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## **Client Newsletter – October 2007**

Alistair Darling's first Pre-Budget Report as Chancellor was released on 9<sup>th</sup> October – so what does it mean to freelancers?

Despite the headline grabbing increases to health and education spending, it is the finer points of the report that contractors and self employed individuals must look at to see what the real effect on them will be.

In this months newsletter we will briefly outline the key points that affect freelance professionals and cover any other housekeeping issues including;

### **Draft Legislation to address 'Income Shifting'**

### **Tax Changes – Capital Gains & Inheritance Tax**

### **Other relevant areas and housekeeping**

## **'Income Shifting'**

The aftermath of the Arctic Systems defeat for the authorities saw a quick response from HM Treasury officials to counter the blow. It was announced within days of the verdict coming down that new legislation was planned to close the loopholes associated with settlements and dividend distribution in husband & wife businesses.

This term encompasses the moving of income between husband and wife as dividends in order to create a tax advantage. The aim of the draft legislation is to remove this tax advantage, and as such it is likely to be a hugely unpopular addition that will affect several thousands of small businesses, not to mention increase their paperwork. The government plans to consult on draft legislation which it aims to have in place by 2008/09 and it will work in conjunction with existing rules relating to business deductions and settlements.

It is expected that leading industry bodies and commercial advisors will be involved in the consultation process, and Nasa Consulting aim to be at the forefront of any consultation process ensuring our clients are kept up to date with any developments, and can therefore plan accordingly. As such we will advise of any changes if they become necessary.

## **Tax Changes**

There are several changes that will be coming into effect from 6<sup>th</sup> April 2008, most notably those affecting Capital Gains and Inheritance Taxes.

**[www.nasaconsulting.com](http://www.nasaconsulting.com)**

Nasa Consulting Limited, Fenton Court, Fenton Road, Bristol BS7 8ND  
Registered in England & Wales 05764568 VAT Reg 879 3336 76



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## Capital Gains

This is aimed at private equity and will affect individuals, trusts and other capital gains taxpayers. Companies paying corporation tax on chargeable gains will not be affected.

The main change here is the removal of taper relief. Taper relief is in short an allowance of a percentage of taxable gains to be dropped out of charge leaving only a residual percentage that is subject to taxes. As an example business assets could achieve an effective tax rate of just 10% after holding assets for 2 years. Shares in both quoted and unquoted companies were also included as business assets. It was also applicable to non business assets but not at such a high rate as business assets.

The change will see taper relief being replaced with a flat rate of capital gains tax, to be set at 18% with the current annual exemption remaining at the current level of £9,200.

## Inheritance Tax

The level of the tax free allowance on inheritance for married couples (and civil partnerships) was raised from £300,000 to £600,000. Although through financial planning this could be achieved anyway, the threshold has increased from £285,000 to £300,000 for when the tax becomes effective.

## General Housekeeping

**Tax Returns** will have two distinct filing dates for 2007/08 returns. These will be October 31<sup>st</sup> 2008 for filing paper returns and January 31<sup>st</sup> 2009 for returns filed online.

**Personal Allowances** will also be subject to quite a degree of change in 2008/09 as previously mentioned in the Budget 2007. Just to recap – the changes that will affect our clients are;

- Basic rate income tax reduced to 20%
- 10% starting rate abolished for earned and pension income, but remains for savings and capital gains
- Top bracket for income tax will rise to £43,000 by 2009

**Corporate Tax** rates will also be subject to change from April 2008. The Small Business Rate will be increased in stages, to 21% in April 2008 and then 22% in April 2009 from its current level of 20%. The main rate will do the opposite and decrease from 30% to 28% effective from April 2008.

Should you wish to discuss any of these areas in more detail please contact your personal accountant here at Nasa Consulting as they will be happy to assist.

Best Regards, Nasa Consulting

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