

## Bespoke tax mitigation planning

Up until quite recently, bespoke tax mitigation planning was only available to certain individuals or Companies, generally due to costs and entry criteria.

As H M Revenue and Customs continue to challenge tax avoidance measures, new strategies are constantly being developed and over the past few years, we have been working very closely within our own tax advisory group. Together, we believe that the members of the advisory group can offer the best and most effective strategies for individuals and Companies.

Current strategies include:-

**Income Tax** – a mitigation strategy to reduce taxable income for the current and previous tax year. Income tax can be eliminated;

**Corporation Tax** – a strategy to obtain a full corporation tax deduction whilst also providing for income tax and NI savings for the participating directors or employees;

**Capital Gains Tax** – a strategy to eliminate substantial chargeable gains which would otherwise incur a tax charge of 40%;

**Inheritance Tax** – an elimination of a 40% death duty on sizeable estates, whilst retaining control of your assets;

**Stamp Duty Land Tax** - the reduction or elimination of stamp duty for large private and commercial property acquisitions;

These strategies are for private and corporate clients who have current or recent income, gains or profits which are significant, or where there is an expectation of large income, gains or profits in the future.

Whilst the strategies will create substantial tax savings, there will be relatively high, but proportionate costs relative to the successful tax savings. Furthermore, clients undertaking such planning will generally accept that such planning may sometimes be reviewed by HMRC, although all scheme providers in our advisory group will attend to any such enquiries.

If you would like to receive further information about any of the strategies and what they could do for you, please contact Charles Randall ([charles@taylor-bradshaw.co.uk](mailto:charles@taylor-bradshaw.co.uk))

# How did the Budget stack up?

**This year's Budget, though aimed primarily at boosting the economy and plugging the government's financial gap, contained some useful measures for business.**

The temporary extended tax relief for trading losses is now more generous than initially announced in last November's Pre-Budget Report. It is available for losses of two accounting periods, rather than just one as originally planned. Companies can carry back up to £50,000 of losses a year against the profits of the two years before the immediately preceding year. Companies can already carry back unlimited trading losses against profits of the preceding year.

Companies with losses in accounting periods ending between 24 November 2008 and 23 November 2010 can benefit. Sole traders and partnerships can also claim additional relief for losses in accounting periods ending in the tax years 2008/09 and 2009/10, although the rules are more complicated.

## **New allowances and tax rates**

Companies investing more than £50,000 in equipment will benefit from a temporary first-year allowance (FYA) of 40%. This covers expenditure over £50,000, which would otherwise have only received a 20% allowance. Some equipment is excluded, cars in particular. For more information on FYAs, see the article 'Temporary first-year allowances save tax' on page 5.

The small companies' corporation tax rate of 21% continues this year and the main rate will stay at 28% from April 2010. Incorporation may become more attractive to individuals and partnerships who will be hit by higher taxes on income from next year. From 6 April 2010, there will be a new 50% tax rate on income over £150,000, with 42.5% on dividends. From 6 April 2011, national insurance contribution rates will rise by 0.5%.

## **Personal allowance reduction**

Also from 2010/11, the personal allowance will gradually be reduced to nil for individuals with 'adjusted net income' over £100,000 – broadly taxable income less some deductions. Income in the reduction band will, in effect, be taxed at 60%. In your year-end tax planning up to 5 April 2010, you should look at steps to avoid falling into this band.

The introduction of measures to crack down on income splitting between spouses has been postponed, so running a business as a company in which both partners take dividends remains beneficial. There are some limitations and you should take advice.

## **Capital gains tax**

Capital gains tax (CGT) stays at 18%. One way of avoiding paying more than 40% income tax after 5 April 2010 may be to leave profits in your company, where they are subject only to corporation tax. Eventually you could sell or liquidate the company, paying only 18% CGT, or even 10% if your gain qualifies for entrepreneurs' relief.

One surprise Budget announcement is the abolition, from April 2010, of the tax reliefs for property that qualifies under the furnished holiday lettings rules. If you own such property, you might want to consider disposing of it before 6 April 2010, so that you can claim CGT entrepreneurs' relief, rollover relief or holdover relief.

As always, we are happy to advise further on how you can plan for the changes announced in the Budget.



