

How the Budget Affects Small Businesses

What does the latest budget mean to your business? How will it affect you? Is there any action you could be taking to minimise the effects? Read on to find out...

Capital Allowances

First-year capital allowances will remain the same (at 50%) for the 2007/2008 financial year although from 2008, allowances for plant & machinery will reduce from 25% to 20%. The 'first-year' tax allowances allow businesses the chance to reduce their potential corporation tax bill by off-setting some types of expenditure against their taxable profits during the first year after purchase.

Corporation tax

As of 1st April, corporation tax will rise by 1% to 20% for any business with taxable profits below £300,000. There will be a further increase to 22% by 2009 – a move which is aimed at preventing self-employed persons from setting up incorporated companies as a tax-avoidance method. Larger companies fare better: corporation tax will be reduced to 28% (from 30%) as of April 2008 for companies whose taxable profits exceed £1,500,000.

Income Tax

The basic rate of tax is set to fall to 20p as of April 2008. Meanwhile, rises to personal allowances were in line with current inflation figures.

National Insurance

Limits for the various National Insurance contribution levels also rise in line with current inflation. Lower profit limit for the self-employed (Class 4) rises to £5,225 with the upper profits limit rising to £34,840.

VAT

The threshold for VAT is set to rise to £64,000 as of 1st April – a jump of £3000 from the previous figure. Similarly, the deregistration threshold will rise to £62,000. To qualify for the VAT cash accounting scheme, company turnover must fall below £1.35 million (previously £660,000).

