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Rescue me Darling!

So……no surprises then, Darling!!

By the time that you stood up to deliver your Pre Budget Report (PBR) we already knew what you were going to say. Or did we? Was this a deliberate ploy to deflect us from what's in the small print? No....surely not! Well, maybe. The headline grabbers – lowering VAT, increasing tax for the higher paid – are just the tip of the iceberg. It's all in the detail. Pages of it!

Once again we are faced with a barrage of changes to tax making it more and more difficult for many to keep up to date and ensure they pay the correct amount of tax, and not a penny more. And in today's climate, identifying ways to reduce your tax bill is essential.

Tax planning is all about understanding business and personal taxes and identifying 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 highlight the main points from the PBR and what actions you can take to save tax.

As everyone's circumstances are different we would be delighted to talk to you in detail about how the rules apply to you and how you could save tax

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Behind the Pre-Budget report

As usual the Chancellor's speech only gave part of the story.
Shortly after his speech hundreds of pages of changes became available on the Revenue and Treasury websites. Throughout this edition we've concentrated on some of the main changes that you may need to be aware of.

These changes include the 13 month reduction in VAT from 17.5% to 15% from 1st December 2008. For those businesses that quote prices inclusive of VAT, this means that a fraction of 3/23 is to be used to calculate the VAT from 1st December, rather than 7/47. The government hope that businesses will pass on the VAT saving to customers.

This change does not affect reduced rate, zero rate, or exempt supplies or the general rules regarding VAT. However new rates apply from 1st December for those using flat rate VAT schemes. The main issue for many businesses will be coping with the change. HM Revenue & Customs have said that they will be lenient on errors arising in the changeover period, but this won't last. The press releases included a brief announcement that the income shifting proposals will be dropped for now. This move will be very welcomed by many small business owners and partnerships. New rules would have brought in further problems and potential tax liabilities, at a time when small businesses couldn't cope. Providing companies are making profits, then many can continue to pay dividends to maximise the use of basic rate tax bands, where a shareholders' income does not exceed higher rates (£40,835 before 6th April 2009, and £43,875 in the following year).

The rules for capital allowances and lease rentals on cars will change from April 2009 and be based upon the CO2 emissions of the car, rather than the price. Cars purchased with emissions over 160g/km will attract the lower 10% writing down allowance. Where cars with emissions over 160g/km are leased, 15% of the cost will be disallowed for tax purposes.

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If you have any queries with regard to the changes and how to cope please let us know.

From April 2009 tax relief for companies will be extended to include the costs of bringing into use land derelict since April 1998. The relief is an extension of the current land remediation relief which gives companies a corporation tax deduction of 150% for qualifying expenditure on removing or mitigating the effect of contamination. There are a number of conditions to be met, and from April 2009 the relief will not cover some naturally occurring contamination.

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For companies we offer a remuneration review to identify the most tax efficient combination of options to extract funds from the company and save as much tax as possible.

The planned increase in corporation tax for small companies to 22% will now be delayed until April 2010.

From 2010 if you have a personal income over £100,000 then the personal allowance currently available will be reduced depending upon the level of your income. In April 2011 if your income is over £150,000 then you could be liable to tax at 45%. In the same year Trusts will also start to be taxed at 45% and National Insurance increases will be seen across the board.

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Survive the credit crunch!

Cash is king for any business, not least in the current economic climate. Saving tax at every opportunity will play an important part in maintaining cash reserves. We consider below some of the tax planning considerations that can have an immediate impact on cash flow.

If you are a sole trader or partnership business and you believe that your profits this year will be lower than your accounts that finished in the tax year to 5th April 2008, please let us know (if you haven't already). It may be possible to reduce your payments on account due at the end of January and save you some tax. Care is needed to avoid unnecessary interest charges or even penalties.

Under the current climate the value of goodwill, intellectual property, stock and work in progress may need to be written down in value. Such write downs, and possible bad debt write offs will all serve to reduce profits. Whether a sole trader, partnership, or a limited company there may be a case to consider changing the business year end to help reduce tax liabilities quicker or carry back trading losses to reclaim tax paid in the past.

