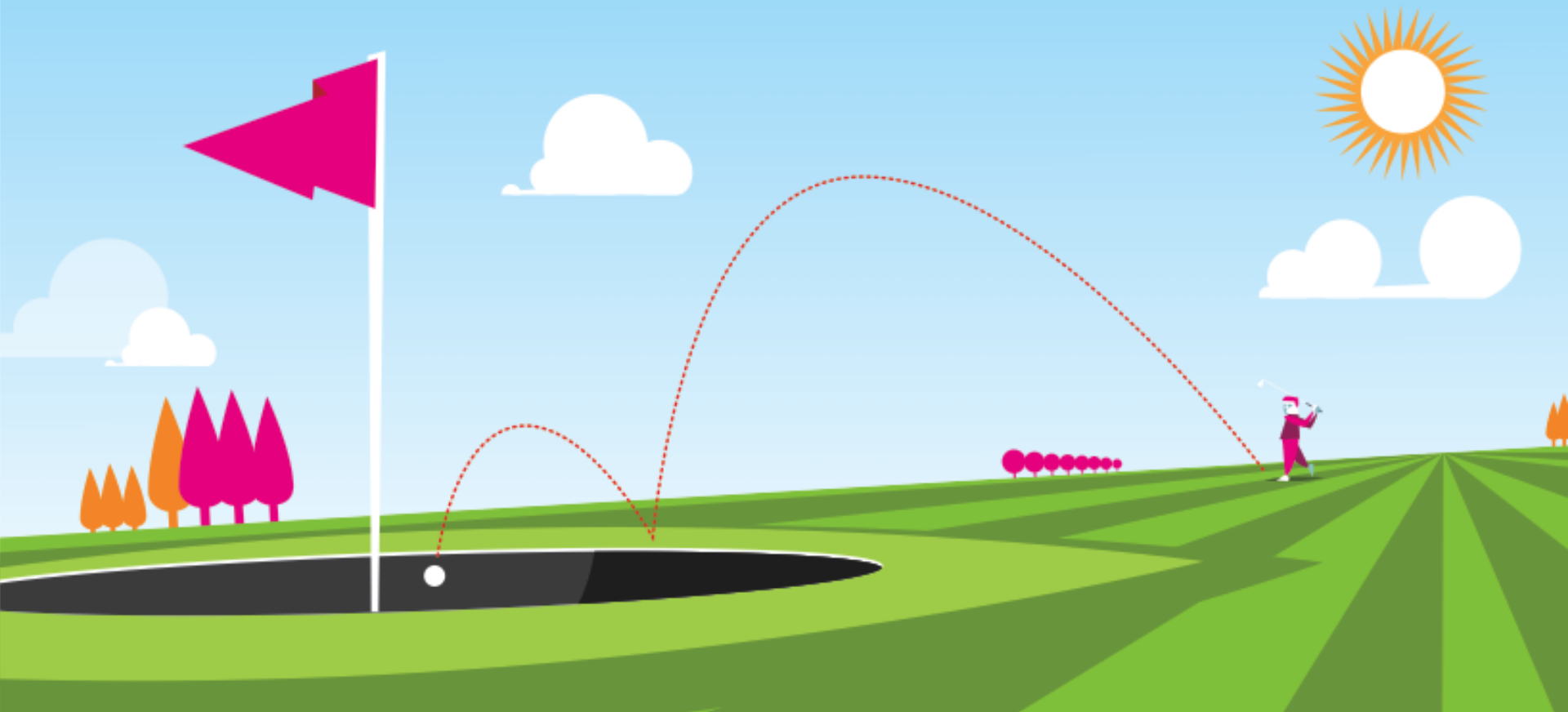


Welcome



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HURST Technical Workout

Tax Update

21 October 2010

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Your speaker, from the tax team is:

- Sarah Salton – Associate Partner

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Agenda

- Overview
 - Political arena
 - Recent Budgets
- Corporate tax
 - Capital allowances
 - Research & development
 - Loss relief
- Personal tax
 - Income tax
 - CGT
- Employee reward/incentivisation
- Any questions?

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“Every man is entitled if he can to order his affairs so as that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax.”

