tlp - news

October2011

The monthly newsletter of The Long Partnership and Graeme M Fraser & Co.

www.thelongpartnership.co.uk

Let's Get Real or Let's Not Play.

We want you to succeed. We know our products and services have helped clients' success in the past. Our intent is always to find a solution that exactly meets your needs. This helps to ensure a good fit between what we do and what you need. If there is a good fit, let's work together.

Call us right now!

Quotes

"... The more you express gratitude for what you have, the more you will have to express gratitude for ... There are people who, instead of being thankful for medicine that will make them better, complain about the taste! Successful people have an attitude of gratitude and take nothing for granted."

Zig Ziglar

"The largest room in the world is the room for self improvement."

Dr Sidney Newton Bremner

"Too busy chopping wood to sharpen his axe."

Zig Ziglar

Conference season! You may have noticed that Conference Season has been upon us once again. What you perhaps did not notice is that it was also tax conference season. We are just back from the CIOT Autumn Tax Conference and tax is on our minds.

We are already in October and thoughts at this time of year start to focus on tax returns and the inevitable payment of tax in January. There is probably not much we can do about that but let's look ahead to the coming years. Let me pose two questions.

1. Why are your profits not higher?

2. How can you pay less tax?

These questions are not mutually exclusive. If you are in business, you owe it to yourself, your family and your employees to maximise your profits. This makes you and your business financially more stable and ensures that you are taking care of your own family, the families of your employees and also the customers who have come to rely upon you.

How do you improve your profits? You either grow your business or you cut costs. Actually, you need to do both. By the way, the third thing you have to do is to refuse to participate in the national obsession about the state of the economy. You have market conditions to deal with and that is all. If there was no mention of the economy all day and every day in the media, would you have noticed. Some of you will certainly have seen a reduction in demand for the services or goods you have traditionally supplied so you have to move your business into areas where there is demand and by developing and evolving your business, (differentiating) leave your competitors behind. If everyone else in your market is doing everything the same, then price is likely to be the deciding factor for customers. If by specialisation, you do things differently, you create a market where you are the only supplier, and price becomes less important. As I read recently - "Differentiate or die."

So, if you can increase profits, surely that means you pay more tax. Possibly, but profits means money in the bank and that is more important.

However, we do want you to minimise your tax and so we have dedicated this issue of our monthly newsletter to tax planning.

Every page is full of tax planning ideas. Not all of them will be relevant to your own circumstances but have a look through them anyway.

There will be some of you, particularly those who are new to us, who will be wondering why we give so much information away for free. It is very simple really. This is information which is already in the public domain if you just knew where to find it. There is nothing secret about any of it.

We make our living by applying this information in the context of each and every business that we help along the way. You also get a feel for how we do business, and for those of you who we do not currently help, maybe it is time to change.

We have differentiated. We do things differently from other accountants in the market place. We prosper, but we are still learning. We take ideas and strategies from successful businesses from around the world and apply them to our own business and you should do the same. We do not copy other accountants and be a "me too" business. We seek successful people and apply their strategies, no matter where or what they are.

You want to find people who have been successful and to learn from their experiences. We share ours with you, but you should find others.

We have grown our business, despite the recession, we have differentiated, we make profits, our business continues to evolve and develop. We have decided not to participate in the recession. So, whose advise should you be seeking? You decide.

Anyway, tax planning is the subject of this month's newsletter. There are a number of tax planning ideas that you may not have heard of previously. Space is limited here, but if you think any of the ideas could apply to you, contact us.

"Just one of these ideas could save you hundreds, if not thousands of pounds."

Furnished Holiday Accommodation

The rules changed for 2011/12 and will change again in 2012/13.

The new rules:

Property available for commercial letting for 140 days in tax year (210 for 2012/13 onwards).

Actually let as holiday accommodation for 70 days (105 for 2012/13 onwards).

Not let for periods of longer term occupation for more than 155 days.

There are two important elections that you can make to help you to qualify:

If you have more than one property you can claim to average the occupancy, effectively using surplus days on one property to help another to qualify.

If you have property that reaches the threshold in some years and not others, you can use the "period of grace" election to continue to qualify for the low years. This enables you to have two consecutive years where you failed to qualify, provided the property previously qualified.

