paylesstax

2008autumnedition

Green & Co

Tax savings become more important in credit crunch!

As many lenders become reluctant to lend in the current climate, and business owners become more concerned with their cash position, tax savings can provide a valuable source of funds to maintain the business.

With careful tax planning significant tax savings can often be made. Tax planning is all about understanding business and personal taxes and indentifying ways to minimise them. We focus on understanding the complex tax laws in order to identify tax saving opportunities for you. In this edition of Pay Less Tax we review what action you can take to save tax.

● TOP TIPS ● TOP TIPS ● TOP TIPS ●

Certain equipment, which is included on the Government approved list of energy or water efficient items, can still attract a 100% allowance, called an enhanced capital allowance (eca). The eca is available whether or not the business has used its AIA cap for the year. Its worth checking on the eca website (www.eca.gov.uk) whether an item of equipment qualifies before you buy it.

● TOP TIPS ● TOP TIPS ● TOP TIPS ●

You may wish to consider carefully plans to invest in capital assets. In some cases it may be more beneficial both commercially and from a tax point to lease the assets and ensure 100% relief.

Does your business invest in equipment and plant each year?

From April 2008 a new "Annual Investment Allowance" (AIA) was brought in to replace first year allowances on assets purchased for business purposes. The first advantage of the new allowance, compared to the old rules, is that it provides 100% tax relief for the qualifying expenditure in the period the expenditure is incurred. A second benefit is that there are no size restrictions on which businesses are entitled to the relief. The main downside of the new allowance is that the amount of allowance available is capped, currently at £50,000 per annum.

Small firms (Typically turnover less than £5.6 million) spending more than £100,000 per annum on plant and machinery will be worse off under the new allowance, as will "Medium sized" firms (Typically turnover up to £22.8 million) spending more than £125,000.

A couple of things to note are;

- Groups of companies or companies or businesses under common control may only be entitled to one allowance, although they can select how to allocate it to maximise their tax relief.
- Partnerships with corporate partners will not be entitled to the new annual investment allowance.
- Qualifying plant and equipment does not include cars, but vans will be entitled to the allowance.
- The new allowance is not available in the period when the business ceases to trade.

However with careful planning it may be possible to overcome these issues. Where expenditure incurred after April 2008 exceeds the available AIA limit it still gets some tax relief at 20% or 10% in the first year, depending on the type of asset.

● QUICK TAX TIPS ● QUICK TAX TIPS ● QUICK TAX TIPS ●

If a partnership does have a corporate partner then it is worth reviewing whether action should be taken to restructure business interests, or ensure that the company holds all of the assets.

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Entrepreneur's relief saves the day! Or does it?

Fundamental changes to Capital Gains Tax rules came in from 6th April 2008, bringing a dark day for many business owners. Indexation and Taper Relief disappeared leaving increased Capital Gains Tax bills for many individuals. The biggest losers were to be business owners who had previously enjoyed an effective 10% tax rate on the sale of business interests or business assets in the past.

Many business owners have been saved by a white knight in the form of "Entrepreneur's Relief", reducing their tax bills on business disposals from 18% to an effective 10%. This makes Entrepreneur's Relief one of the most important relief's for business owners today.

The relief gives a £1 million lifetime allowance to each individual actively involved in a business. An individual can make a number of claims for the relief, up to the lifetime limit of £1 million in gains. There is no minimum age limit for the relief, but certain conditions will need to be met.

The problem!

The biggest problem right now is that many people believe that they will be fully entitled to the relief, when in fact they won't. For example many private company shareholders believe that they will be entitled to the relief when they sell their shares. However if they own less than 5% of the company or are neither a director nor employee then they will not be entitled to the relief.

Many private company shareholders who have retained the business premises outside the company will often have charged rent to the company for using the premises. Prior to 6th April 2008 this was sound planning and provided an opportunity to save national insurance on monies taken from a company. However charging rent from 6th April 2008 will seriously jeopardize Entrepreneur's Relief

A simple answer would be to take a salary instead of the rent, however national insurance will be chargeable on the additional salary and should a personal loan have been taken out to purchase the property, then tax relief will no longer be available.

