

Expert warns of tax hike for limited companies

The government's recent budget is set to have huge repercussions for some small businesses, leading chartered accountants Tildesley and Tonks Limited have warned.

Managing director Mark Evans claims moves in Gordon Brown's recent Budget like closing a tax loophole that benefited small businesses, will spell a sharp increase in the corporation tax paid by smaller companies.

Larger businesses that use imaginative tax planning schemes will also be penalised with the introduction of a new rule that tax advisors must register schemes in advance.

Mark said: "Over the last few years Gordon Brown has made it increasingly attractive from a tax point of view to trade as a limited company whatever the level of profits.

"So many people took advantage of this that a huge hole has appeared in tax takings so Gordon Brown has now closed the very loophole he created in the first place!"

But instead of the anticipated introduction of charging national insurance on dividends, the Chancellor brought in an unexpected change.

Mark explained: "From this month if a company distributes its profits as dividends it will pay a minimum tax rate of 19%. Companies with profits in excess of

£50k will not be affected as they already pay this rate but companies with profits between £10k to £30k will suffer the most as they usually have to distribute the vast majority of profits as dividends."

On the plus side, the Chancellor increased First Year Capital Allowances from 40% to 50% on plant and machinery from April giving an incentive to small businesses to invest and failed to target employer-provided vans as had been expected.

Mark said: "A new system will operate from April 6 2005. The current £500 benefit in kind for free use of a van will be abolished for drivers who are only take a van home at night but cannot use it privately otherwise.

"From April 6 2007, drivers who have unrestricted use of company vans will be taxed annually on £3,000 for the use of van and £500 if they have private petrol on top.

"Although this sounds a very large increase it is very attractive to directors who like double cab pickups. If they had been treated in the same way as company cars with the same price and CO₂ rating drivers would have been looking at a Benefit in Kind of in excess of £15,000 per annum."

The Budget introduced a new requirement that firms of accountants and tax advisors will have to register tax-planning schemes with the Inland Revenue.

Mark said: "We will have to see from a



Mark Evans, Tildesley and Tonks Accountants

Human Rights point of view how the Inland Revenue can justify acting as 'judge and jury' over schemes that are registered.

"This method is widely used in USA where

the IRS has been swamped with paperwork from advisors trying to fulfil obligations so it could be difficult to manage in practice."

Profits £	Sole trader 2004/05 £	Limited 04/05 £	Limited 03/04 £	Limited % increase £
15,000	2,941	1,948	91	2,040
20,000	4,441	2,898	1,279	127
25,000	5,941	3,848	2,466	56
30,000	7,441	4,798	3,654	31
40,000	10,555	6,773	6,505	4
50,000	14,655	10,698	10,787	(1)

The above table assumes that the director withdraws a salary of £4,615 in 2003/04 and £4,745 in 2004/05 and all of the remaining profits by way of dividend, payable to a single shareholder only.