Large companies making quarterly instalments should regularly review their payments as circumstances change.

For small businesses struggling to collect debts it may be worth considering changing to the cash accounting scheme for VAT purposes. If annual turnover is less than £1.35 million then a business may use the scheme. Under the scheme the business will not be liable for VAT on invoices it raises, until it receives the cash. This can be a significant cash flow advantage for some businesses. As there are a number of conditions applicable and it may not suit every business please talk to us first.

It may be worth considering whether the current business structure is the most suitable for the business right now. It may be possible to change the business structure in order to save tax, or perhaps increase tax repayments from HM Revenue & Customs if business losses are likely to arise.

There are a number of ways to extract profits from the business, including dividends. Dividends are fairly tax efficient and can be paid to family shareholders not contributing significantly to the business. It is worth ensuring that dividends to basic rate shareholders are maximised prior to 6th April 2009 when the income shifting rules are expected. Care is needed as the company will need sufficient profits to pay the dividends.

If the company has become worthless then it may be possible to make a claim to HM Revenue & Customs that your shares in the company are not worth anything. If they accept the claim, then you may be able to claim the capital loss against other gains. If you have loaned monies to the company that are now irrecoverable then it may again be possible to claim a capital loss. However there are a number of conditions that need to be met.

If you subscribed for the shares with cash and they are now worthless then it may be possible to set that loss against your other income. Care is required to ensure that the appropriate conditions are met and the possible tax repayment is maximised.

As everyone's circumstances are different, and the above list only covers a few ideas, we offer an "anti-recession review". If you are interested then please do not hesitate to contact us.

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If you are tempted to convert a loan into share capital, perhaps to improve the company balance sheet, or try to take advantage of the possible income tax relief should the company be worthless, then be careful.

Irrespective of the amount of loan converted the base cost of the shares will be the current market. Hence if the company is currently worthless then you will be giving up a possible capital loss on your loan, without the benefit of a loss on shares (as they were worth nothing when you acquired them).

Watch the redundancy minefield

Although unfortunate, reducing the number of employees may be a necessary response to the current economic climate. This may be just where the problems start for the employer. Not only is employment law advice necessary to avoid being sued for unfair dismissal, but tax advice should also be taken. Get it wrong and the whole process could be extremely costly. Some employers may never realise they have a problem until years later when HM Revenue & Customs visit to review the payroll records.

The tax side alone is a very complex area, which isn't helped by the common myth that the first £30,000 of the final payment will be tax free. Unfortunately this isn't true and it is not that simple. Before the tax treatment can be confirmed the payment will need to be reviewed to check if it is contractual (express or implied), or compensation, whether for breach of contract, loss of employment, or something else. Providing certain conditions can be met it may be possible to save tax in a difficult situation.

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Retain your key employees

Retaining your key employees is even more important in the current market. How do you do this without throwing a lot of money at them, especially at a time when cash may be tight?

Consider setting up a tax-efficient share scheme for the key employees. Apart from the professional costs of setting up and maintaining such a scheme there is nothing else to pay at this time. For example awarding options to employees under an approved Enterprise Management Incentive can be a very cheap way to tie them in.

They effectively receive rights to purchase shares in the future, based upon today's value of the business. There is no tax to pay until they come to sell the shares. It may even be possible to reduce the tax payable on the shares to as little as 10%. Key employees will then change their focus from instant monetary salary increases to longer term reward by helping to increase the value of the business. Your key employees are incentivised to help you grow the business.

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You're a married sole trader that has been trading for a number of years. You've had enough and decided to sell up and retire with your spouse. The trade operates from business premises which you will also look to sell as part of your pension. You own the property jointly with your spouse (or civil partner).

Unfortunately as your spouse is not a business owner, they will not be entitled to Entrepreneur's relief in their own right. They will ultimately pay a higher tax bill than you on their half share of the business premises. All is not lost.

