The Taxation Bombshell: January 2012

BY ROY HOGG

We have just got to the end of another tax return season with the 31st January deadline a little over a month ago.

The end of January can be a time of nasty surprises as far as tax liabilities are concerned, particularly for those whose taxable incomes are rising and who have been late in providing their financial information to their accountants.

The way the tax system operates is for payments to account to be made in January and July of each calendar year towards the final tax liability for that fiscal year, i.e. payments made in January and July 2010 are towards the final liability for fiscal year 2009/10.

The payments to account are based on a taxpayer's previous year's liability. Thus if tax liabilities are similar from one year to the next, there are no significant balancing payments which fall for payment in the following January. However, if profits are rising, then the catch-up payments can be significant.

As far as future tax liabilities are concerned, with the country in the midst of a recession and a Government which has significantly over-borrowed, the one thing we can be sure of is increased taxes in future years. The Chancellor has already announced changes (to Personal Allowances and a new rate of tax at 50%), which come into effect from 6 April 2010. These will have a significant tax knock-on effect for 2010/11. In terms of tax payments, this means a knock-on effect in January 2012.

The table below indicates how three levels of taxable income will be assessed in the fiscal year just past, the current fiscal year and the next fiscal year. The final two columns indicate the additional tax liabilities and payments which simply arise out of the tax changes announced by the Chancellor.

The tax impact, therefore, is going to be significant, particularly if combined with increased profits in 2010/11.

The obvious question perhaps is "Can anything be done to soften the blow and reduce the tax burden?" The simple answer to this is "yes", and higher rate tax-payers should be speaking to their accountants with a view to discussing the options available.

In particular, any higher rate tax-payers operating within a partnership structure ought to fully consider incorporation (i.e. transferring the trade into a limited company). There are other options regarding the format of the entity (such as LLP or a corporate partner), but this needs detailed advice from a specialist accountant as to what is most appropriate for your personal circumstances.

The January 2012 bombshell is two years away but the basis of calculation of that liability starts on 6 April 2010. So, the time for action is now.

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March 2010

Taxable income	2008/09	2009/10	2010/11	Additional tax liability arising	Increased payment in January 2012
100,000	30,626	29,930	29,930	Nil	Nil
150,000	50,626	49,930	52,520	2,590	3,885
200,000	70,626	69,930	77,520	7,590	11,385

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Architects can provide a service that extends well beyond producing a set of drawings. Adept at identifying the needs and aspirations of their clients, architects bring their special skills, knowledge and experience to a project.

They can guide you through the complex procedures of planning permission and building regulations and monitor the builder's programme of works through to completion. Members of the Royal Incorporation of Architects in Scotland are obliged to carry professional indemnity insurance. Anyone can alter a building - it takes an architect to do it with flair, imagination and style.

Undertaking a building project, whatever the scale, can be a daunting experience, but the same basic criteria apply, be it a simple house extension or a large office development.

When you use a chartered architect you are employing someone who has undertaken seven years' architectural training, the longest in the building industry, according to an extract from a Royal Incorporation of Architects in Scotland publication.

After working for several years for a practice in Alloa, Claire Gibbons recently set up T Square-Architects. She has a reasonable knowledge of this area, having been brought up in Bridge of Allan and educated locally. She is now living, working and bringing up her own family here.

Claire provides a range of services from obtaining planning permission for new replacement windows to designing and completing small extensions, large conversions or individual houses.