



accounting for success



## Nasa Consulting Client Update – November 2008

### The Pre-Budget Report – some good news for our contractors!

*The pre-budget statement as set out by Alistair Darling on Monday appears to have been good news for SME's. Most of our clients will benefit from the 'plus points' outlined below, whilst many may benefit from a few of them. Overall we believe there are few major negatives in the budget, although there has been no reduction in red tape costs (including IR35) and if anything, the admin burdens of running an SME have risen.*

Our headline plus points...

#### Section 660/Income Shifting

The splitting of dividends between husband and wife in a company has been attacked unsuccessfully by HMRC through the courts over the last few years. After their defeat, the government stated they would bring in legislation to alter this. Having delayed implementing the legislation in 08/09, the Treasury have confirmed they will not bring it in for 09/10 and will review it again in the future. For many of our clients this saves about £6,000 of tax by passing higher earnings to a spouse who holds a share in their company. We are delighted this tax break will continue for at least another year.

#### Corporation Tax

The tax on company profits was due to rise to 22% from 21% in April 2009. This has now been delayed saving small businesses 1% of their profit. Although the sums are not large here, most of our clients will save several hundred pounds over the next year.

#### Untaxed earnings

There will be a higher than average increase in the tax free earnings limit next year. This measure has broadly been introduced to benefit lower rate earners, but will benefit all. It will be eroded from 2010 however when higher National Insurance contributions become applicable and those earning above £100000 in a year start to have the exempt bands removed.

And the '*not so good news*'...

## VAT

As everyone is no doubt aware by now, the VAT rate has been reduced to 15%. **It is critical that any invoices you raise dated 01/12/08 or later, only add 15% VAT and not 17.5%.** Invoices raised at the wrong rate are likely to be rejected by clients, and correspondingly any invoices received should only incur 15% VAT. If you receive an invoice after this date, but it is dated 30 November or earlier, it should have 17.5% VAT. In principle, the critical factor affecting the rate is the invoice date rather than the sent or received date.

Clients trading on the Flat Rate VAT system will not benefit from the reduction in VAT by 2.5% as the flat rate payable has only decreased by 1.5%. As your accountants, we will now compute a mixed rate Flat Rate VAT return for those clients whose VAT period crosses over 1 December 2008.

We are still of the opinion that in most cases the Flat Rate system will be profitable compared with the standard rate system where your company has few, if any, VAT attached costs.

For those clients on the standard rate VAT system there is unlikely to be any benefit.

## Nasa Consulting Fees

For the last three years we have not raised our fees, despite large increases in costs. We have done our best to increase efficiency to maintain our trading position rather than increase the costs we charge our clients. With inflation having increased all prices by over 10% in that period, not to mention staff pay rises, we are now going to raise our prices by 2.5% as of 1 December 2008.

As the astute of our clients will have already realised, this means there is no reduction in the fees you pay us, as the reduced VAT we charge from 1 December 08 is absorbed by our increased fee. We hope that our good work outweighs the inconvenience to you and that where it does not, you let us know! This increased income should allow us to maintain our high staffing and service levels and the average cost to our clients will only be a moderate £30 per annum after tax relief.

Overall, we hope that the fiscal measures proposed by the Chancellor of the Exchequer benefit both our clients and the economy to avoid a significant downturn and trust that all of our clients are well placed to trade positively over the coming 18 months.

Regards



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