

BUDGET 2024:

What does it really mean for owner-managed businesses?



**CHARTERED
ACCOUNTANTS**



Bank of England

fsb⁸

Your speakers today



Josh Curties
Senior Partner and
Head of Compliance
and Taxation at A4G



Joseph Cutting
Principal Adviser
at A4G



Patrick Campbell
Deputy Agent
at Bank of England



Tim Aker
Development Manager
at Federation of Small
Business

WHO ARE A4G?

**We're all about the advice,
not just the numbers**

We like to think we're a little bit different to your traditional accountants. We are Advisers before Chartered Accountants.



Why A4G?

- Based in Kent – working nationally
- Dedicated to owner-managed businesses
- Focus on your needs and wants
- Providing advice, support and planning
- Pro-active two-person approach
- We speak your language
- Xero platinum partners

What you will learn today

- What the Spring Budget means for you and your business
- Understanding the relationship between pricing and profits
- What the Bank of England see coming our way in 2024

Hands up

Who thinks they are better off
from this month's budget?



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What difference does
the budget make to me?



BBC analysis

Quietly radical

While the Budget lacked pre-election fireworks, there was a quietly radical thread that could have long-term consequences.




By 2027, because of cuts to National Insurance (NI) and the decision to freeze income tax thresholds, for every £1 NI cut, £1.90 will be raised in taxes.

This "fiscal drag" will mean over three million more higher-rate taxpayers, and nearly four million more low earners paying tax. On current trends, a recipient of the full basic state pension alone is also on course to have to pay tax, and perhaps fill out a tax return in 2026/27.

The government is shifting the tax burden away from workers towards all forms of income including savings and pensions.



Headlines for business owners

- Class 1 NI – reduced to **8%** 
- Class 4 NI – reduced to **6%** 
- Top rate of CGT for Residential Property cut from 28% to **24%** 
- VAT threshold = **£90,000**; deregistration limit will be £88,000
- Child Benefit “high income” threshold increased to **£60,000**

Headlines for business owners

- Employment 😊
- Self-Employment 😊
- Property Investors 😐
- Pensioners 😡
- Limited Company Businesses 🌟😡

Tax for Limited Companies

Corporation Tax:

19%:	£50,000
26.5%:	£50,001 to £249,999
25%:	£250,000+

Dividends Tax:

0%:	up to £13,070
8.75%:	£13,071 to £50,270
33.75%:	£50,270 to £100,000
50.63%:	£100,001 to 125,140
39.35%:	125,141+

The worst possible company owner tax rate:

63.71%

Effective rate of tax Example:

Earnings		£ 100.00
Corporation Tax	26.50%	£ 26.50
After Tax Profit		£ 73.50
Paid Dividend:		£ 73.50
Dividends Tax (HR)	50.63%	£ 37.21
Net Earnings		£ 36.29

Effective rate of tax

63.71%



What's better?

A Limited Company or
a Partnership?

The worst possible self employed tax rate:

62%

Ltd vs Partnership / Sole trade

At start of 2023-24

Business making £84,025 profit

Tax saving is nothing

In 2024-25

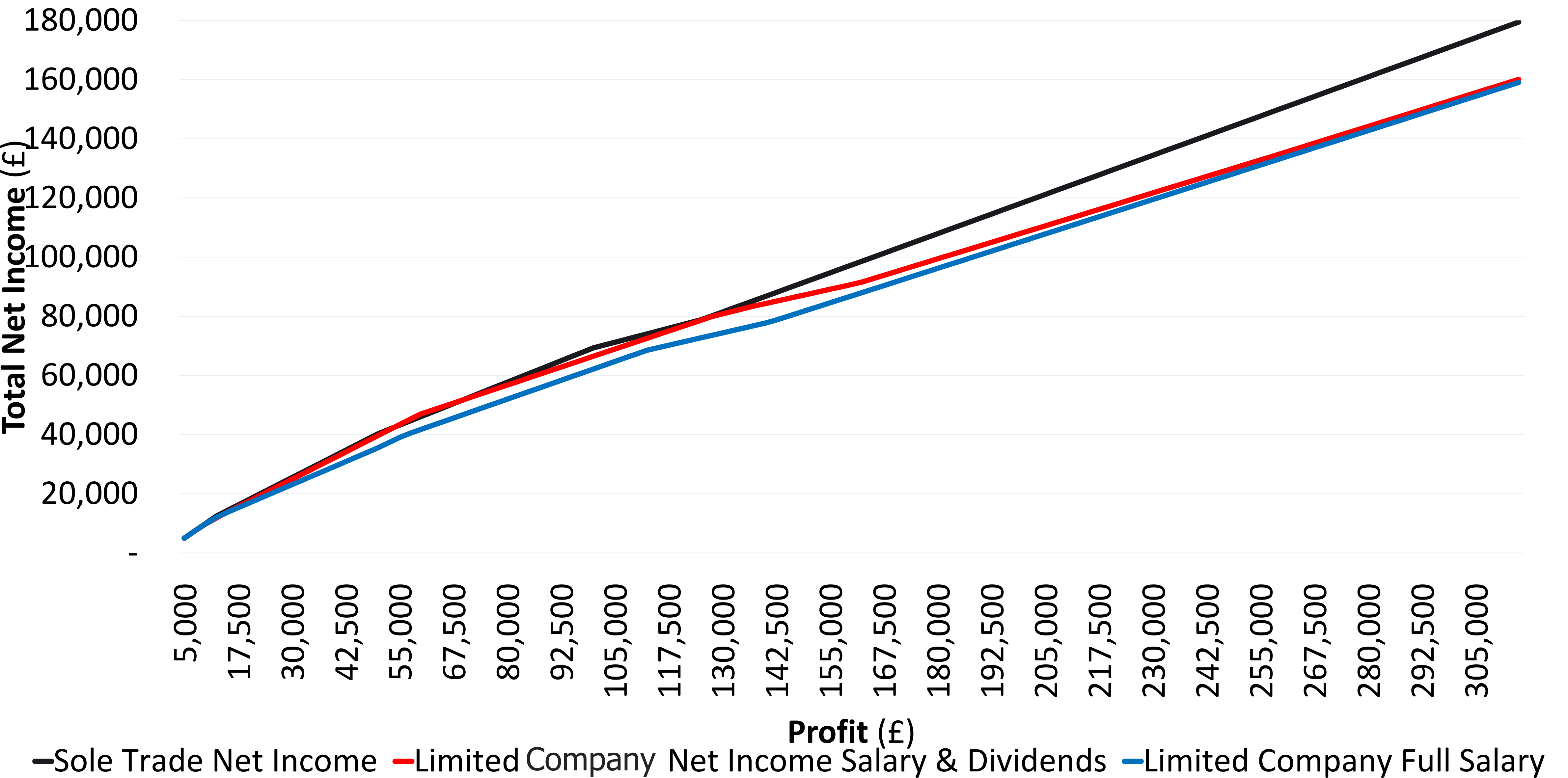
Business making £84,025 profit

**Partnership/sole trade
saves £1,338**

Point at which Limited Company saves tax:

£0

Tax structures in a graph – net income



Tax Structures

Should I take all my income as a salary?

