

**Subject:** FW: Hobsons - Pre Budget Report December 2005  
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**Subject:** Hobsons - Pre Budget Report December 2005

Hobsons  
Newsletter Pre-Budget Report December 2005



**Hobsons**  
Chartered Accountants & Business Advisors

**Tax News**

[Introduction](#)

[Pre-Budget Report - 5 December 2005](#)

[Tax Diary December 2005/January 2006](#)

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**Introduction**

This month we have dedicated our newsletter to the tax changes outlined by Chancellor Gordon Brown in yesterday's Pre-Budget Report.

Please note this is just a quick snap-shot of some of the forthcoming changes. No doubt we will be elaborating in the months to come as the proposals become enacted.

**Welcome**

Welcome to the first issue of our new Email newsletter.

We will be publishing this monthly with a view to keeping you up to date with topical matters as well as many of the legislative changes taking place.

We hope you find it of interest. Please feel free to forward it to your colleagues and business associates. Should you wish us to mail them directly please take advantage of the reply address below and provide us with their Email addresses. We will then add them to our list and mail them directly.

Should you ever wish to unsubscribe to this service, again please use the facility at the foot of this newsletter.

Could we also take this opportunity of wishing you all Seasons? greetings and every success in the coming year.

The partners & staff at Hobsons

[Back to Top](#)

**Other News**

[Welcome](#)

[The practice](#)

[Prevention or Cure?](#)

[Are your accounts difficult to understand?](#)

[Is your IT equipment and software obsolete?](#)

## **The practice**

This newsletter provides us with a useful forum to keep you up to date with various domestic matters within the practice.

We are currently updating our corporate style. New letterhead has been designed and will soon be in use. We hope you like it.

Our website has been redesigned in line with the corporate style. Please have a look at [www.hobsons.biz](http://www.hobsons.biz) and tell us what you think. A list of the services we offer is detailed on the site. We may be able to assist you in areas you have not considered.

We have recently taken on a number of new staff, who nearly all seem to be called Katie. We now have 6 of them across both offices, so if you're in any doubt whom to ask for, try Katie.

The offices will be closing for the Christmas break at 12pm on December 23 and reopening on Wednesday 28. The Newark office reopens January 2.

[Back to Top](#)

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## **Prevention or Cure?**

When it comes to managing people, should companies be more interested in problem prevention than cure?

Ever increasing volumes of employment legislation are dictating the guidelines for managing people, and the cost of defending a tribunal claim, coupled with potential compensation awards can be high.

Anticipated changes in the Employment Appeals Tribunal Presidency next year are expected to place yet more emphasis on setting up and following procedures, with the rumoured new president being known to attach particular importance on employers failing to follow codes of practice.

So how do companies ensure that complying with such codes of practice does not create a legal straightjacket? The key is to determine well thought-out policies and procedures which are legally compliant but which provide both flexibility and a positive impact on business development. If carefully implemented, not only is this the simplest and most cost-effective option, but it can also provide real business benefit.

If you have concerns that you may need help in this area please talk to us.

[Back to Top](#)

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## **Are your accounts difficult to understand?**

A number of our clients have told us they find their accounts difficult to understand in their usual, standard format - so we have been looking at ways to help.

Why not take advantage of our new GRAPHIC ACCOUNTS service, where we take all your key performance indicators and display them for you in coloured charts. We can display these over a five year period so that you can really focus on the trends of your business.

This service is not expensive and we believe it can dramatically enhance the usefulness of your accounts. Please speak to one of

the team or your engagement partner for more information.

[Back to Top](#)

### **Is your IT equipment and software obsolete?**

There is a need for companies to review their IT equipment and software on a regular basis. Why?

- Old equipment breaks down more often
- Replacement parts become unavailable
- The equipment or software is so old that no one knows how fix it
- The reliability of modern hardware and software has improved significantly

Common technologies becoming obsolete are:

Microsoft windows 3.0, 95, 98 and Millennium editions are all obsolete. Microsoft does not support these old versions of Windows, and more often than not they cost more to fix than buying a new PC with XP professional for £400 or less. Microsoft Windows 2000 and XP are far more reliable than Windows 98 or older operating systems.