In advance of any sale your spouse can transfer their half share in the property to you without any Capital Gains Tax arising. You will be entitled to Entrepreneur's Relief on the full value of the property sold, thereby significantly saving tax overall. As long as you have owned your business for more than a year, it is irrelevant how long you have owned the property.

Do you want to save national insurance?

If you pay personal pension contributions and your employer is open to saving some national insurance themselves, then read on. It may be possible for your employer to pay part of your salary or bonus direct into your personal pension as an "employer's contribution".

While tax savings are possible on pension payments normally, this option would save your employer the employers National Insurance of 12.8% and you the employees National Insurance.

You could arrange with your employer to reduce your salary or not take a bonus due to you to cover the cost of the employer pension contributions. However care is needed as HM Revenue & Customs are particular how this is done and documented.

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We have access to a number of advanced tax planning strategies that can significantly increase tax savings for both the business and yourself. If you are interested please do not hesitate to contact us.

Shattering the tax myths – you can rely on the Revenue to repay!

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 "If you have paid too much tax then you can rely on HM Revenue & Customs to pay it back".

Unfortunately not is the simple answer. If you only have employment income and have overpaid tax then it should happen automatically. However the position can often be more complicated and you will have to ask for the tax back either by completing a tax return or a tax repayment claim form, sometimes referred to as an R40.

Pensioners or those with various sources of income are more likely to over pay tax. So it is always worth checking the tax you have paid at the end of the tax year.

Reduce recent capital gains tax bills?

If you have made a capital gain in the last 3 years then it may be possible to roll this over into an investment known as an Enterprise Investment Scheme (EIS) and get some tax back.

For gains incurred before 6th April 2008 where business asset taper relief was not applicable, then it is possible to reduce the ultimate gain to 18% using the EIS investment. On top of which you may be entitled to 20% income tax relief on the EIS investment. There are a number of EIS investments around, some of which may expect a reasonable return. Financial advice should be taken before considering any such investment and the risks involved.

Don't forget to party!

Even the smallest of businesses can provide annual tax free events for all its staff. Around this time of year some may be starting to think about booking their Christmas party, if they haven't already. The costs of the party itself will be allowed against business profits for tax purposes. As long as the annual cost of all events per employee are less than £150, then the employees are not taxed for having a good time. In practice HM Revenue & Customs generously (There's words you don't often see together "HM Revenue & Customs generously") define employees as including; current employees, retired employees, and partners of existing and past employees.

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Sharing out jointly owned property

There are occasions where land or property is jointly owned, perhaps by partners in a farming partnership, perhaps by individuals investing in property together. Whatever the reason, if there is a parting of the ways, then sharing the spoils can often result in significant tax liabilities for all involved.

For example, two joint owners of two investment properties each give up a half share in one property and take the full ownership of the other. The result for tax purposes is that each individual has disposed of their half share in one property and acquired a half share in the other. This would result in significant capital gains tax liabilities arising for each individual, which can be complicated further if personal homes, or mortgages are involved.

However with careful planning a claim may be possible that allows the individuals to defer the Capital Gains into the properties that they are acquiring. The same claim can cover land (including milk or potato quotas relating to the land), and property.

One example is a father and son farming partnership. Over the years both partners have owned all assets jointly, including the two farm houses that they respectively live in. The father now wants to retire and take the farmhouse where he lives out of the business. Providing each could normally claim full relief against Capital Gains Tax on a sale if they each owned 100% of the farmhouses where they live, then they may make a claim to avoid Capital Gains Tax on disposing of their half interests in each other's homes.

Reclaim statutory pay

If any employees do become parents then remember to reclaim the statutory payments from HM Revenue & Customs. Employers may have to pay employees Statutory Maternity Pay, Paternity Pay, or even Adoption Pay, depending upon them meeting certain conditions. Small businesses, with total National Insurance payments of no more than £45,000 a year, can recover 104.5% of the statutory pay. This is to reimburse the business for the statutory payment made and contribute towards the employers NIC paid. Larger businesses can reclaim 92% of the statutory payments.

We can help

Despite the constant changes to tax in this current climate, significant tax savings can still be made with some careful planning and implementation.

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