- Lord Tomlin, in the UK [House of Lords](#) case
- *IRC v. Duke of Westminster* (1936) 19 TC 490,[1936] AC 1

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However:



- New government needs to reduce deficit – George Osborne’s spending review 20 October 2010
- Crack down on tax evasion announced in September 2010:
 - HNW taxpayers targeted for enquiries (50% chance)
 - Investment of £900m, expected to generate £42bn extra tax
- New tax rules being introduced as well as implementation of changes announced by previous government (PBR expected late Nov)

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Corporate Tax

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Corporation tax rates



- Full rate:

Currently	28%
April 2011	27%
April 2014	24%
- Small companies:

Currently	21%
April 2011	20%

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Capital allowances



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Plant and machinery

- FYAs no longer available (from April 2010)
- Annual investment allowance: £50k @ 100% (use it or lose it) – Labour’s planned increase to £100k has not been enacted
- Writing down allowances: 20% or 10% depending on asset type
- Assets used for R&D: 100% allowance
 - Includes buildings
- Repairs: 100% deduction provided genuine revenue cost
- Changes announced for April 2012
 - WDA → 18% or 8%
 - AIA → £25k



Capital allowances



Industrial buildings

- 2010/11: Last year where allowances available
1% of purchase price

Opportunities

- Full review of large Capex in particular of property acquisition/refurbishment to maximise claim

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Research and development



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- Generous tax relief available
 - Reduction in tax liability
 - Cash repayment if loss making
- SME's: 175% of qualifying costs
- Large company: 130% of qualifying costs
- Don't assume your business won't qualify,
 - e.g. printing company using digital technology - £50k reduction in tax liability
 - e.g. engineering company - £120k tax refund



Use of losses

- Extension of loss carry back rules (extended to cover periods ending up to 24 Nov 2010) – maximum £50k can be carried back three years
- Terminal loss relief
 - Available when company ceases trading
 - Carry back three years (no £50k cap)
 - Pragmatic approach by HMRC to claims
- Acquisitions
 - Relief for past losses could be lost unless careful planning undertaken
- Overseas subsidiaries
 - Overseas losses can be relieved against UK group profits provided all possible means of relief have been exhausted in overseas country

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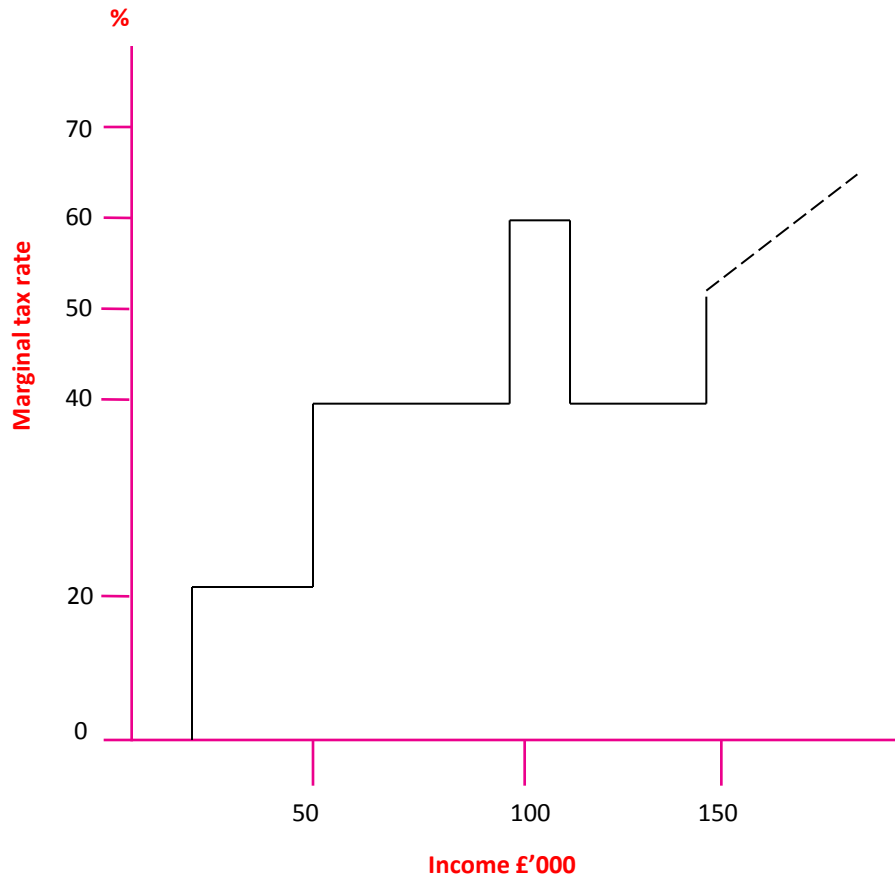
Personal Tax