No, it does save tax – but results in lower net income

Should I convert to a Sole Trade / Partnership?

Probably not

Should I convert to an LLP?

Possibly...



Tax Structures - LLPs

Positive	Negative
<p data-bbox="459 771 1402 855">Legally like a Limited Co.</p> <p data-bbox="293 958 1569 1043">Uses self-employment tax regime</p> <p data-bbox="253 1178 1609 1371">No benefit in kind on company cars (for owners)</p> <p data-bbox="493 1502 1369 1587">PR is like a Limited Co.</p>	<p data-bbox="1825 771 3085 855">Still publish @ Companies House</p> <p data-bbox="1902 958 2992 1043">Administrative costs like Ltd.</p> <p data-bbox="1752 1178 3158 1371">Retained earnings still taxed on your personal tax rates</p> <p data-bbox="1869 1502 3035 1587">Could be expensive to transfer</p>

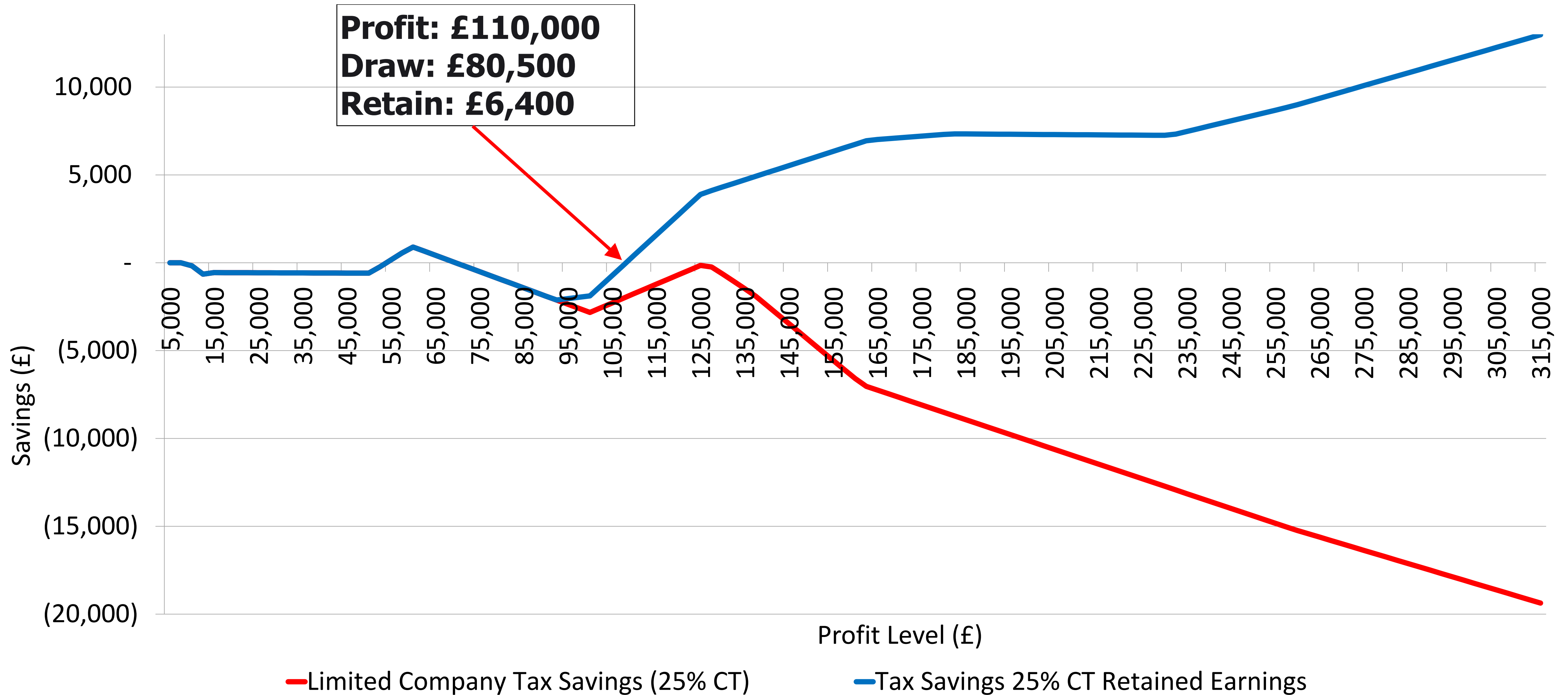
Conversion to LLP

- New business – **Easy**
- Existing business – Balance Sheet low value – **Usually OK**
- Existing business – Significant Capital Value – **More complex**



Retained Earnings

Basis: All profits > £65,000 50% retained, 50% paid out



Advice

What are your goals

Make sure
your structure
fits those goals

Don't let saving tax
be a substitute for
driving better
profits





**Federation of
Small Businesses**

Tim Aker

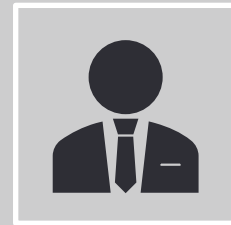
Development Manager
at Federation of Small
Business

Break-even

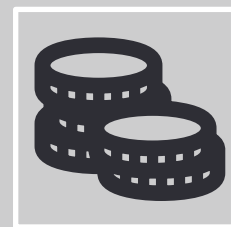
Step 1: Your desired income



What are your monthly personal or lifestyle costs?



How much of this has to come from your business?



How much tax do you pay on this income?