45p Mileage Allowance

The new official rate for receiving tax free mileage allowance went up to 45p per mile for the first 10,000 miles from 6 April 2011.

If your employer pays less than this, you can claim the balance as a deduction from you tax paid under PAYE.

Volunteers can also claim the 45p rate when claiming motoring costs from voluntary and charitable organisations.

Remember there is also the 5p per mile when you take a business colleague with you. This also applies to volunteers claiming expenses.

BASIS

The Government is presently consulting on the **B**usiness **A**ngel **S**eed **I**nvestment **S**cheme which, if you qualify, will be better than EIS. Investment will be in seed stage pre-trading.

Corporate planning – Time to Consider a "Group"

High personal tax rates and falling corporate tax rates are pushing more and more people to incorporate. However, sometimes you want to use more than one company but until recently there have been some significant obstacles to this multi company approach. That is now changing.

So, if you are involved in more than one enterprise and in more than one location (e.g. **hoteliers, dentists and farmers**) read on.

Companies leaving a group

Presently, where a company leaves a group, taking with it an asset previously transferred on a no gain no loss basis from another company in the group, a degrouping charge arises which is basically tax on the gain in value of that asset.

Things changed in the Finance Act 2011. The degrouping charge is now added to the disposal consideration for the sale of the company. This means that it can qualify for Substantial Shareholding Exemption.

Associated companies

The Corporation Tax bands are spread evenly over the companies in a group. Therefore, while the lower rate applies to the first £300,000 of profits in a single stand alone company, this drops to £150,0000 for each company in a 2 company group, £100,000 where there are 3 companies, and so on. If profits are uneven, this can mean paying more tax at higher CT rates.

By the Financial year 2014 it is proposed that the main rate of tax will have fallen to 23% and the resultant marginal rate will have fallen to 23.75%, so the effect of one or more group companies exceeding the small profit band limit is less onerous.

How can you use this to your advantage?

Let's assume you buy hotels that are failing and bring them back up to profitability and then sell them on. In a single company, the gains would be subject to Corporation Tax.

But, let's suppose you set up a dormant holding company and then each hotel business you buy is purchased by a separate subsidiary. The hotel buildings are initially held in the holding company for protection in case the hotel business goes bust. Just before the subsidiary (with its hotel business) is sold, the hotel building would be transferred to the subsidiary. The sale of the subsidiary and any gain on disposal of the shares should be covered by the Substantial Share Holding Exemption with no corporation tax payable.

So, what have we achieved? Provided that we have a trading company/trading group throughout, the assets are protected, the Substantial Share Holding Exemption is available to exempt gains of sale of each subsidiary, and then on retirement, entrepreneurs' relief, business property relief and agricultural property relief should be available on the shares then held. No tax due, and legal!

EIS - Now better than Ever!

From 6 April 2012 EIS relief goes up from 20% to 30%. The maximum investment is rising from £500,000 to £1million.

Larger companies will be able to participate (Gross assets up to £15 million and up to 250 employees) and the amount raised is going up to a maximum of £10 million in any 12 month period.

Investor advantages of EIS:

- After 3 years no claw-back of the EIS relief
- After 3 years a sale at a profit is tax-free
- A sale at a loss gives rise to an income tax relief claim against income of the same tax year or preceding tax year, with the loss being net of the EIS relief
- After 2 years the shares qualify for IHT business property relief
- Possible deferral of a CGT liability arising on disposal of any chargeable asset

Remember, the investor must be a ***qualifying investor*** subscribing wholly in cash for fully paid-up ***eligible shares*** issued by a ***qualifying company***. A carry-back election can be made so as to treat the claim as relating to the preceding tax year.

We have dealt with a number of EIS share issues, so come and speak to us.

Go Green and Save Tax

100% allowances for energy-saving plant and machinery

Energy-saving plant or machinery is specified in a technology list or a product list, issued by the Department of Environment, Food and Rural Affairs. The lists can be found at http://etl.decc.gov.uk/etl.