#### Floppy disks

The 3.5? 1.44mb floppy disk has been around nearly 15 years now. They never were a very reliable means of storing data. Over the years we have seen a steady stream of lost data and the problem is getting worse as many companies use up their old floppy disks. The alternative is wherever possible to email files as attachments, or for large quantities of data, burn it to a CD. Quicker and more reliable than a CD, is to use a USB pen/Flash drive to copy data. Where we receive clients Sage data to work, on we are now requesting that it be sent as an Email attachment or on CD, as too much of the data being sent is corrupted, by continuing to use floppy disks.

Software purchased 5-10 years or more ago.

While in most cases there is no reason software should not continue to work for years, it?s worth reviewing regularly. Software companies often don?t support old software as the staff that originally supported it have either left the company or have simply forgotten how to use it.

This can be critical if you rely on company data, which becomes corrupted and irretrievable.

We would recommend a regular review of your whole IT system. Figures show that about 10% of a company?s IT costs relate to equipment, most of the costs are for support, training (both formal and informal) and computer downtime. Contact us for further information and assistance if any of this is an issue with you.

[Back to Top](#)

## **Pre-Budget Report - 5 December 2005**

### **Income Tax Allowances - 2006-2007**

All allowances that are inflation proofed have been raised by 2.7%, (Based on the increase in the Retail Price Index to September 2005).

Personal Allowance will be increased to £5,035 (£4,895 2005-2006)  
 Personal Allowance (age 65-74) will be increased to £7,280 (£7,090 2005-2006)  
 Personal Allowance (age 75 and over) will be increased to £7,420 (£7,220 2005-2006)

### **National Insurance**

There are similar increases in the lower, upper and other exemptions for national insurance purposes.

The standard main rates of employees and employers contributions are unchanged.

The flat rate of Class 2 contribution remains unchanged at £2.10 per week.

### **Fuel Duty**

The Chancellor announced a continuation of the freeze in main fuel duty rates and the rates for road fuel gases.

### **VAT**

The VAT Annual Accounting Scheme turnover threshold will be doubled to £1,350,000, and the Government has written to the European Commission for permission to increase the Cash Accounting Scheme turnover threshold to the same level.

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### **Child and Working Tax Credit rates and Child Benefit - 2006-2007.**

Child benefit is raised in line with inflation, the lone parent element remains frozen. The disabled and severely disabled child elements rise with inflation.

Interestingly the Government is raising the disregard in Tax Credits for increases in income from one tax year and the next - from the present £2,500 to £25,000. This should ensure that almost all families with increasing incomes will not have their tax credit entitlement reduced in the first year of a salary or income increase.

The Revenue & Customs will also put automatic limits on the amounts which can be recovered if there has been an overpayment.

These changes should provide a greater degree of certainty for claimants particularly for families with a rise in income.

However new responsibilities are being placed on claimants.

From November 2006, claimants will have to report more changes of circumstances. They will be:

- ceasing to work at least 16 or 30 hours per week
- ceasing to be responsible for a child or young person.
- a child or young person ceasing to qualify for support.

From April 2007 claimants will have just one month to report a change that reduces their tax credit entitlement, not three months as at present.

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### **Tax Avoidance!**

If you have devised your own in-house direct tax avoidance scheme, the Government are introducing a provision that will require you to notify the Revenue within 30 days of

implementation! This will be effective from 6 April 2006.

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### **New Property Trust**

The Government is to bring forward legislation to introduce UK Real Estate Investment Trusts in the Finance Bill 2006.

The new status will be open to public companies listed on a Recognised Stock Exchange. Companies or groups that qualify will not pay corporation tax on qualifying property rental income or qualifying capital gains. There will be a requirement to distribute at least 95% of net taxable profits on rental income to investors, who will then pay tax at their marginal rate.

The Government will announce a conversion charge applying to companies joining the scheme.

