor's claim to be 'business friendly'.

Strangely, many who will not be affected by this change are wealthy individuals. Those who live on rental or other forms of investment income or who are over pension age will escape these provisions.

POTENTIAL TAX SAVINGS FOR THE SELF-EMPLOYED

INCORPORATION

On a more positive note, the Budget has thrown up a fantastic opportunity for many self employed/partnerships to save large amounts of Income Tax and N.I. by incorporating into a Limited Company. The key points are:

- i) 1st £10,000 of profits exempt from Corporation Tax.
- ii) Marginal rate of 23.75% on profits from 10,001 to 50,000.
- iii) Main rate of Corporation Tax 19% on profits up to £300,000.
- iv) Dividends exempt from National Insurance.
- v) No further Income Tax to pay on Dividend Income if a basic rate taxpayer (shares can be distributed between family members to achieve this).

Please will you contact us if you wish us to review your circumstances and quantify tax savings which might be made and advise you relating to numerous peripheral matters associated with this change.

TAX RELIEF ON LOW EMISSION CARS

A significant tax break was announced which may be of interest to some of our clients. 100% Capital Allowances are now available on low emission cars.

The relief applies to new cars with emissions of up to 120 g/km. For these vehicles, 100 % of the cost can be claimed as a deduction against profits in the year of purchase (subject to any private use restriction). We have identified qualifying cars made by Audi, Ford, Renault, Honda Toyota, Peugeot, Vauxhall, Volkswagen, Smart and Seat. They will also qualify for a reduced Road Fund Licence of £60, £70 or £80 depending on the type of fuel used.

No doubt as technology advances, the number of qualifying vehicles will increase. Please contact us if you are considering a car change and require further information as to whether this tax break may be of use to you.

TAX CREDITS - FURTHER CHANGES

The most important tax credit for many of our clients is the **Children's tax credit**. This was introduced on the 6th of April 2001 and the Chancellor announced it will cease on the 5th of April next year, when it will be replaced by the **Child tax credit**.

The Children's tax credit is worth £520 a year to basic rate taxpayers who look after a child who is under 16 (doubled to £1,040 for the current 02/03 year where a child is born during the year). The rules for claiming the credit are complicated and the Self Assessment return this year has an additional 2 pages reflecting this. We are working hard to ensure all our clients eligible for this tax saving receive it.

The **Child tax credit** system (designed presumably, by Civil Servants with little or no knowledge of the real world) will necessitate the completion of an additional form, similar to a tax return on which claimants will have to estimate their income. Changes in income and personal circumstances are to be notified to the Revenue within 3 months. Quite how this is practicable we fail to see.

VAT FLAT RATE SCHEME FOR SMALL BUSINESSES - SIMPLIFICATION ?

The Chancellor announced a new optional 'Flat-rate Scheme' for businesses with taxable turnover of up to £ 100,000, claiming this would significantly ease the regulatory burdens that VAT registration imposes and 'remove' the requirement for form filling.

The Scheme operates by allowing businesses to calculate their net VAT due by applying a flat-rate percentage to their tax-inclusive turnover. The flat-rate percentage will depend upon the trade sector into which a business falls.

In reality, we doubt the Scheme will be of benefit to many of our clients. The claim made by the Chancellor about the removal of form filling requirements is patently incorrect (VAT returns will be required as previously) and the flat-rate percentages published mean few clients will benefit financially.

We will review clients' individual circumstances with regard to this scheme when completing annual accounts, but if you have any queries in the mean time, please do not hesitate to contact us.

OUR VIEW

Since 1997, Gordon Brown has proved hugely adept at raising taxes. Married Couples allowance abolished. MIRAS abolished. Stamp Duty increased. Pension schemes mugged. Personal allowances restricted. A whole raft of stealth taxes. Council Tax increases equivalent to 2p on the basic rate of Income Tax. And so the list continues, now including the N.I. hike. The total tax take in 1997 was £288 billion and will be nearly £500 billion at the end of this parliament.

This has resulted in a huge amount of extra regulation, means testing and form filling.
But where are the benefits?