

**HIGHLIGHTS OF THE CHANCELLOR’S PRE-
BUDGET REPORT PUBLISHED 24
NOVEMBER
2008**



**THIS REPORT FOCUSES ON THE RELEVANT ISSUES FOR
DNS’ CLIENT BASE AND READERS AND IS NOT INTENDED
TO BE A FULL ANALYSIS OF THE CHANCELLOR’S PRE-
BUDGET REPORT.**

Highlights of the Chancellor's Pre-Budget Report published 24 November 2008

Vat to be reduced to 15% for 13 months from 1 Dec 2008 to 31 Dec 2009

What advantages are there in the VAT reduction for me?

The reduction in VAT is definitely good news for people in the retail industry, cash-and-carry shops and the consumer. The new ratio which needs to be used for cash businesses will be 3/23. Those on the Flat Rate scheme need not worry as new flat rates reflecting change in VAT rates will be announced and our online accounting software will be adjusted accordingly. This means flat rate scheme will still generate significant savings to small businesses.

Income-shifting rule deferred: good news for Limited Company freelance contractors and consultants

Since the Arctic System (dividend payment rather than salary), the Inland Revenue has been committed to passing a new law to avoid income-shifting. Income-shifting is the transfer of income to a non-working spouse through dividends and wages; as they fall into a lower Tax bracket. However, due to feedback from professional groups and difficulty in implementation, the Inland Revenue has deferred the income-shifting rule. Three Cheers for contractors then! Income-shifting is an excellent tool for contractors, as good Tax-Planning means you make use of your non-working spouse's lower Tax bracket.

I am a contractor and own my Limited Company equally with my wife. Does this means I am Safe?

Yes you are very safe.

I am a contractor who does not currently use the Tax-Planning opportunity of this loophole. Can I elect to take my wife as a company shareholder now?

We suggest that you contact us to discuss this issue as it may not be as simple as electing your spouse and enjoying the benefits.

DNS ASSOCIATES – PRE-BUDGET REPORT ANALYSIS

Good news for Small Businesses working through Limited Companies

An increase in the small companies' Tax Rate to 22% has been postponed. This means you will continue to pay Tax at 21% and enjoy the Tax advantages offered by running a Limited company.

I am a self-employed contractor/ business. Can I take advantage of incorporation?

Using a Limited Company for business is still lucrative. We can advise you on which structure is best when we look at your individual circumstances.

Increased Tax Rates and a reduction in Personal Allowances

The government has handed out a substantial amount in this budget but they will need to claw the money back from somewhere. It is not the working man that has been hit this time but the middling classes of New Labour: the high earners are the ones who are worse off this time. The government has increased the Income Tax Rate to 45% for anyone earning more than £150,000. For those who earn more than £140,000 no Personal Allowance is allowable.

I am earning £175,000 a year in employment does this mean I will pay a higher Tax Rate?

Yes unfortunately you will pay more Tax. If you contact us we can advise you on ways to reduce your Tax liability.

I earn £90,000. Is there any impact on me?

There is no additional impact on you. You are safe.

I earn £120,000 through a Limited Company. Is there any impact on me?

No, this is income of a Limited Company. If you separate the income by income-shifting, and maintain your personal income at less than £100,000, there will be no impact on your Tax liability.

Increase in National Insurance Contributions (NICs) from April 2011

The government is handing out a few sweeteners but in the long run they have to collect more Taxes to reduce borrowing. They have increased all three NICs: Employer, Employee and Self-Employed by 0.5%. This change will take effect from April 2011. The proposed increases will not impact on anyone for two years yet, so we can relax! Whether the increase will be implemented in 2011, or not, remains to be seen.

DNS ASSOCIATES – PRE-BUDGET REPORT ANALYSIS

I employ a couple of people does this mean I will start paying employers' NICs at 13.3%?

Yes you will but there will be an increase in the Personal Allowance NICs from the current starting rate threshold. This will be aligned to the Income Tax threshold.

I am an employee and self employed will I pay an extra 0.5? Is there any way I can avoid this?

As yet we have not prepared Tax-Planning for this eventuality. It looks as if you will end up paying an additional 0.5%. We will keep a close eye on this anomaly and keep you informed.

To conclude there is some excellent news for all our clients: **None of DNS's Tax strategies are affected. So it is business as usual!**