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The new environment

Tax rates on income



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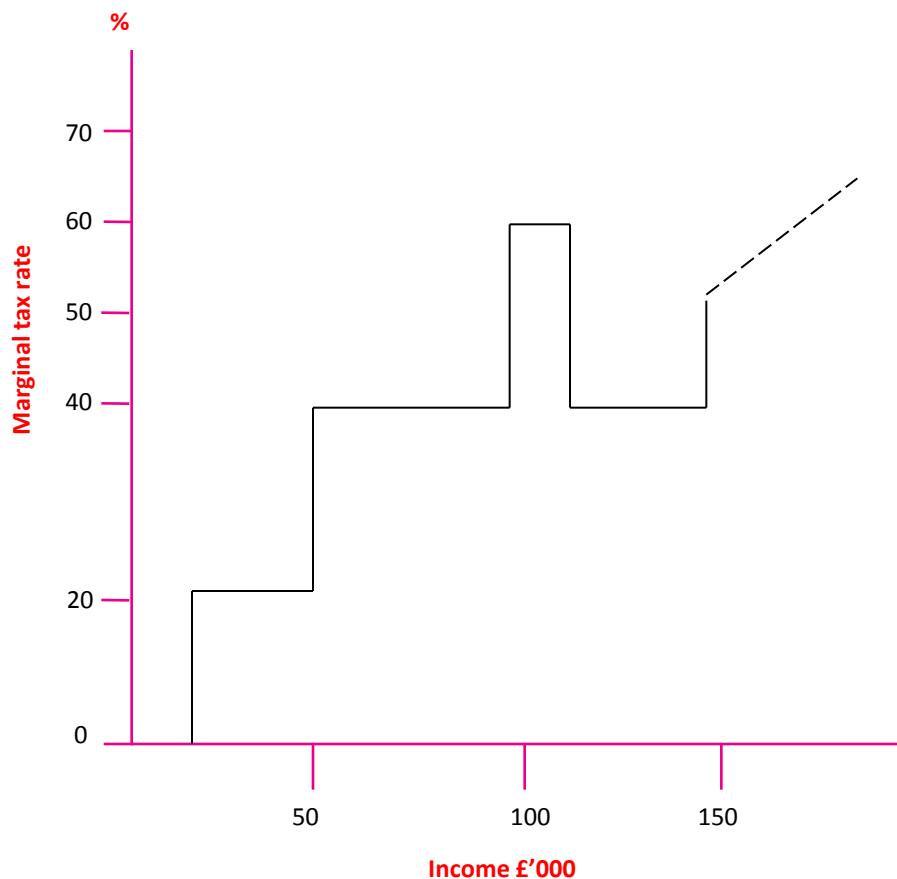
From April 2010

- A new 50% income tax rate was introduced for income (other than dividends) over £150k
- Personal allowance is now subject to a single income limit of £100,000 i.e. amount reduced by £1 for every £2 above this
- A 42.5% tax rate for dividends was introduced for income over £150k
- There was an increase in the trust rate to 50%, regardless of income levels
- Pensions 'anti-forestalling' rules (but replaced by reduced annual allowance?)



Key changes

Tax rates on income



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From April 2011

Pensions

- Recent announcement by Financial Secretary to the Treasury:
 - annual allowance to be reduced from £255,000 to £50,000
 - lifetime allowance reduced from £1.8m to £1.5m from 6 April 2012

National insurance

- Increases by 1%

Solutions

Income tax

- How to extract income
 - Dividends v Bonus v Pension
- 'Alphabet' shares
 - Can still be useful provided structured right
- Transfer income shares between spouses/family
 - Utilise basic rate bands
 - HMRC have failed to attack but may target in future
- Pension contributions – are they still an option?

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Other



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- **‘Tax Saving’ schemes**
 - Loss schemes
 - Employee benefit trusts
 - EFRBS (note recent announcement)
 - Deferred annuity planning
 - Risk v reward
- **Taking it Further**
 - Alternative tax jurisdictions
 - Sheltering profits
 - Residence
 - Minimisation of double tax

Solutions

Capital gains tax planning

Simple effective ideas

- Using your and your spouse's annual exemption
 - £10,100
- Using capital losses
- Negligible value claims
- Main residence claims

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Solutions

Capital gains tax planning

More sophisticated ideas

- Ring fencing assets/trade (opportunities afforded by current low asset values)
 - Reorganisation of group to safeguard valuable assets (e.g. property, plant & machinery)
 - ‘Tax free’ provided conditions are met
 - Transfer assets out of company into personal ownership may trigger taxable loss for company or acceptable level of CT liability
- Capital versus Income (28% vs 50%)
- Entrepreneurs Relief
 - 10% on first £5 million of gain
 - 28% on balance (higher rate taxpayers)

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Employee reward/incentivisation