Step 1: Your desired income

Net Take-Home
£65,000



Dividends
£80,000



Step 1: Your desired income

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	?	GP%: ? %
Overheads	?	
Profit before Tax	?	
Tax (est. 25%)	?	
Net Profit	?	
Dividends	80,000	

Step 1: Your desired income

- Drawings set your minimum profit after tax

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	?	GP%: ? %
Overheads	?	
Profit before Tax	?	
Tax (est. 25%)	?	
Net Profit	80,000	
Dividends	80,000	

Impact of tax

- We can use that to calculate:
 - Tax that would be paid
 - Minimum profit before tax

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	?	GP%: ? %
Overheads	?	
Profit before Tax	?	
Tax (est. 25%)	?	
Net Profit	80,000	
Dividends	80,000	



Impact of tax

- We can use that to calculate:
 - Tax that would be paid
 - Minimum profit before tax

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	?	GP%: ? %
Overheads	?	
Profit before Tax	106,667	
Tax (est. 25%)	26,667	
Net Profit	80,000	
Dividends	80,000	



Step 2: Your overheads

- What are your regular expected expenditure on:
 - Office costs
 - Admin Staff
 - Costs of finance
- Total cost of your current capacity

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	?	GP%: ? %
Overheads	?	
Profit before Tax	106,667	
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Step 2: Your overheads

- What are your regular expected expenditure on:
 - Office costs
 - Admin Staff
 - Costs of finance
- Total cost of your current capacity

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	?	GP%: ? %
Overheads	30,000	
Profit before Tax	106,667	
Tax (est. 25%)	26,667	
Net Profit	80,000	
Dividends	80,000	

Step 3: Gross profit

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	136,667	GP%: ? %
Overheads	30,000	
Profit before Tax	<u>106,667</u>	
Tax (est. 25%)	26,667	
Net Profit	<u>80,000</u>	
Dividends	80,000	



Step 3:

Gross profit

- Gross profit = amount of profit from sales after deducing directly attributable costs
- "Cost of sales" = costs that vary depending on amount of sales made
- Gross profit percentage = For every £1 of sales, how many pence of profit is made to contribute to over heads
- You can also think of this as your margin

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	<hr/> 136,667	GP%: ? %
Overheads	30,000	
Profit before Tax	<hr/> 106,667	
Tax (est. 25%)	26,667	
Net Profit	<hr/> 80,000	
Dividends	80,000	



Step 3:

Gross profit

- Gross profit = amount of profit from sales after deducing directly attributable costs
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	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	<hr/> 136,667	GP%: 35%
Overheads	30,000	
Profit before Tax	<hr/> 106,667	
Tax (est. 25%)	26,667	
Net Profit	<hr/> 80,000	
Dividends	80,000	



Step 3: Gross profit

- How much margin are you expecting on each contract?
- Do you have a range of contracts at different margins?

	<u>£ per year</u>	
Turnover	?	
Cost of Sale	?	
Gross Profit	<u>136,667</u>	GP%: 35%
Overheads	30,000	
Profit before Tax	<u>106,667</u>	
Tax (est. 25%)	26,667	
Net Profit	<u>80,000</u>	
Dividends	80,000	



Result = Minimum turnover

- Breakeven turnover
- Average Monthly Turnover: **£32,540**
- Average Daily Turnover: **£1,496**

Results:

Safety net – if you expect turnover to be higher

Short fall if you expect your turnover to not meet this level

	<u>£ per year</u>	
Turnover	390,477	
Cost of Sale	253,810	
Gross Profit	136,667	GP%: 35%
Overheads	30,000	
Profit before Tax	106,667	
Tax (est. 25%)	26,667	
Net Profit	80,000	
Dividends	80,000	



How you can affect your profit

How you can affect your profit

1. Cut overheads

Cut overheads (by 5%):

	<u>£ per year</u>
Turnover	390,477
Cost of Sale	<u>253,810</u>
Gross Profit	136,667
Overheads	30,000
	<hr/>
Profit before Tax	106,667
Tax (est. 25%)	26,667
	<hr/>
Net Profit	<u>80,000</u>
Dividends	80,000

GP%: 35 %



	<u>£ per year</u>
Turnover	390,477
Cost of Sale	<u>253,810</u>
Gross Profit	136,667
Overheads	28,500
	<hr/>
Profit before Tax	108,167
Tax (est. 25%)	27,042
	<hr/>
Net Profit	<u>81,215</u>
Dividends	81,215

GP%: 35 %



How you can affect your profit

1. Cut overheads

2. Negotiate Suppliers / Improve Efficiency

Negotiate Supplier / Improve Efficiency (by 5%):


	<u>£ per year</u>				<u>£ per year</u>
Turnover	390,477			Turnover	390,477
Cost of Sale	253,810			Cost of Sale	241,120
Gross Profit	136,667	GP%: 35 %	→	Gross Profit	149,357
Overheads	30,000			Overheads	30,000
Profit before Tax	106,667			Profit before Tax	119,357
Tax (est. 25%)	26,667			Tax (est. 25%)	29,839
Net Profit	80,000			Net Profit	89,518
Dividends	80,000			Dividends	89,518

£9,518
(11.9%)

How you can affect your profit

1. Cut overheads
2. Negotiate Suppliers / Improve Efficiency
- 3. Increase turnover – New Business**

Increase turnover (Attract 5% more business):

	<u>£ per year</u>				<u>£ per year</u>
Turnover	390,477			Turnover	410,000
Cost of Sale	<u>253,810</u>			Cost of Sale	<u>266,500</u>
Gross Profit	136,667	GP%: 35 %		Gross Profit	143,500
Overheads	30,000			Overheads	30,000
Profit before Tax	<u>106,667</u>			Profit before Tax	<u>113,500</u>
Tax (est. 25%)	26,667			Tax (est. 25%)	28,375
Net Profit	<u>80,000</u>			Net Profit	<u>85,125</u>
Dividends	80,000			Dividends	85,125



£5,125
(6.4%)

How you can affect your profit

1. Cut overheads
2. Negotiate Suppliers / Improve Efficiency
3. Increase turnover – New Business
- 4. Increase turnover – Optimise Pricing**

Optimise Pricing (Increase prices by 5%):

	<u>£ per year</u>				<u>£ per year</u>	
Turnover	390,477		→	Turnover	410,000	
Cost of Sale	<u>253,810</u>			Cost of Sale	<u>253,810</u>	
Gross Profit	136,667	GP%: 35%		Gross Profit	156,190	GP%: 38%
Overheads	30,000			Overheads	30,000	
Profit before Tax	<u>106,667</u>			Profit before Tax	<u>126,190</u>	
Tax (est. 25%)	26,667			Tax (est. 25%)	31,548	
Net Profit	<u>80,000</u>			Net Profit	<u>94,642</u>	
Dividends	80,000			Dividends	94,642	

£14,642
(18%)

How you can affect your profit

1. Cut overheads

Saving 5% gets you 1.4% more profit

2. Negotiate Suppliers / Improve Efficiency

Improving by 5% gets you 11.9% more profit

3. Increase turnover - New Business

Attracting 5% gets you 6.4% more profit

4. Increase turnover - Optimise Pricing

Increasing by 5% gets you 18% more profit

Be the Brave!