Qualifying technology includes energy saving boilers, motors, refrigeration, heat pumps, radiant and warm air heaters, compressed air equipment, solar thermal systems, automatic monitoring and targeting equipment, air-to-air energy recovery equipment, uninterruptible power supplies, along with heating, ventilation and air conditioning zone controls.

100% allowances for environmentally beneficial plant and machinery

Expenditure incurred on environmentally beneficial plant and machinery benefits from similar allowances to energy-saving technology, but relates to water technology. There is a water technology list, which contains details of the technologies and products that can qualify and it includes certain taps, toilets, flow controllers, leak detection, meters, water reuse systems, cleaning in place equipment, efficient showers, efficient washing machines, small scale slurry and sludge dewatering equipment, vehicle wash waste reclaim units, efficient industrial cleaning equipment, water management for mechanical seals and rainwater harvesting equipment.

Details can be accessed on the Defra website.

Are repayable tax credits available?

Companies (but not unincorporated businesses) with losses attributable to 100% allowances on energy-saving or environmental beneficial plant and machinery can get them turned into cash if the loss cannot be otherwise relieved by the company.

The credit paid to the company will be 19% of the loss surrendered, but cannot exceed the greater of the total PAYE and National Insurance contributions (NIC) for the loss period, or £250,000.

There are claw-back provisions if the company sells the plant and machinery within four years of the end of the period for which the tax credit was paid.

Allowances for thermal insulation

Expenditure on insulation for any existing commercial (not residential) building including roof lining, double-glazing, draught exclusion and cavity wall filling.

The rate of the allowance is currently 10% *per annum* on a reducing balance basis but this will be reduced to 8% from April 2012.

100% allowances on flat conversions

These allowances are designed to encourage the conversion of empty or underused space above shops and other commercial premises, to residential use. The property must have been built before 1980 and any extensions to the building need to have been completed by 31 December 2000 where the ground floor of the building is authorised for business use and the floors above were constructed primarily for residential use. The upper floors must have been unoccupied or only used for storage for at least one year before the conversion work starts.

There are various other detailed rules for this allowance, so get in touch if you would like to know more.

100% allowances on natural gas, biogas and hydrogen refuelling equipment

Qualifying expenditure under this category includes storage tanks, compressors, pumps, controls and meters, gas connections and filling equipment. Expenditure must be on new, unused equipment incurred before 31 March 2013.

Expenditure qualifies even if the refuelling station is on the company's premises and is not open to the public.

Did you know?

That drawing money from your company as a pension contribution can be more tax efficient that dividends or a bonus. Ask us for details.

Energy efficient Vehicles

Cars

Expenditure on an electric car or a car with low carbon dioxide (CO2) emissions (being less than 110g/km for expenditure incurred from 1 April 2008 to 31 March 2013) is eligible for a 100% capital allowance.

Zero Emission Vans

100% first year allowances can be claimed on expenditure on zero-emission vans between April 2010 and April 2015. Here is an example:

http://www.alliedelectric.co.uk/

Reduce Benefits in Kind

Car benefits are linked to the C02 emissions. Therefore if you provide your employees with a lower emissions car, they will benefit from higher net pay and you will benefit from lower NIC.

VAT

Relief from the standard rate of VAT may be available for certain environmentally friendly supplies that are made by the business. For example, the supply and installation of energy saving materials in residential accommodation and buildings intended for use solely for a relevant charitable purpose may qualify for the reduced rate of VAT.

Similarly, supplies made in the course of renovating, altering, or converting certain residential properties may also qualify for the reduced rate.

Farmers!

It is vital that you look carefully at the detailed breakdown of any capital expenditure that is to be incurred.

So, when putting up a new building and equipping it for use, you should consider carefully which expenditure:

- qualifies for 100% enhanced capital allowances - Green Expenditure
- qualifies for AIA / WDA
- has a life of up to 8 years (can claim short life asset status) and so might obtain a balancing allowance earlier than if included in the general pool.

Incorporation - Simple Tax Savings

The main rate of corporation tax for the financial year 2011 is 26%. This will be coming down to 23% at 1% per year. The rate for profits below £300,000 for a single standalone company is 20%.

