

Talking Tax

Guiding you to lifelong prosperity

Introduction

Welcome to Talking Tax, the newsletter from the Hazlewoods tax team.

In this edition we focus on some of the changes announced in the 2011 Budget and what these mean for you. We also look at a couple of the many consultations the Government has launched in advance of new rules anticipated in 2012. We suggest ways you can benefit from the new rules and how you can prepare for the likely future changes.

There have been some exciting changes to our tax team over the past few months and we are delighted to tell you more about them on the back page.

20% tax or 50% tax - you choose

Corporation tax rates fell again in April whilst the 50% additional rate of income tax has been retained. For many this makes incorporation more tax efficient, but before making any decision it is important to crunch the numbers. With fluctuating rates of both income and corporate tax in recent years the calculations can be complex and for lower profit levels the best structure for tax purposes can change from year to year.

Basic rate taxpayers and incorporation

For a sole trader paying basic rate tax it is unlikely that the tax savings from incorporating would make it worthwhile. This is because of the additional compliance costs and formalities associated with the formation of a company.

See Page 2 for Table showing the tax and NIC burden of a sole trader and limited company for 2011/12

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For key tax dates visit www.hazlewoods.co.uk

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DRIVING LIFELONG PROSPERITY

Table showing the tax and NIC burden of a sole trader and limited company for 2011/12.

The calculations assume the company makes a 100% profit distribution and pays a salary equal to the employer NIC threshold.

| Profit £ | Sole trader £ | Company £ | Saving £ |
|-------------|------------------|--------------|-------------|
| 10,000 | 885 | 586 | 299 |
| 20,000 | 3,785 | 2,586 | 1,199 |
| 50,000 | 13,463 | 9,206 | 4,257 |
| 100,000 | 34,463 | 29,206 | 5,257 |
| 150,000 | 58,453 | 52,302 | 6,151 |
| 200,000 | 84,453 | 75,158 | 9,295 |

High incomes and incorporation

For a sole trader paying tax at 50% (or even the marginal rate of 60% - which applies to income between £100,000 and £114,950 because of the gradual withdrawal of the personal allowance) limited companies can be extremely tax efficient. The potential savings will depend on how much the individual draws, for example for a sole trader with profits of £150,000 who is able to retain £75,000 of the profits within the business incorporating would save £28,000 per year (as opposed to £6,151 if all the profits are withdrawn).

Consider the future

Before incorporating it is important to consider what will happen to your business profits and your cash requirements in the future. It is also important to anticipate future tax rate changes: With the main rate of corporation tax due to reduce to 23% from April 2014 and the small companies rate at 20%, will the rates converge in the next few years and what will be the rate? In the 2011 Budget the Chancellor confirmed that

the 50% additional rate of income tax is only a temporary measure, but when will it be withdrawn?

Other implications of incorporation

Before incorporating you should also consider the implications on other taxes, such as capital gains tax, inheritance tax, VAT and Stamp Duty Land Tax. To find out more speak to your usual Hazlewoods contact.

As well as the tax implications, there will be practical issues to consider on incorporation. These include matters such as the need for new letterheads and other stationery, the need to notify customers and suppliers and if there are employees then the new company will need to honour the terms and conditions of existing employment arrangements.

Conclusion

Incorporation can be complex and the timing can be critical. Before making any decision all tax and non tax implications must be considered.



Can you benefit from the corporate growth incentives?

From 6 April 2011 the lifetime limit increased to £10 million and could now save you up to £1.8 million in tax. This makes it more important than ever to ensure you qualify for the relief.

An individual who has used their £5 million allowance before 6 April 2011 has an additional allowance of £5 million for disposals on or after that date. An individual who has used part of their £5 million allowance at 6 April 2011 will have a lifetime allowance of £10 million less the relief already used.

The conditions which must be met for a disposal to qualify for Entrepreneurs' Relief must be satisfied for at least one year before the disposal. This makes it vital to think about the tax implications of any disposal well in advance.