Bank of England

Monetary Policy Report

Patrick Campbell
Agency for the South East & East Anglia

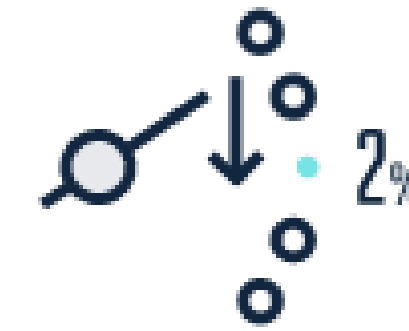




Higher interest rates are working to reduce inflation



Inflation could fall to our 2% target within a few months, before rising slightly again



We will keep interest rates high for long enough, so inflation settles at 2%

Chart 2.3: Oil and gas prices have fallen materially since the November Report
UK wholesale gas and oil prices^(a)



Chart 2.18: Consumer price inflation has fallen since last year's peak and is projected to fall further before rising again in 2024 H2
 Contributions to CPI inflation^(a)

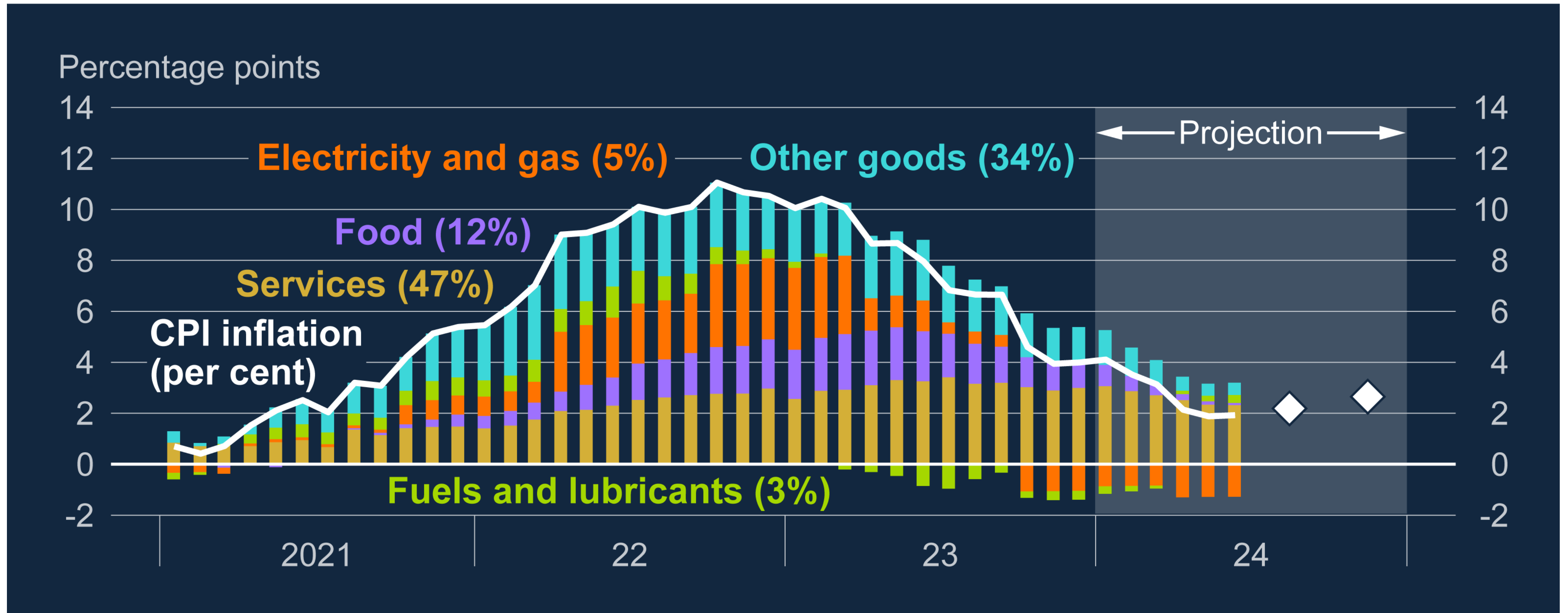


Chart 1.5: CPI inflation projection based on market interest rate expectations, other policy measures as announced