Partnerships or sole traders looking to sell an asset used in the business, such as land used by a farmer, would previously have enjoyed the effective 10% capital gains tax prior to 6th April 2008. This is no longer the case and many assets used in the business, such as farmland, are likely to be liable to capital gains tax at 18%, almost double what it was.

The good news is that for those currently not eligible for the Relief, there may be action that can be taken to rectify this.

● TOP TIPS ● TOP TIPS ● TOP TIPS ●

If you are looking to cease trading then providing certain conditions are met, you may be able to sell the business assets after ceasing and enjoy enjoy 100% Entrepreneur's Relief, leaving you with an effective 10% tax bill on the gains.

● TOP TIPS ● TOP TIPS ● TOP TIPS ●

You may wish to consider whether family members should have an interest in the business. The potential tax savings for each involved could be at least £80,000 by utilising Entrepreneur's Relief, let alone possible savings on extracting profits. However extreme care is required and advice should be taken.

Looking to sell your company?

You are thinking of retiring from your company. You would like to sell your shares for as much as possible to help fund your retirement plans. Unfortunately the other shareholders may not have the resources to buy you out. If the company has funds it may be possible for the company to buy your shares.

Providing certain conditions are met then the sale of shares could be treated as a capital disposal for tax purposes. This could mean up to £1 million in gains could be taxed at as little 10%, depending upon whether Entrepreneur's Relief is available. It is worth reviewing whether Entrepreneur's Relief will be available and what action should be taken to secure it.

This solution will not suit all situations, and greater tax savings may be possible using a combination of profit extraction and sale of shares. The ways to extract profits can include, bonuses, dividends, pensions, to name but a few.

How tax efficient are your investments?

From 6th April 2008 a flat rate of 18% applies to gains on investments. In the current tax year gains of £9,600 (annual exemption) can be made before Capital Gains Tax is actually payable. The combination of these two can make capital investments significantly more attractive then income producing ones, especially for higher rate tax payers. Imagine paying 18% tax on the investment gains (or less after taking into account the annual exemption of £9,600), rather than 40% on income received.

However this should be weighed up against the risks involved in capital investments, which can go down as well as up. Whilst it may be worth reviewing your investments, proper financial advice should be taken.

Shattering the tax myths – money overseas is tax free

Tax myths are creating problems in an already confusing tax system. In each edition we will unravel a well known tax myth and give you the truth. In this edition we'll concentrate on the myth "Keeping money overseas is tax free".

Most people living in the UK will need to declare the income from money held offshore in bank accounts or other investments, and where necessary pay tax on them. It doesn't matter whether they touch these accounts or investments at all.

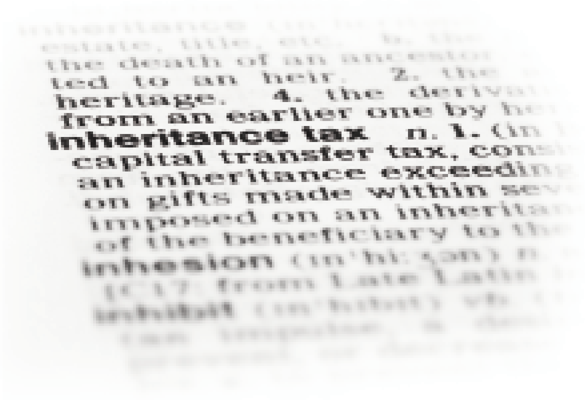
However for those classed as not resident and/or non-domiciled in the UK the position may be different. As this area can be complicated then advice should be taken.

As HM Revenue and Customs is looking more closely at overseas bank accounts this is an area that should not be overlooked.

Inheritance Tax planning at anytime!

Inheritance Tax planning should never be overlooked, even if a spouse or civil partner has recently passed away. It may still be possible to undertake some planning to save Inheritance Tax on the deceased's estate or even for future estates. A deed of variation can be made within 2 years of the death, with the approval of all beneficiaries, to reorganise legacies more tax efficiently.