More companies able to use the Enterprise Investment Scheme or Venture Capital Trust scheme

The Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) scheme help smaller high-risk companies raise finance by offering tax incentives for investors. From 6 April 2012 it is proposed that companies with no more than £15 million of gross assets and 250 employees before the investment will qualify, compared to a limit of £7 million of gross assets and 50 employees at the moment. The maximum a company can raise through both EIS and VCTs in any 12 month period will increase from £2 million to £10 million.

From 6 April 2011 EIS investors are able to get tax relief at 30% (previously 20%) on the cost of the shares in a qualifying company. The relief is obtained by offset against the individual's income tax liability in the tax year in which the investment is made.

It is proposed to increase the annual investment limit from £500,000 to £1 million from April 2012.

R&D relief is improving

From 1 April 2011 a small or medium sized company can deduct 200% of qualifying expenditure from taxable profits. From 1 April 2012 the deduction is due to increase to 225%.

From 1 April 2012 it is also proposed to abolish the current rule which restricts the amount of repayable tax credit to the amount of PAYE it has paid. It is also proposed to abolish the £10,000 minimum spend condition.

These proposed changes make R&D tax relief more valuable and are also likely to enable smaller companies with lower R&D spends and fewer employees to benefit.

If you would like a factsheet on any of the above issues contact Ruth Dooley on 01452 634800 or ruth.dooley@hazlewoods.co.uk

There were several measures in the 2011 Budget to encourage the growth of the economy through private businesses. The measures range from reduced business taxes, increased investment incentives and enhanced tax reliefs. These include:

Doubling the lifetime limit for Entrepreneurs' Relief

Entrepreneurs' Relief enables individuals to pay Capital Gains Tax (CGT) at an effective rate of 10% rather than the current main rates of either 18% or 28%.

Let us save you money - with our **Inheritance Tax and estate planning services**

Whether you are an individual worried about creeping over the Inheritance Tax (IHT) nil rate band limit or you have a larger estate, our tax team can help.

Simple planning

It may be that relatively straightforward planning can enable you to make the most of your nil rate band and IHT reliefs. This will keep your own and your family's tax liabilities as low as they can be, whilst enabling you to have the financial resources you need.

Such planning includes:

- ensuring you have an up to date tax efficient Will;
- ensuring you utilise all possible reliefs and exemptions, such as the £3,000 annual exemption and the exemption for gifts made as normal expenditure out of income;
- making full use of the nil rate band

More complex planning

For larger estates, more complex planning may be required to shelter specific assets from IHT. This might include the use of trusts and other tax planning ideas.

Business owners

If you are a business owner, our planning can ensure that your business passes down to the next generation in the way you want. It can also help you to keep the business's entitlement to Agricultural Property Relief (APR) or Business Property Relief (BPR), which can effectively

remove the business from the charge to IHT completely.

Our IHT and estate planning services are led by Tom Woodcock, Nicholas Smail and Helen Richmond. Between them they have a vast array of experience and expertise in providing advice to individuals and families to save them money.

If you are concerned about your IHT position or would like one of the following IHT factsheets please contact one of the team.

- Inheritance Tax - the basics
- Inheritance Tax - transfer of nil rate band
- Inheritance Tax and the family home

Case study

The team recently saved a family approximately £100,000 by the use of a deed of variation and trust.

The deed of variation enabled our client, the sole beneficiary of his father's estate, to alter the distribution of his father's estate. Instead of the whole estate being appointed to the son it was put in to a trust for the benefit of his wife, children and himself.

Although the money is in trust the son is able to make full use of the money by way of an interest free loan from the trust.



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What's in store on **residence and domicile?**

On 17 June the Government launched its consultations on the taxation of non-UK domiciled individuals (non-doms) and a statutory residency test.

The new rules are due to be introduced from 6 April 2012 and, subject to the consultations, will include:

- An increase in the annual charge from £30,000 to £50,000 for those non-doms who have been resident in the UK for 12 years or more and who want to be taxed on the remittance basis.
- Simplifications to the current rules for non-doms to remove some of the administrative burdens.
- A statutory residency test to remove the need for individuals to try and determine whether they are a UK resident using the current case law principles.