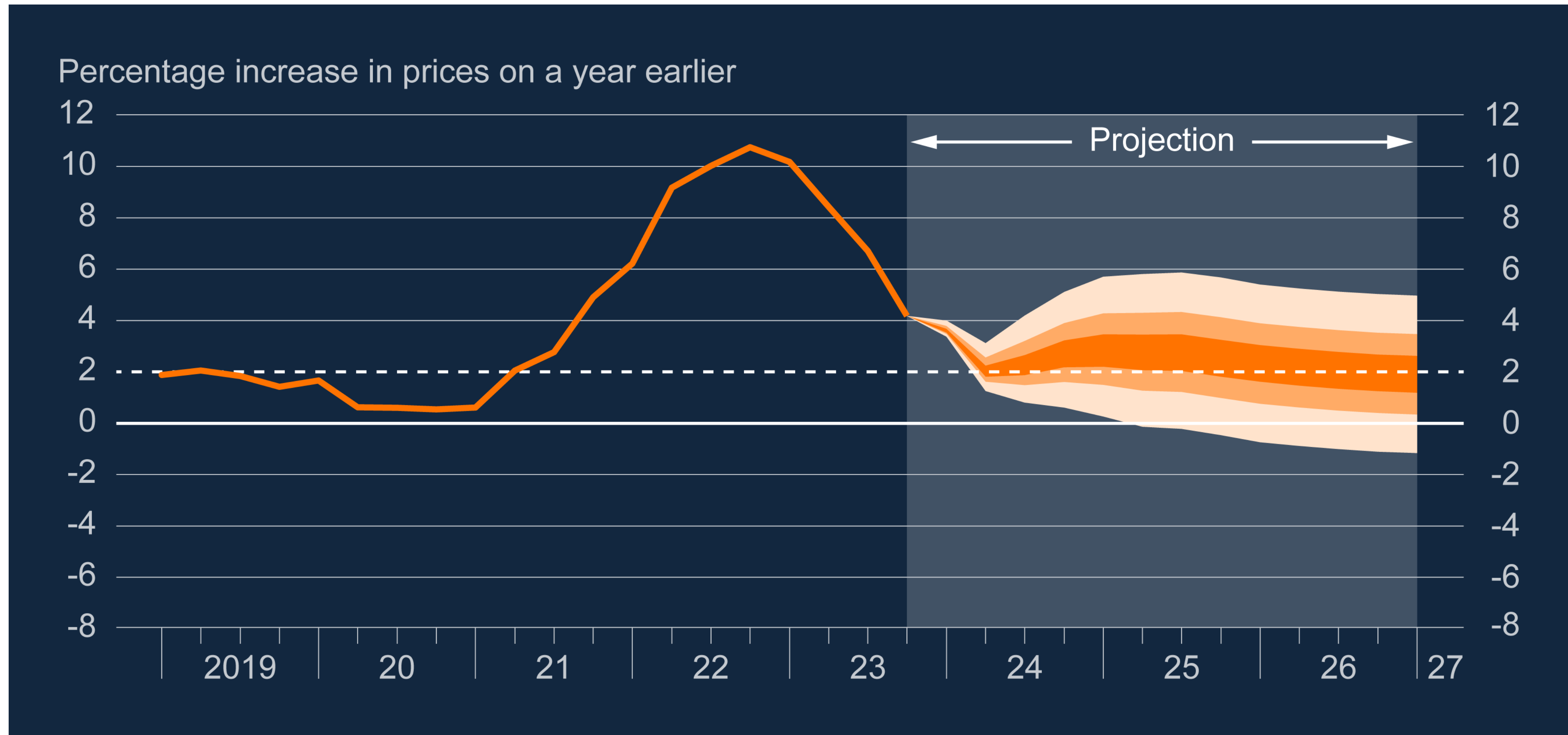


Chart 2.6: Policy rate expectations have fallen materially across advanced economies since the November Report
Policy rates and forward curves for the US, euro area and UK^(a)

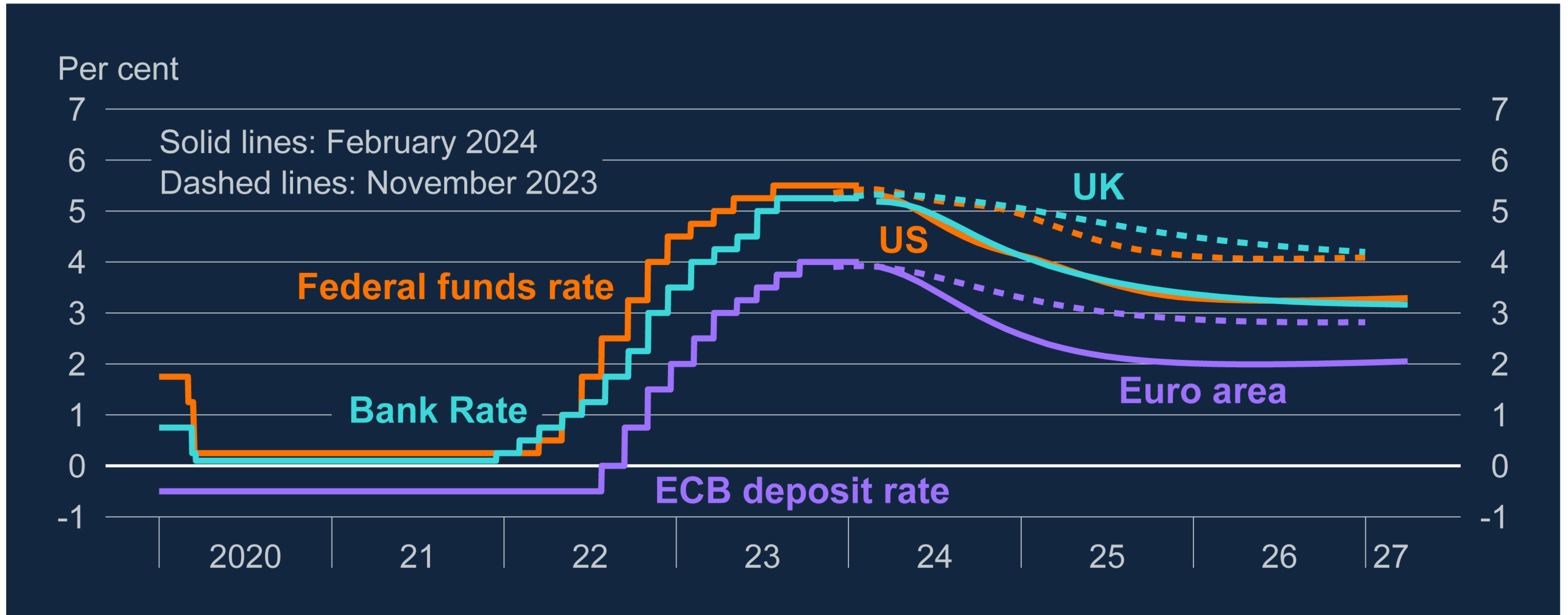


Chart 2.7: Falls in reference rates have fed through to mortgage rates
Average quoted interest rates on two-year fixed-rate mortgages, fixed-rate savings bonds, instant-access accounts, and their respective reference rates^(a)

