

SUMMER NEWSLETTER

BUDGET 2003

Many of the changes to the Tax regime for the 2003/04 year had been announced in advance, and four of the key issues are detailed below:

National Insurance Increase

The National Insurance increases have now come into effect and will in the long term have a negative impact on the economy, particularly impacting on employers who will look to cut staff numbers.

We were assured by The Chancellor that the increases in National Insurance would be used to fund improvements to the NHS. The Health Secretary's recent resignation "to spend more time with his family" may well indicate that despite the spin, there remain deep rooted problems within the Health Service, which will not be resolved by more money alone.

Personal Allowances Frozen

The personal allowances for the 2003/04 year for the under 65's have not been increased in line with inflation. This of course represents a Tax rise, and a number of people paying Income Tax in the UK during the current Tax year is expected to exceed 30 million for the first time. This is 5 million higher than when Labour came into power 6 years ago.

VAT

The VAT threshold has been raised to £56,000 per annum. If you believe that your business is likely to breach the threshold (and you are not already registered) please contact us at your earliest convenience so that we can review your circumstances, and advise you accordingly.

In the Budget an "amnesty" was announced, whereby businesses that are currently trading over the VAT threshold, but have not registered for VAT, can avoid late notification penalties if they register and pay VAT arrears prior to 30th September 2003. The newly VAT registered business will have to furnish all Returns and payments on time for the 12 months after registration to escape the penalty.

Please contact us as soon as possible if you have any queries concerning your VAT position.

100% Capital Allowances on Computer equipment

In a welcome move, it was announced in the Budget that the 100% allowances on computer equipment will carry on to 31st March 2004. This means that the whole cost of any computer equipment bought by small businesses prior to that date will be an allowable deduction against profits in the year of purchase.

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There are a number of other areas of Government policy, which we feel should be drawn to your attention, and these are briefly summarised below:

TAX CREDITS

We provided you with a detailed fact sheet relating to Tax Credits at the beginning of April. Regrettably, most if not all of our fears concerning the ridiculously complex and unmanageable Tax Credit system have become reality. As you will probably have heard, the telephone help lines have been over run with demand, The Inland Revenue computer system for dealing with the claims has failed, and general confusion and chaos has abounded.

The Revenue has re-deployed 3,600 staff to try and cope with this lamentable situation, and this will inevitably impair their efficiency in other areas. We do have a good deal of sympathy for the staff at The Inland Revenue who have had to deal with a ridiculously complicated and unnecessary system, brought in too quickly for political expediency.

TAX AVOIDANCE AND TAX EVASION

Put simply, Tax avoidance is the entirely legitimate practice of planning your affairs in an appropriate way, within the law, to minimise the amount of Tax payable. Tax evasion however, involves fraud, is illegal and is clearly wrong.

We are most concerned that there appears to be a concerted attempt by The Treasury and The Inland Revenue, to blur the distinction between the two, and to brand people who have operated honestly within the Law as Tax evaders.

One of the most recent examples of this change in policy has come about with The Revenue adopting a new interpretation relating to “settlement” legislation. This can have a significant effect on the Tax position of family partnerships and companies, and the broad thrust of The Revenue’s new interpretation of the legislation, is that all or most of the income of the entity should be assessable on just one person. Quite how effective The Revenue’s “attack” will be remains to be seen, and will probably only be determined over a number of years when test cases reach the Courts.

In the meantime, it appears The Revenue are attempting to scare people into interpreting the rules as they themselves see them, which may very well not be the way Tax Advisers and the Courts would see them.

All of this leads to a highly unsatisfactory situation for the Taxpayer and his or her adviser, as inevitable grey areas arise as a result of the uncertainty.

Many Advisers believe that The Revenue stance detailed above, represents an attempt to minimise the number of people trading through Limited Companies, where in certain circumstances, lower Tax burdens can be attained, although this is often at the cost of significant added complexity and regulation.

Please do not hesitate to contact us to discuss your individual situation.

THE HOUSING MARKET

It was very interesting that The Chancellor highlighted the discrepancy between the British housing market and the housing market in the Euro zone, as one of the major examples of non convergence, when assessing the question of joining the Euro.

The massive escalation in house prices benefits very few ordinary people in the long run, but does lead to significant extra Tax revenues from Stamp Duty and Inheritance Tax.

The Chancellor indicated in his recent Euro assessment that he would be looking at ways of reforming the UK housing market, and various ideas were released in the small print accompanying the Euro non announcement in June.

These included introducing a property Tax, raising Stamp Duty and extending the scope of Capital Gains Tax to include principal private residences.

Whilst it is common policy to “float out” ideas which never subsequently see the light of day, it does seem likely that property owners are going to face even higher Tax burdens one way or another, with many having just been hit with huge Council Tax increases.

The Chancellor stated he wanted more people to take out long term fixed rate mortgages (currently only a very small percentage of the market) and also wanted to look into reforming the planning regime to increase the supply of housing.

It seems highly unlikely that the Government will be able in the short term, to significantly influence the housing market without taking deeply unpopular measures.

A small but increasing number of our clients have benefited from the boom in house prices, by selling up and emigrating. Although no official figures are available relating to this, it seems to be a significant growing trend.

SAVINGS

The Government has told us that we should all save more and ISA's were brought in to replace PEP's, and Stakeholder Pensions were introduced in an attempt to popularise savings.

Unfortunately, the exact opposite of the stated intentions of the Government has occurred, and people in general are saving less than ever before.

Many pension funds are now in crisis, and this has partially occurred by the Labour Government's decision to remove the Tax free status of pension funds back in 1997 in their very first Budget. This raises approximately £5-6billion per year for The Exchequer. The UK Stock Market has performed worse than any other major market since May 1997 when Labour came to power, and the Government cannot claim that its actions have not influenced investment returns adversely. Unfortunately, all of the above points towards Taxpayers having to work longer, pay more Tax and retire later.

TAX FREEDOM DAY

Tax Freedom Day for 2003 fell on the 2nd June. That means that the average British Taxpayer spends 153 days of the year from 1st January to 2nd June – working solely to pay Taxes. It is predicted that by 2005, Tax Freedom Day will be a whole week later, falling on the 9th June. The Tax burden is rising inexorably. In the 2003 Budget, The Chancellor “gave away” approximately £505million, but increased Taxes by £4,200million – over 8 times as much as the giveaways.

Clients seem to be increasingly questioning what benefits they have seen in public services following the overt and covert Tax increases that have occurred since 1997. Regrettably, in most cases, services appear to have deteriorated rather than improved.

As always, we will endeavour to protect your interests and assist you as far as possible in dealing with the increasingly onerous and complex regime that is in force. Please do not hesitate to contact us if you have any queries relating to your affairs that you think we might be able to help you with.