# Making the most of tax credits

For tax credit purposes, it is likely that there is not as much time to advise HM Revenue & Customs (HMRC) about the changes to your financial circumstances as you think. You have only one month to advise of in-year changes, so what can you do to maximise your tax credits claim?



Before 31 July, you should receive two tax credits documents from HMRC. The first of these is the annual review form on which you have to check that your 'personal circumstances' (ie eligibility to claim) have not changed. No change, no action. Then there is the annual declaration where you tell HMRC about your income for 2008/09. By completing and signing this you are also making a claim for tax credits for 2009/10. (Even if you are not entitled to tax credits for 2009/10 you need to complete a declaration if you submitted a claim for tax credits in 2008/09.)

In general, the higher your income, the more your claim will be reduced. However, paying into a pension increases your tax credits by reducing your income. For example, income over £6,420 reduces entitlement to tax credits at the rate of 39p per extra £1 of income. A pension payment of £8,000 net (£10,000 gross) will increase tax credits paid by £3,900 (39%).

As a basic rate taxpayer you receive 20% tax relief on your pension contribution at source. Over that rate, for every £1 that your income has been reduced, you receive 39p of tax credits. With a combination of tax relief and tax credits, this can mean a tax deduction of up to 98% (20% + 39% + 39%) for a pension contribution.

Of course tax is not the only consideration. There are pros and cons to paying an extra pension contribution. Please come and talk to us about the full implications of extra pension contributions and your 31 July tax credit renewal forms.

# Temporary first-year allowances save tax

There are some generous tax breaks under the revised capital allowances regime. The latest in the Finance Bill 2009 is a temporary 40% first-year allowance (FYA) for expenditure on general plant and machinery. So what can you do now to maximise tax relief?

Most businesses, regardless of size, benefit from the 100% tax-allowable £50,000 annual investment allowance (AIA) for investment in their plant and machinery.

However, if you spend more than £50,000 in a year on most types of equipment, the excess expenditure qualifies for a writing-down allowance of only 20%. Equipment that becomes part of a building when fitted, eg a cold water system, is classed as an 'integral feature' and attracts a writing-down tax allowance of only 10% a year. It was and still is worth considering bringing forward or delaying expenditure to avoid exceeding the £50,000 AIA limit in any one year.

The Finance Bill 2009 will allow businesses incurring expenditure in excess of the AIA cap to claim a 40% FYA instead of the 20% writing-down allowance. This temporary measure is intended only for the 12-month period beginning on 1 April 2009 (companies) or 6 April 2009 (individuals and partnerships). The 100% allowance for

designated energy-saving or environmentally beneficial plant or machinery continues alongside the temporary FYA.

Some expenditure does not qualify for the temporary FYA, primarily 'special rate' expenditure (including long-life assets and integral features), expenditure on cars, and expenditure on assets for leasing.

A key point is that you still do not have to allocate expenditure to the AIA in the order in which you incur it. If you spend more than £50,000 on equipment, you can choose which expenditure falls within the AIA and which does not.

Please get in touch at the planning stage so that we can advise you on the new FYA rules. We can help you plan your business expenditure on assets to maximise your tax relief and carry out a review to ensure that you have claimed all available tax reliefs on what you have spent to date. Don't pay more tax than is necessary.




# VAT roundup

With many businesses suffering during the current recession, every chance to enhance cash flow needs to be explored. Taking advantage of a variety of VAT measures could be one way of cutting your tax bill and reducing expenses. Some useful areas to explore are VAT on management charges, the 50% rule on leased cars and sales to non-EU customers.

## VAT on management charges

If you trade through more than one company, you can share the overheads around to save direct taxes by making management charges. However, there are VAT traps for the unwary. How can you avoid them?

For example, if you are re-charging between companies for the use of other staff, this will normally be liable to VAT unless they have joint contracts of employment.



Consider forming a VAT group, because it could help you to avoid such problems. Transactions within the group are ignored for VAT purposes so you do not need to remember to charge VAT. The holding company in the group can also recover its input VAT.

## The 50% rule on leased cars

If you are thinking of buying a company car, which will have less than 50% business use, then from a VAT point of view it may make sense to lease it instead. As a general rule VAT recovery on cars is blocked, but you may be able to recover 50% of the VAT your leasing company charges you.

If you are leasing already, but haven't claimed the 50% of the VAT on your VAT return, you may be entitled to go back up to 36 months to recover it.