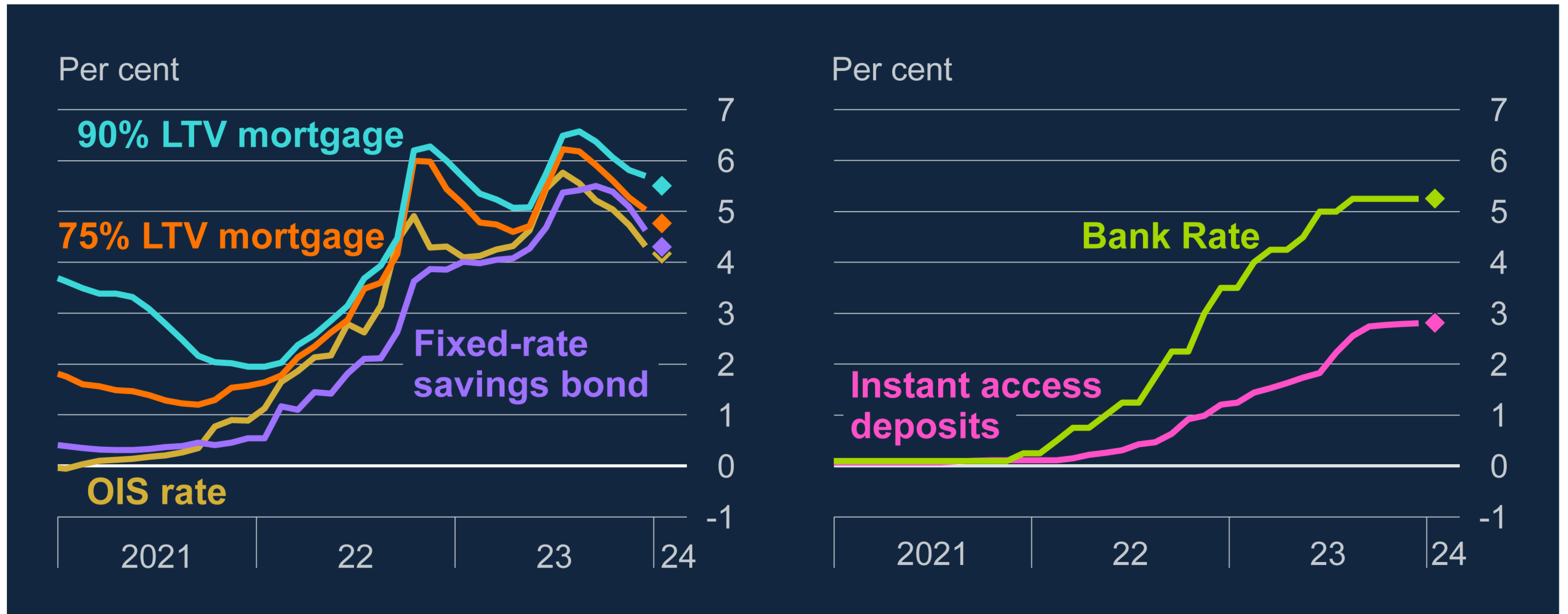


Chart 1.2: GDP growth projection based on market interest rate expectations, other policy measures as announced

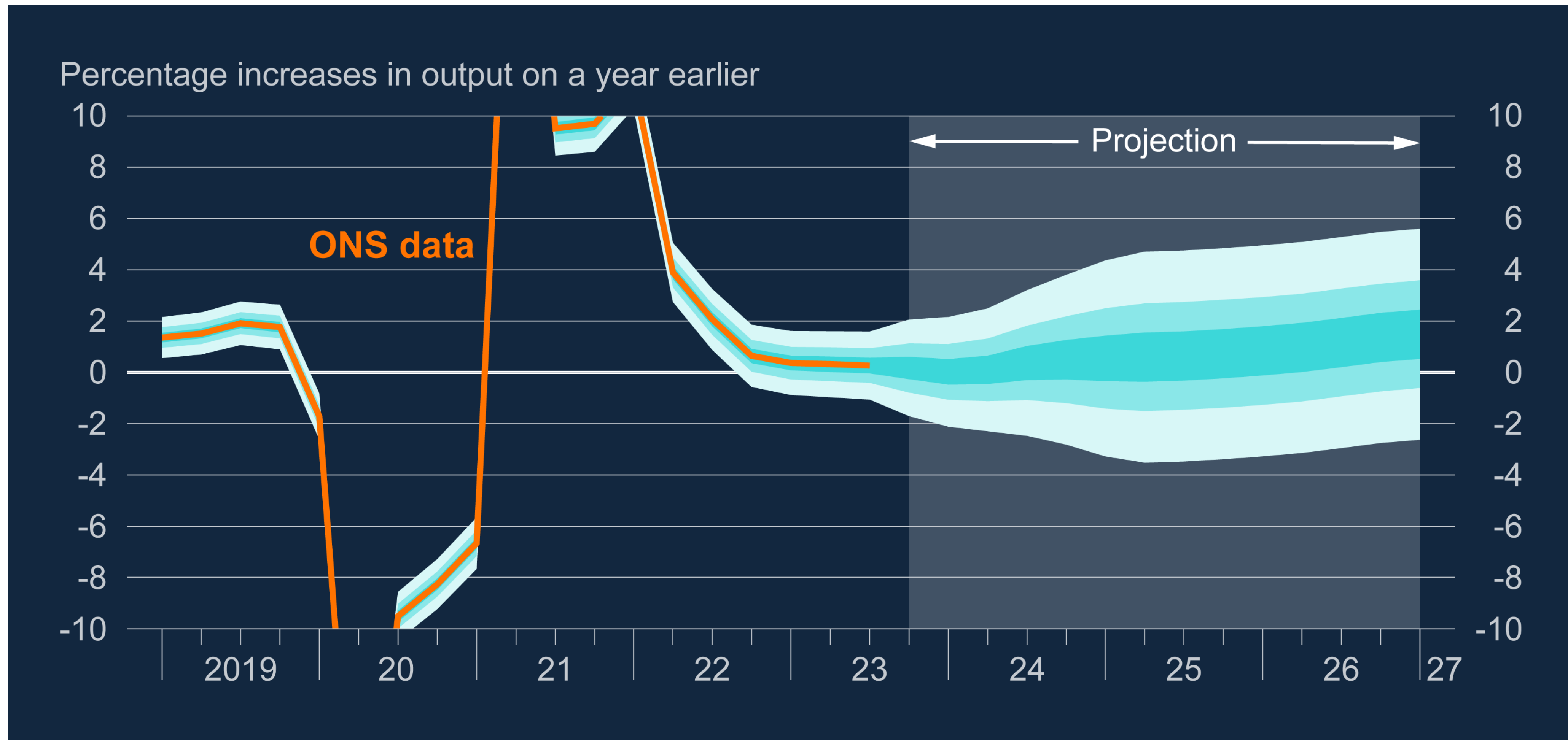


Chart 2.19: Services price inflation is still high and is expected to decline more slowly than goods inflation

Inflation rates for components of CPI^(a)