Don't miss the opportunity to claim capital allowances on fixtures

If your business has bought a building and has not yet identified the fixtures on which capital allowances can be claimed your time may be running out. Over the summer the Government is conducting a consultation on its proposals that businesses must pool their expenditure on fixtures in a building, within a short period of acquiring the building, in order to qualify for allowances.

Current rules

10% writing down allowances are available on fixtures within a building. (The rate is due to be reduced to 8% for chargeable periods ending on or after 1 April 2012 for companies and 6 April 2012 for unincorporated businesses). Fixtures include electrical systems (including lighting systems), cold water systems, space or water heating systems, powered systems of ventilation, air cooling or air purification, and any floor or ceiling comprised in such systems, lifts, escalators, and moving walkways, and external solar shading.

The annual investment allowance is available to all businesses and provides 100% relief on the first £100,000 of qualifying capital expenditure in a year (on the first £50,000 before April 2010 and on the first £25,000 from April 2012). Qualifying capital expenditure includes fixtures.

Where a building containing second hand fixtures is sold, the capital allowances rules require that a 'just and reasonable' apportionment should be made in order to determine the proportion of the property sale price that is attributable to fixtures. However in practice, sellers and purchasers may not agree a single

disposal/acquisition value as the part of the sale price that should be apportioned to the fixtures, and may insert quite different values for the same fixtures in their respective capital allowances pools and calculations.

There is currently no time limit on when expenditure on plant or machinery, including fixtures, needs to be pooled: qualifying expenditure may be pooled at any time, provided the asset is still owned and used in the business. This means that expenditure on fixtures can be pooled some years after they were acquired.

Proposed rules

From April 2012 the Government is considering introducing:

- 1 a requirement that businesses must pool their expenditure on fixtures within a period of one or two years after acquisition, in order to qualify for capital allowances; and

- 2 to qualify for capital allowances, the purchaser of a second hand building must agree with the seller the amount of the sale price attributable to the fixtures, and that both the purchaser and the seller should record and formally notify this to HMRC within a similar timescale.

Action

If your business has bought a building and not yet claimed capital allowances on the fixtures, you should value the fixtures and make a capital allowance claim before the new rules are introduced. There are several ways fixtures can be valued, such as using a surveyor; agreeing the values with HMRC or making an election with the seller. Speak to your usual Hazlewoods contact or give Nick Haines a call on 01242 237661 to ensure you maximise your capital allowance claims.



Win an iPad 2

As well as the usual tax benefits of letting us have your tax return information early, this year you can also be in with a chance of winning an amazing iPad 2.

By letting us have your information now we can ensure you do not pay more tax than you have to. If you are due a repayment we can reclaim it sooner and we can tell you about any tax planning ideas so you save more tax.

By ensuring your information is with us by 31 October 2011 and by completing and returning the entry postcard you will be entered into the tax prize draw to win an iPad 2. The iPad 2 has an all-new design, is 33% thinner and has two cameras. You will also win a Smart Cover in the colour of your choice. This attaches to the iPad 2 magnetically and aligns perfectly and can be folded to the ideal angle for watching or typing.



Let's talk - say the Government

In recent years respective Governments have been keen to consult on new tax rules before they become law. The following is a list of some of the most important live (or soon to be live) consultations with brief details of what they are looking at.

Full consultation documents can be found on HM Treasury's website, including how you can get involved. Whether the Government take any notice of the consultation responses is another matter!

| Consultation title | Description |
|---|---|
| Income tax and NICs simplification | Initial consultation on the options, stages and timing of reforms to integrate the operation of income tax and NICs. |
| Modernising the administration of the personal tax system | Consultation exploring how the administration of the tax system can become more transparent and accessible to individual taxpayers. |
| Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) | Consultation on further changes to the schemes including proposals to give additional support through the EIS for seed investment. |
| Capital allowances for fixtures | Consultation on plans to introduce changes to the capital allowances fixtures regime, as detailed in our article. |
| Research & Development (R&D) tax credits | Response document and further consultation on the proposed changes to the R&D tax relief provided to innovation. |
| Patent box | Continued consultation on the introduction of a 10% rate of corporation tax on profits attributed to patents |
| Anti-avoidance | There are currently six consultations open looking at combating tax avoidance. |
| Inheritance tax (IHT) – reduced rate for chargeable legacies | Consultation on the implementation of a reduced rate of IHT where at least 10% of a deceased's net estate is left to charity. |
| Statutory residence test | Consultation on the detail of a statutory definition of tax residence to provide greater certainty to individuals. |
| Non-domicile taxation | Consultation on the detail of the reform to the taxation of non-domiciled individuals. |
| Full Controlled Foreign Companies (CFCs) reform | Consultation on the reform to the CFC regime to make it more competitive whilst ensuring the UK does not reduce its revenue from corporation tax. |
| Gift Aid Small Donations Scheme | Consultation detailing how charities that receive small donations of £10 or less will be able to claim Gift Aid style payment on up to £5,000 without the need to obtain Gift Aid declarations. |