## Non-EU customers

When filling in your VAT return you should be entering the amount of your sales turnover (excluding VAT) in **Box 6**. However, if you 'make supplies outside the scope of VAT' (eg sales to non-EU based customers), do you include these?

If you do include them, the comparison with the VAT on sales figure in **Box 1** may look out of balance and so lead to enquiries from HM Revenue & Customs (HMRC). The advice given on the HMRC website differs depending on which page you look at. To avoid the unwanted attention of HMRC, you should include your 'out-of-the-scope-of-VAT' sales figures from **Box 6**.

If you need advice on accounting for VAT, completing your VAT returns or correcting or disclosing errors, we are happy to help.

# What's in a name?

## Are you displaying your company's name properly?



Stricter rules on the display of company names came into force on 1 October 2008. Your company's name must appear at its registered office, at all places where it carries on business, and at any place where it keeps records available for inspection under the Companies Act. Visitors must be able to see the display clearly and read it with the naked eye. In the case of electronic signs, the company name must be displayed continuously, or if six or more companies share the premises, the name of each company must appear for at least 15 continuous seconds every three minutes.

There are two exceptions:

- You do not have to display names of companies that have been dormant since incorporation; and
- A company need not display its name at a place of business that is primarily living accommodation, for example a director's home.

The latest regulations also reiterate the rules for the display of company information in communications. The company's registered name must appear on:

- Business letters, notices, forms and orders.
- Company cheques.
- Bills, invoices and other financial documents.
- All other forms of business correspondence and documentation, including emails.
- Company websites.

Business letters, order forms and websites must also show where in the UK the company is registered and its registered office address and number. Investment companies must state that they are investment companies. Directors' names need not be shown, but if they appear other than only as a signatory to a letter, all the directors must be listed.

Provided there is no risk of confusion, minor variations in the company name, such as punctuation and accents, are now allowed.

Companies can no longer have only corporate directors. There must now be at least one individual, though companies that had only corporate directors on 8 November 2006 have until October 2010 to comply. Directors must now be at least 16 years old.

There are also new opportunities for people to object to a company name. You can complain to the new Company Names Tribunal if you think a company has been registered with the aim of extracting money from you or to prevent you from registering a particular name.

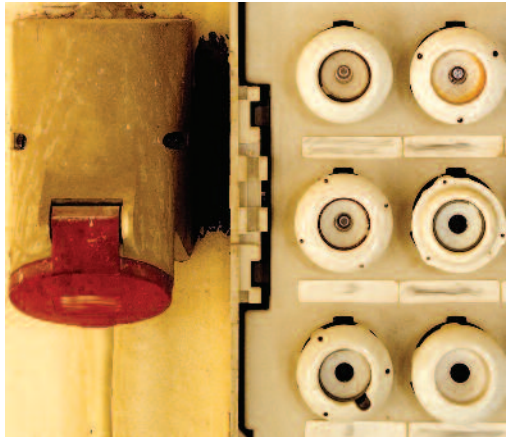
# Make do and mend?

**In the current economic climate, it may make more sense to repair some of the facilities in your building, for example your electrical system, rather than replace them. What costs can you deduct and when?**

For specified equipment that forms an integral feature of a building, last year's reform of capital allowances introduced a new 10% annual rate of writing-down allowance. But what happens if you decide to repair this equipment instead?

Integral features include electrical and lighting systems, water, heating and air conditioning (as well as any repairs to floors and ceilings damaged in the process), and lifts, escalators and external solar shading. A building's thermal insulation is also included, except where the building is also used as a residence.

The problem is that if, in any 12-month period, the total cost of repairing an integral feature is more than 50% of the cost of replacing it in full, the expenditure will qualify for capital allowances at only 10% a year.



Although HM Revenue & Customs has issued guidance, there are several unanswered questions. For example, it does not explain what would happen if your expenditure is initially below the 50% figure but later exceeds it due to poor workmanship requiring remedial repairs, or whether your expenditure on earlier repairs can be reduced by insurance proceeds so that only the net expenditure incurred is considered for the 50% test.

This is a complex area, so let us know if you are planning to repair or replace assets. When reviewing the tax treatment of repairs, we will also take other allowances into account, for example the annual investment allowance and the 100% allowance on energy-saving equipment. Why wait longer than you have to for a tax deduction on your expenditure?

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