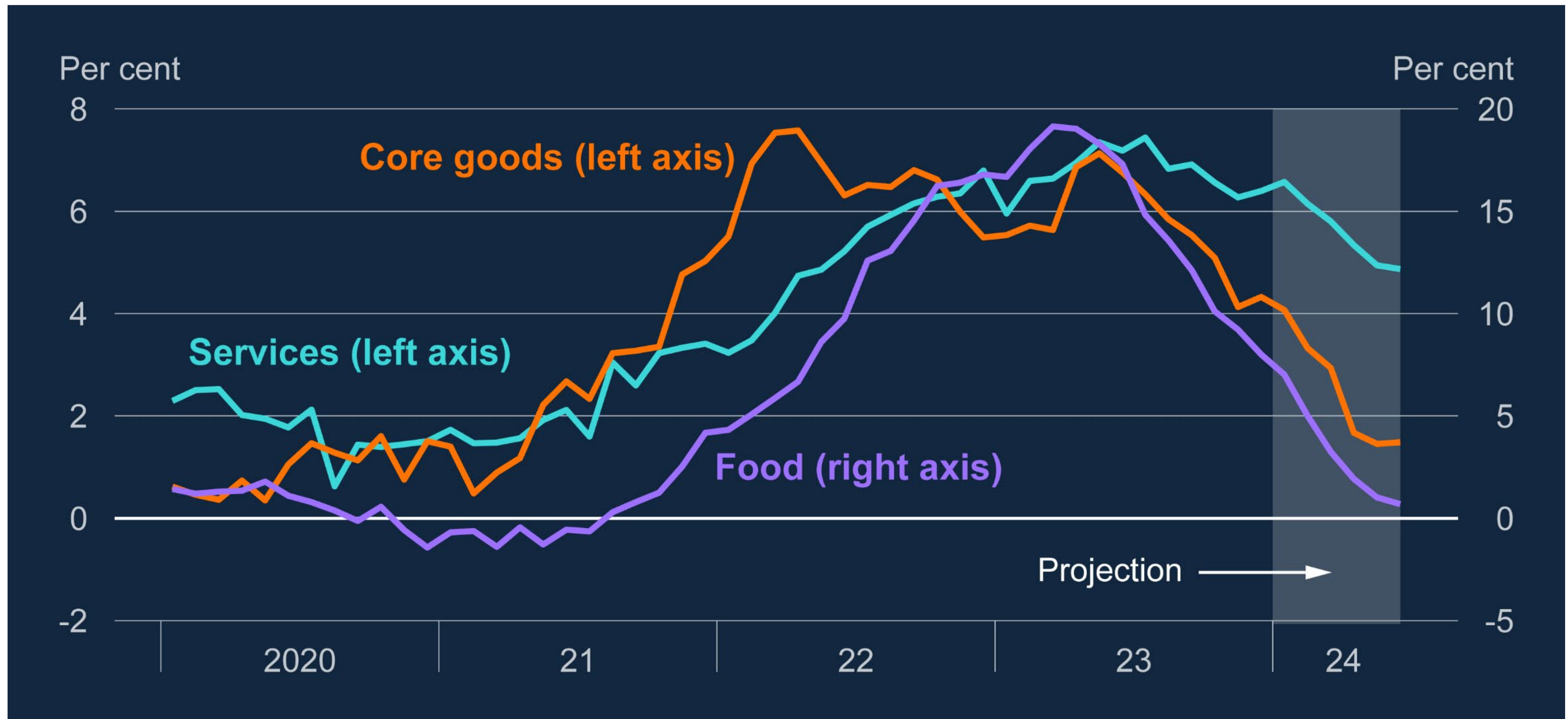


Chart 2.14: Although loosening, the labour market remains tight
Vacancies to unemployment ratio and contributions to changes in the vacancies to unemployment ratio since 2019 Q4^(a)

