



**NEWSLETTER 8
MARCH 2008**

INCLUDING MAJOR CHANGES ANNOUNCED IN THE BUDGET TODAY

**WILL YOU SELL YOUR BUSINESS ONE DAY?
Well good news...**

The changes to Capital Gains Tax (CGT) were covered in detail in the last newsletter and still stand. However, the changes caused so much of a fuss that the chancellor has announced a new “Entrepreneurs Relief”.

The new relief means that when you sell the shares in your company you pay tax at the old rate of 10%, rather than the proposed new rate of 18%. This only applies up to gains of £1m. This sounds a lot but it is a lifetime allowance. Nonetheless, this is excellent news for all individuals who may one day sell their business. For most small businesses this means things stay the same as before the budget (for now at least).

**DOES YOUR SPOUSE RECEIVE DIVIDENDS FROM YOUR BUSINESS?
Good news for now...**

New legislation was planned to come into force from 6th April 2008 stopping you providing your spouse with a dividend to reduce your personal tax. The details on income shifting were covered in the last newsletter. **HOWEVER ON 12th MARCH IT WAS ANNOUNCED THESE PROPOSALS HAVE BEEN POSTPONED UNTIL 2009 FOLLOWING RESPONSES TO THE CONSULTATION.** This saves many UK families nearly £700 per month!

ADVICE NOW: Make sure that you declare a dividend to you and your spouse before 6th April 2008 to use up your allowances. The dividend cannot exceed the profits to date (after an allowance for corporation tax and dividends already declared) - call me if you need assistance on this. The optimal annual amounts for a couple with no other income are:

**Salary each £5,225
Dividend each £31,140**

And now for 2008/9 are

**Salary each £5,435
Dividend each £32,400**

Don't forget dividends don't have to be paid but can be credited to your director loan account for you to draw the cash from at a later date – effectively banking your allowance!



TAX EFFICIENT SALARIES

Many directors declare a salary on 6th April each year to use up their annual allowance. This is often the basic rate figure (£5,435 in 2008/9). If this is not physically paid (credited to the loan account instead) it needs to be voted by the directors.

ADVICE: Please email me on or after 6th April to say that the directors have voted a salary, and the amount, if this applies to you.

WHAT CHANGES IN 2008?

The first £5,435 of your personal income is tax free and the rest is taxable at 20% (reduced from 22%) up to the higher rate limit. So the most efficient salary you can pay directors is now £452.90 per month from April 2008 with the rest in dividends.

And you can now receive dividends of £32,400 (assuming no other income) without any further tax.

THINKING OF INVESTING?

Delay any imminent investment in plant or machinery (e.g. a new PC) until after 5th April. From 6th April 2008, a new AIA (Annual Investment Allowance) is available. This means that you can deduct the whole amount for tax immediately rather than it being spread over many years. £1,000 of investment would save £100 of tax in the first year.



PENSION THOUGHTS?

Up until 6th April 2008 you could invest a minimum of £3,600 into a personal pension (up to 100% of your salary likely to be £5,225). You only pay out 78% because the tax relief of 22% gets credited directly to your pension. With the 2008/9 change to personal tax rates down to 20% and company tax rates up to 21% it is more tax efficient to make a company pension contribution rather than a personal one (although the tax relief is deducted from your corporation tax payment rather than at source). You can also make much larger contributions through your company than £3,600!

So:

- 1) Decide if you wish to make a personal pension payment before 6th April and, if so, do it and get your 22% relief at source;
- 2) Make arrangements for company pension contributions next year (I can recommend a good financial adviser).

THINKING OF BUYING YOUR SPOUSE A NEW CAR?

It is seldom worth buying a company car as opposed to buying it privately and claiming business mileage.

However, you may struggle to take out your dividends tax free next year (now that your spouse dividends will be taxed on your tax return). Another way of taking cash out of the business is getting the business to buy your spouse a company car. If they have little involvement in the business, they will have low business mileage. It would only be worth it if you chose a low emissions vehicle, which will keep the Benefit in Kind down. If you were thinking of buying another car this year let me know if you need any advice.