There are real tax savings to be banked by re-arranging your business structure. Proprietors of small unincorporated businesses will pay tax (starting at 20%, rising to 50%, and 60%) and Class 4 NIC (currently 9%). If properly planned and executed the owner/directors of small companies will benefit substantially from this differential.

Taking a very simple example, a sole trader with profits of £35,000 will pay tax of £5,555 and NIC of £2,629.75. Out of the £35,000, they will pay £8,184.75 leaving them with £26,815.25.

The sole director of this same business, if incorporated and structured correctly, would have suffered tax only of £5,555. The saving is the NIC of £2629.75. If you are paying tax at higher rates, there will be a tax saving to add to the NIC saved.

There are other advantages and tax planning opportunities to incorporation but even so, it is not for everyone. Come and speak to us if you think it might be for you. It takes us just a few hours to get a new company incorporated.

Corporate Partners

The fashion for having a company as a partner in your business seems to be returning. It is easy to implement and can likewise be dismantled if no longer required.

If you have a corporate partner, beware of problems if that partner lends money to the general partnership. This is only likely to be a problem if another partner's capital account is overdrawn.

The corporate partner must have a business purpose. There must be a genuine commercial reason for the existence of that company and for it being a partner in that business. One way is to set the company up with a director / shareholder who is not already a partner in the existing business such as a key employee.

Remember that a partnership with a corporate partner will not qualify for Annual Investment Allowance so don't set up a company to become a partner in your business and then expect to buy equipment on which you want to claim AIA.

Get this wrong and HMRC will be looking at interest and penalties as well as their share of the tax wrongly calculated.

Service Companies

This is a company that stands alone from the main business. Like a corporate partner, a service company must have a real commercial purpose such as the employment and provision of staff or leasing of capital equipment to the main business. It must be a real business trading for profit and run commercially.

Profits lent back to the main business are more likely to have tax consequences and so this should generally be avoided.

Renewable Energy Incentives

Feed in Tariffs (FITS) payments aim to promote the use of renewable energy in the UK. FITS will be paid to individual households, businesses and community organisations generating electricity from renewable or low carbon sources such as solar panels, micro combined heat and power units, and wind. The maximum capacity is 5 megawatts.

Under current law, expenditure on plant for the generation of renewable energy is likely to qualify for full capital allowances and may qualify for enhanced allowances. This was largely irrelevant while the Annual Investment Allowance was up to £100,000 but as this reduces to £25,000, people would be looking for ways to benefit from Enhances Capital Allowances.

However, for expenditure after April 2012 expenditure that could attract FITS will be excluded from the Enhances Capital; Allowances scheme although it should still qualify for annual writing down allowances at a new special rate.

Companies with trades that are substantially based around the receipt of FITS will also be excluded from the EIS scheme for shares issued after April 2012 unless the company is a Community Interest Company (CIC), Co-operative Society, etc.

There is a limited exemption from Income Tax for the sale of micro generation of electricity by individuals but this does not extend to Charities who must rely upon the "primary purpose" exemption or organise it through a trading subsidiary.

Capital Expenditure - Before April 2012

The limit for AIA (Annual Investment Allowance) reduces from £100,000 to £25,000 from April 2012. It is worth thinking carefully about timing of expenditure, especially if you intend to incur substantial expenditure in the first half of 2012.

The way in which the limit operates for an accounting period spanning April 2012 involves splitting the period into 2 parts either side of April.

In the period before April 2012 your AIA is limited to £100,000 reduced pro rata to the number of months preceding April 2012. The AIA after April 2012 is limited pro rata to the months in the accounting period after April 2012.

If you need to incur significant capital expenditure in the near future and your accounting period straddles April 2012, incur the expenditure before April to maximise the initial allowances available.

Family Investment Companies

Moving investments from your personal name to a corporate structure could shelter them from the 40%, 50% or even 60% rate of tax and be subject to just 20%.

In addition, dividends received by the company are exempt from tax instead of being subject to the 36.1% higher rate if received personally.

Income can be extracted at a time that suits best for tax by way of periodic dividend, spreading extraction over a longer period.

However, there can be serious disadvantages. If you want to consider this option, get in touch to discuss the pros and cons of this strategy.