In fact recent guidance published by HM Revenue & Customs includes the use of a deed of variation as a way to undo a Will if the surviving spouse wishes to have full use of two nil rate Inheritance Tax bands against their estate on death.



Help fund University with tax savings!

If your child has started University this Autumn, have you considered buying them a house? Not interested? Well, if they owned a reasonable size property they could let out rooms to other students. The rent they receive could be used to fund their University education.

Still not interested? Well, they may be able to enjoy tax savings which could also help with their University education. Providing certain conditions are met and records maintained then they may be able to receive up to £4,250 rental income tax free. This is known as rent a room relief. If the rent exceeds this amount then the profits from renting can be taxed on an alternative basis, which may produce a lower tax bill.

If the property is their main residence throughout their period of ownership, then when they do eventually sell it would be free of capital gains tax. It may be possible for you to lend your child the money to buy the property and have a charge over the property to protect your monies, or consider the use of a trust. While the tax savings could be significant, and it may be possible to pick up a bargain property, the decision should not be taken lightly in the current climate. Should you not wish to purchase the property, then the rent a room relief will still apply if your child rents a whole house and then sub lets rooms.

Save tax with advanced tax planning

We have teamed up with the very best tax experts in the UK to bring leading edge advanced tax planning strategies to you. These strategies can save many thousands of pounds in tax. For companies that are looking to pay their key employees/directors in excess of £100,000 in discretionary bonuses and have the cash available, then there are strategies that could result in significant savings. We offer a remuneration review to identify the possible tax savings on some alternatives to bonuses and dividends.

A review of your business structure could save thousands

How your business is structured can have a dramatic effect on your annual tax bills. In the early years of a business it may be more advisable to be a sole trader or partnership. However as profits increase there can become a time when transferring the business into a limited company can make more sense. The tax savings alone can be quite substantial.

We offer a business health check to review the current business structure and identify the possible annual tax savings by transferring the business into a limited company. Please contact us if you are interested in finding out more.

Reclaim the VAT on mileage payments!

Where mileage rates are paid for business journeys and adequate records are maintained then it is possible for a VAT registered business to consider reclaiming VAT on the amounts paid. The VAT that can be reclaimed can only be on the proportion of mileage allowance that relates to fuel.

The 40p and 25p rates used for employees using their own cars, includes a substantial reimbursement of other car running costs. Hence the advisory fuel rates for company cars (rates from 1st July 2008 below) should be used. As the rates are not binding, where actual costs can be demonstrated to be different, these can be used instead by agreement with the local tax office.

Engine Size		**Petrol**	**Diesel**	**LPG**
1400cc or less		12p	13p	7p
1401cc to 2000cc		15p	13p	9p
Over 2000cc	21p	17p	13p	

For example if a vehicle has a 1600cc petrol engine and the business reimburses the driver for 10,000 business miles, then the value of the fuel at 15p per mile would be 10,000 x 15p = £1,500, of which the VAT element to reclaim would be £223 (7/47 of £1,500). However the employee will need to supply VAT petrol receipts totalling at least £1,500 in order to allow the business to reclaim the VAT. As the VAT reclaimed is purely for business journeys then no fuel scale charges would be imposed for the vehicle.

We can help

Gone are the days when tax changes were only announced once a year. So far in 2008 we have been told about Entrepreneur's Relief in January, a package full of changes within the March Budget, a U turn for low earners in May, further changes when the Budget proposals become law in July and only recently we've been told about a Stamp Duty Land Tax holiday for houses under £175,000. If that wasn't enough we still have Alastair Darling's pre-budget report to look forward to, let alone the daily changes appearing on HM Revenue & Customs website.

We can guide you through the constant changes to the tax laws and help you to pay much less tax.

So if you would like to discuss ways in which we can help you to make tax savings, or if you would like to discuss any of the issues identified in this edition of 'Pay Less Tax' please do not hesitate to contact us.

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