

EXCLUSIVELY FOR CONTRACTORS

MONTHLY GUIDE MARCH 2003 ISSUE 64

Deflation – What It Means For You

The last time that the Western world experienced a deflationary environment was 70 years ago and most people who understood what was going on at the time and who experienced the problems that deflation brought are now dead. Increasingly you can now read and hear from economists who either say that our economy is now deflationary or that it very well soon will be. But what is deflation? Well, some of the indicators are:-

- 1) Falling interest rates. Interest rates have already hit their lowest levels for over 50 years.
- 2) A surge in debt, falling savings and a 'bubble' in asset values. Nobody would deny that that is exactly what we have been experiencing with the property market over the last few years.
- 3) An output gap. This is the situation that occurs when supply exceeds demand. Whatever artificial inducements are put into place to increase demand there will be an inexorable downward pressure on prices. Well, we don't have to tell anybody with a business how difficult it is to increase prices and as far as shoppers are concerned, when was the last time you walked down the high street and the shops were not full of sale signs?

For a long time now we have been encouraging our clients to reduce their debt if it is possible for them to do so. Why should they do this, some of them ask, with interest rates so low and looking as though they will move even lower? Surely now is the time to invest in those assets (particularly the expensive house and the accompanying large mortgage).

The reason is that deflation effectively increases the real amount of debt while inflation over a period of time will reduce the principle amount that you have to repay in real terms. In other words a little dose of inflation really is good for you! With the downward pressure on prices the chances are that the asset that you are buying will reduce

in value over time whereas the borrowing that you have taken on to finance its purchase stays much the same. This has caused real problems in Japan where interest rates have been at zero for around ten years.

So,— our advice is do not borrow just because it has always been the right thing to do in the past. Only borrow if you have a sound commercial reason to do so.

JARGON

Apparently the easiest way to annoy Company Directors is to bombard them with Jargon and buzzwords.

The most popular (depending on which way you look at it of course!) phrases are:-

- Let's touch base (28%)
- No brainer (19%)
- Synergy (16%)
- Outside the box (14%)
- Let's take this offline (6%)
- Playing hardball (6%)

So pleased to have brought you up to speed on this!

THE COST OF GOOD HEALTH

The statistics on how much of our resources are spent on health make interesting reading, particularly when compared with the other countries in the Common Market and the US.

Measured as a percentage of Gross Domestic Product, State spending on health is just below the average across the Common Market. The UK spends slightly more than Spain, Portugal and Greece but less than France, Germany and the Netherlands.

Somewhat surprisingly you may think, the UK lags badly behind Europe in terms of private health spending. Only Luxemburg spends less as a percentage of GDP than the UK!

Contrast this with the US where health spending as a percentage of GDP is getting on for double that of the UK and where the private sector contributes more than the state,- a phenomenon not present in any of the European countries.

DEATH AND TAXES

You may be amused (although Mr Smith's relatives were not) that the Inland Revenue in their quest to collect money from tax payers wrote to Mr Smith at the following address:-

F Smith (Deceased), Croydon Crematorium,
Mitcham Road, Croydon, Surrey CR9 3AT.

BANK SECRECY

Those of you who thought that your secrets were safe with the bank can think again.

It has been disclosed that the Bank of Ireland in Jersey has provided the Inland Revenue with details of UK resident investors who have offshore trusts.

Initial reports said that 9,000 names were involved but it is now believed that less than 500 names were passed over. There is little doubt that all of these individuals will be investigated by the Inland Revenue.

Offshore tax planning is becoming more and more difficult. The chances are that many of the people who will be investigated will regret that they ever set up any offshore arrangements.

RECLAIMING VAT

Francis Brown has suggested a helpful tip for contractors. If you cease trading and incur accounting fees after you have cancelled your VAT registration then apply for a form VAT 427 and you will be able to reclaim the VAT on these fees.

Thank you Francis and if anybody else has any useful practical tips like this then please email them to evanj@wheawill.co.uk.

STEER CLEAR OF PRIVATE FUEL

As you all know by now, anybody with a gas guzzler ie. high CO2 emissions will be paying a lot of money, not only for the 'benefit' of having the company supply them with a car but also if the company pays for private fuel.

In fact, the fuel charge in many cases has increased horrendously. To demonstrate this the respective charges for the year ended 5 April 2003 and for the year ended 5 April 2004 are as follows:-

Year Ended 5 April 2003

Engine Capacity	Pay Tax On	
	Petrol	Diesel
Up to 1400cc	£2,240	£2,850
1401cc to 2000cc	£2,850	£2,850
Over 2000cc	£4,200	£4,200

Year Ended 5 April 2004

For this year you will pay tax on the CO2 emissions. At the lowest end of the scale (155 CO2 emissions in grams per kilometre) you will pay tax on £2,160 for a petrol driven car. This increases to a staggering £5,040 which is the maximum charge based on emissions of 255 CO2 for a petrol driven car.

If this were not bad enough, most of these charges will be increased by £432 if the car runs solely on diesel! There are also some special rules for cars where the manufacturer has not provided an emissions figure and which were registered before 1 January 1998.

What can you do about this? Well, to avoid the fuel charge completely you must make sure that the employer does not provide you with any private fuel during the year. The smallest amount of private fuel will trigger off a benefit for the entire year. This is completely unfair but those are the rules.

Probably the best way of steering clear of this charge (something that seems to have sneaked up on the poor unsuspecting tax payer over the last few years) is for you to purchase all the fuel required for the company car. You then keep a log of your business mileage so that the expenses claim that you submit is only in respect of business use.

But, you must make sure that no element of private fuel is provided by the employer during the tax year.

For the following year, ie. the tax year commencing 5 April 2004, most of the scale figures set out above will increase by 10% over the previous year as the CO2 emission bands are changed which has the effect of sucking those cars which will be on a lower scale in 2003/2004 into a higher one during the next year.

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