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### **More on Property.**

To deal with the problems experienced by first time buyers getting a toe-hold on the property ladder, the Government is to expand shared equity schemes, where lenders and the government take a stake in the homes of first-time buyers.

This will be combined with a reform of the planning system aimed at speeding up the building of new homes.

### **Planning Gain Supplement**

The Government is to consult on the introduction of a Planning Gain Supplement (PGS) which would give the government a slice of any rise in the value of the land which has been granted planning permission. The imposition of a PGS is unlikely to be popular with house builders, or individuals owning land!

The aim is to use the money raised to improve the infrastructure in areas where new building is taking place.

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### **Small Company Tax Rates - simplified!**

In 2002 the Government introduced a zero per cent rate of corporation tax - it applied to companies with profits up to £10,000.

This opened up the possibility of earning up to £10,000 profit as a limited company and then distributing the profit as dividends to shareholders. For basic rate band shareholders this allowed them to earn and receive the £10,000 profit completely tax free.

Somewhat concerned by this apparent misuse of the zero rate band the Government introduced legislation called the "non-corporate distribution rate" in 2004 that effectively taxed all the company's profit at 19% if, the profits earned up to £10,000 were distributed to shareholders. In other words the first £10,000 zero rate band only applied if you retained the profit in the company.

After discussing this "over complicated" area of corporate tax with interested parties, both the zero rate band and the non-corporate distribution rate are to be abolished. There will now be a single small companies' rate of 19%.

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### **Pensions - tax simplification 6 April 2006.**

#### **Residential Property and other assets.**

From the 6 April 2006 the new pension rules will be amended to **remove the tax advantages for investing in residential**

**property, fine wines, classic cars and art and antiques, where the benefits are "self-directed".**

This is aimed at preventing tax payers benefiting from tax relief, in relation to contributions made to pension funds, for the purpose of funding the purchase of assets for their or their families own use.

The change will remove any tax advantages of holding residential property directly, or other exotic assets within a SIPP. (Self Invested Personal Pension)

**Recycling of tax-free lump sums.**

Presently it is possible for pension scheme members to withdraw a tax free lump sum which is then reinvested back into a registered pension scheme - this automatically generates the possibility of more tax relief on the amount reinvested.

This scheme will be blocked by inserting an anti-avoidance rule into the new pensions legislation to take effect from the 6 April 2006.

**Finally - two allowances for pensioners.**

**Winter Fuel Payments.**

This year the Chancellor has increased the payments to pensioners to assist with winter fuel costs:

- £200 for households with someone age 60 or over, or
- £300 for households with someone age 80 or over.

This increased amount will apply for the rest of this parliament.

**Free central Heating!**

Pensioners on Pensions Credit will be able to install central heating free of charge.

Other pensioners, not receiving Pensions Credit, can apply for a £300 discount if they did not previously have central heating in their homes.

[Back to Top](#)

**Tax Diary December 2005/January 2006**

**1 December 2005** - Due date for corporation tax for the year ending 28 February 2005.

**19 December 2005** - PAYE and NIC deductions due for month ending 5 December 2005. (If you pay your tax electronically the due date is 22 December 2005)

**1 January 2006** - Due date for corporation tax for the year ending 31 March 2005.

**19 January 2006** - PAYE and NIC deductions due for month ending 5 January 2006. (If you pay your tax electronically the due date is 22 January 2006)

**31 January 2006** - Last day to file your tax return for 2005, and to pay any balance of Self Assessment tax for that year, to 5 April 2005. You may also need to make a payment on account for the tax year ending 5 April 2006.

[Back to Top](#)

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DISCLAIMER - PLEASE NOTE: The ideas shared with you in this email are intended to inform rather than advise. Taxpayers circumstances do vary and if you feel that tax strategies we have outlined may be beneficial it is important that you contact us before implementation. If you do or do not take action as a result of reading this newsletter, before receiving our written endorsement, we will accept no responsibility for any financial loss incurred.

[Back to Top](#)

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[Back to Top](#)

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