

BUDGET SUMMARY

Gordon Brown once again managed to secure largely favourable headlines from the media for his 2004 Budget. However, once the spin was discounted and the full details of the Budget provisions emerged, the picture for the small business community looked somewhat less than rosy.

Some of the key provisions which will be of interest to our clients are detailed below:-

Allowances/Tax bands

Having been frozen for 2 years, a modest increase in personal allowances will take effect for the 04/05 tax year. The 10% and 22% tax bands have also been marginally increased. Even after taking account of this, the 40% top rate of income tax (41% for earned income, including NI) starts at the absurdly low figure of £36,145 for a single person. Approximately 5 million more taxpayers are now paying higher rate tax than in 1997.

VAT

The VAT registration threshold has been raised to £58,000. If you believe that your business is likely to breach this limit (based on the previous 12 months turnover) and you are not already registered, please contact us at your earliest convenience.

The VAT Flat Rate scheme (where businesses calculate their net VAT liability by applying a flat rate percentage to their tax inclusive turnover) has been extended to include businesses with a turnover of up to £150 k. In addition, the trade sectors and relevant percentages have been revised meaning many businesses may find this scheme more attractive than before.

We are currently reviewing all our VAT registered clients to see if the scheme might be beneficial to them and we will be contacting you in due course.

Capital Allowances

The rate of first year allowances for expenditure incurred on most plant and machinery by small businesses will be 50% for the coming year. This replaces a 100% first year allowance on computer equipment and a 40% first year allowance on other plant and machinery.

Incorporated businesses—We were right!

Two years ago we advised you how Gordon Brown had introduced a 0% tax band for small limited companies on the first £10,000 of profits. We discussed this with many clients and pointed out that whilst for many people tax savings were possible by incorporating their businesses, these savings came with significant added complexity and regulation. **We also pointed out that we seriously doubted that the 0% band would last very long. Our advice was that incorporation should not be undertaken for tax reasons alone.**

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As we anticipated, Gordon Brown has now effectively withdrawn the 0% band for small companies. The smaller the company, the greater will be the impact of the increased taxation, with tax liabilities for the smallest companies rising by up to £1,900. What a bizarre form of socialism, where the poorest are hit the hardest!

Perhaps the most outrageous element of this whole affair however, was the appallingly dishonest spin placed on the change by the Government. Gordon Brown referred to 'a loophole' and the avoidance of tax and national insurance, conveniently forgetting that it was he and the halfwits who exist in the Treasury who introduced this measure. Nigel Griffiths (Small Business minister) went even further, stating that " if people want to put money in their pockets through their businesses that's up to them, but the tax regime isn't going to help them". Just one question on that Mr Griffiths. **Why not???**

Other areas

It was announced in the Budget that the Government will introduce a review of the taxation of the self employed and owner managers of small businesses with a discussion paper being published in late 2004. No further guidance has been issued at this stage, but it seems highly likely that the tax and regulatory regime for small businesses will deteriorate further. As the public finances worsen, Gordon Brown seems obsessed with the erroneous idea that all small businesses are involved in tax avoidance schemes. In most cases nothing could be further from the truth.

The Government is also going to introduce a scheme whereby all tax avoidance schemes have to be registered and approved with the Inland Revenue before they are 'marketed'. One commentator described this as a completely unworkable idea "thought up by an academic who left university last week and has not yet arrived in the real world".

Further changes will be introduced to the Construction Industry Scheme in 2006. The current system was introduced in 1999 and in our opinion appears to be working satisfactorily. However, the authorities think otherwise, so those who work in the construction industry can prepare themselves for further disruption in due course.

And finally

We are often accused of being unduly pessimistic and there is no doubt that dealing with the apparatus of the State and a tidal wave of red tape on a daily basis does little to make us optimistic. No doubt we have much to be thankful for, but we do struggle to identify areas of modern British life that are improving. Sometimes, when you hear politicians talk, you do wonder if they exist in a different world, as the decay of UK infrastructure in terms of law and order, education, the Health Service and travel does not seem to have been noticed by them. Official Government figures show a massive 54% increase in spending in the public sector which has resulted in a mere 12% increase in output. What a damning statistic.