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Non cash remuneration



Flexible benefits

- Rewarding employees in an alternative form to salary/ bonus
- Preferably in a way which saves income tax and/or national insurance (salary sacrifice schemes)
- Employer NIC savings can be passed to employee
- Can also promote the idea of a work-life balance
 - Additional holidays
 - Pension contributions
 - Childcare vouchers (NB. New participants post April 2011 only receive basic rate relief)
 - Cycle to work scheme
 - Mobile phones
 - Health cover/medical cover
 - Gym membership

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Share and share option schemes



- Take advantage of reduced values of private company shares to implement share or share option schemes
- CT relief available for employer

Enterprise Management incentives

- Option to purchase shares at some future point
- Value fixed at date of grant
 - No income tax on increase in value
 - Discount for minority interests
- No immediate entitlement to vote, receive dividends etc
- Performance related (optional)
- Watch entitlement to Entrepreneur's Relief

Other

- Nil paid shares
- Shares warehoused in EBT

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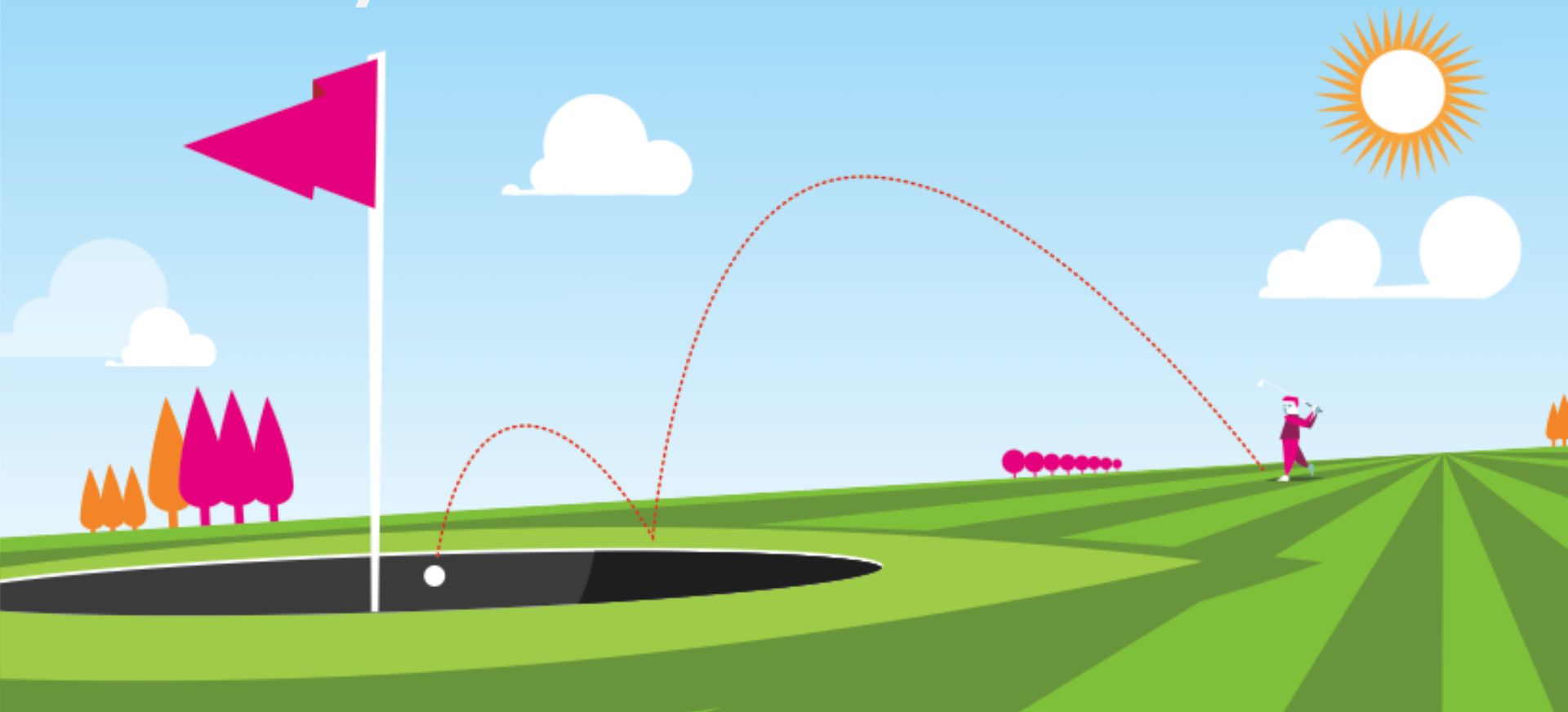
Any questions



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Thank you



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