Be prepared - pensions auto-enrolment

In the Government's latest attempt for all employees to have a work-based pension they are introducing auto-enrolment and compulsory pension contributions.

Employers will have different 'staging dates', based on the numbers of employees and PAYE references, but for most small businesses, it will be in the spring or summer of 2014.

Although you need to be prepared for the changes in plenty of time, we recommend you do not establish a scheme immediately, but wait for the range of schemes to develop over the next 12 months.

If you want to find out more contact:



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Hazlewoods expands Tax Team

Since our last Talking Tax there have been several positive changes to our Tax Team with the introduction of two new members and the promotion of a third.

Tom Woodcock joins us from PwC as a new Tax Partner in our Cheltenham office, and Richard O'Neil, previously of BDO, has joined us as a Tax Director in Staverton. David Clift has received a well-deserved promotion to Tax Partner and remains based at our Gloucester office.

Tom Woodcock is a barrister and chartered tax adviser. In his previous job at PwC he specialised in entrepreneurs and private companies. Amongst other things he led the firm's motorsport industry team advising the Brawn, Lotus and Virgin Formula 1 teams.

Tom has nearly twenty years experience of providing tax advice to a wide variety of clients "Everything from Dorset scallop farmers to the

Bolivian government". Whilst his clients have been very diverse, much of Tom's career has been advising entrepreneurs on the tax implications of mergers and acquisitions and he has extensive experience of management buy outs, flotations and private equity transactions. Tom also has a wealth of experience dealing with inheritance and estate planning, helping families save money.

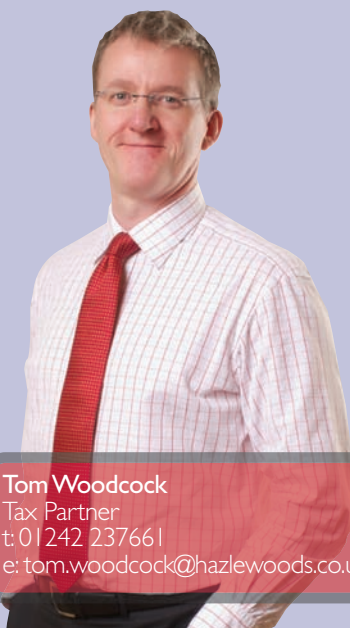
Richard O'Neil, a Chartered Tax Adviser, specialises in providing tax advice to our agricultural and veterinary clients on areas including transactions and restructuring, incorporation, remuneration planning, capital gains tax and inheritance tax planning and successions, as well as mitigating the 50% income tax rate.

Richard has a broad background having worked for Deloitte in their tax advisory team from 1999 to 2004, before lecturing the chartered

tax exams together with law for three years. He then returned to tax practice at BDO where he specialised in tax advisory across a broad spectrum of Owner Managed Businesses.

David Clift works in the corporate tax team in our Gloucester office. He specialises in R&D tax reliefs, an area that he has been involved in since their introduction in 2000. David has made successful claims for companies in aerospace and defence, IT software and hardware, automotive technology, advanced engineering, engineering consultancy, motorsport and manufacturing. He has led successful negotiations with HMRC and has also reviewed R&D claims for prospective purchasers as part of the financial due diligence process.

David is a Chartered Tax Adviser and a member of the Institute of Chartered Accountants in England and Wales.



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