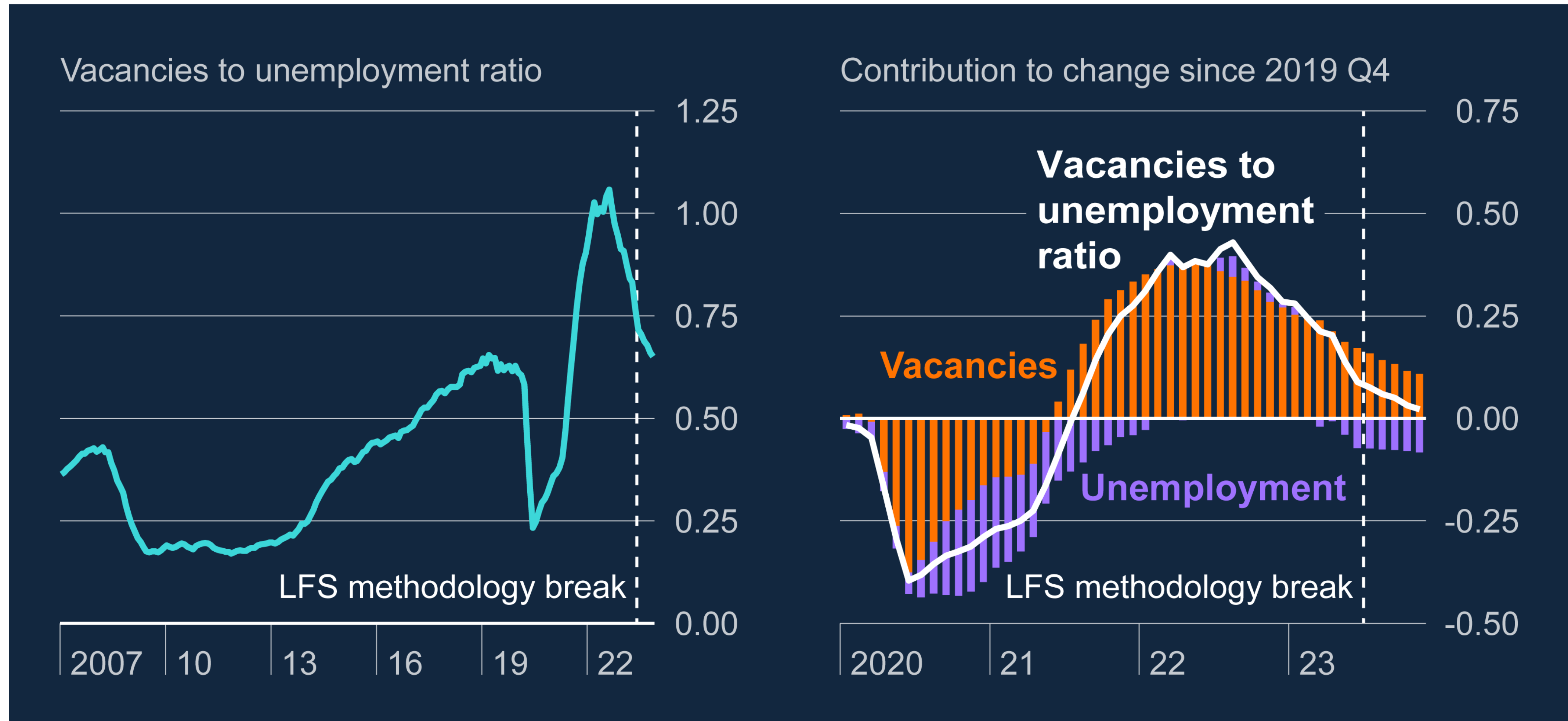
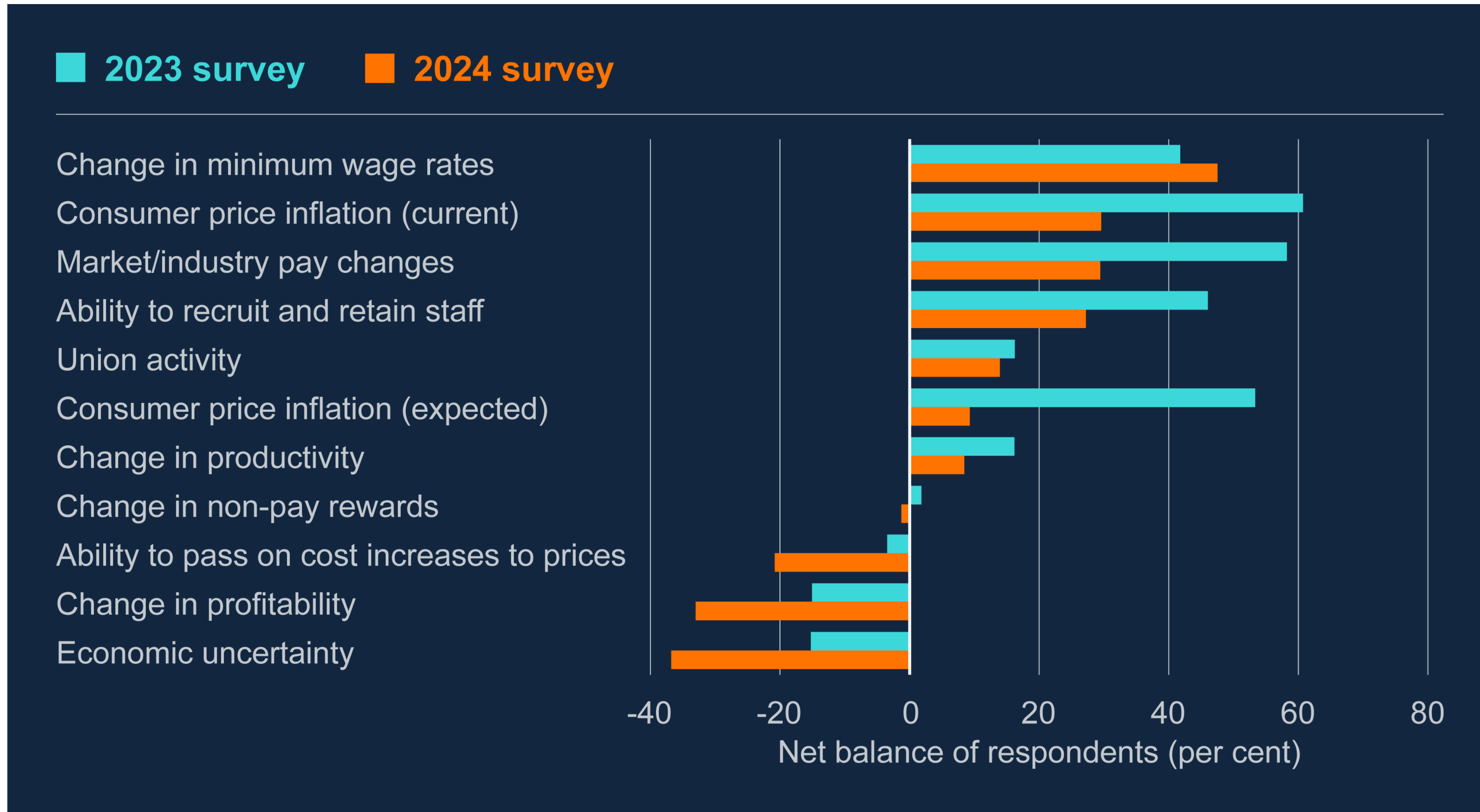


Chart A: Most factors affecting pay settlements are expected to exert less pressure in 2024

Factors affecting average pay settlements^(a)



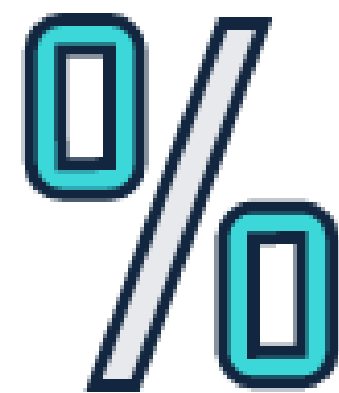
MPC Minutes: December 2023 and February 2024

‘The MPC will continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation.

...

Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures.’

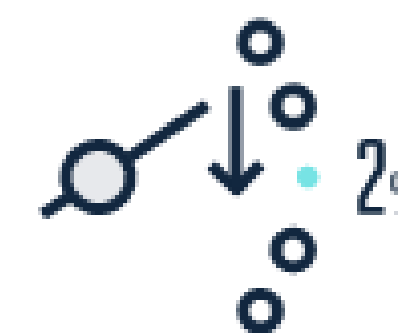
‘It will therefore continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation. On that basis, the Committee will keep under review for **how long Bank Rate should be maintained at its current level.**’



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Inflation could fall to our 2% target within a few months, before rising slightly again



We will keep interest rates high for long enough, so inflation settles at 2%



What's next?

- A4G Team, FSB and Patrick will be around to chat over coffee
- Book in with Amanda for a 1-2-1 with one of the A4G advisers, and if you want a Break Even Analysis
- Please let us know your feedback

But before we close...

Q&A

Do you have
any questions?



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