Property Agent Matters

Opening the doors to future prosperity

Budget 2011 Special

Now the dust has settled and we've had time to take stock of some of the announcements made during George Osborne's second Budget. I felt it would be more beneficial to pick out some of the key tax matters and highlight opportunities that have arisen, rather than repeat everything he said in his speech.

50% Tax Rate

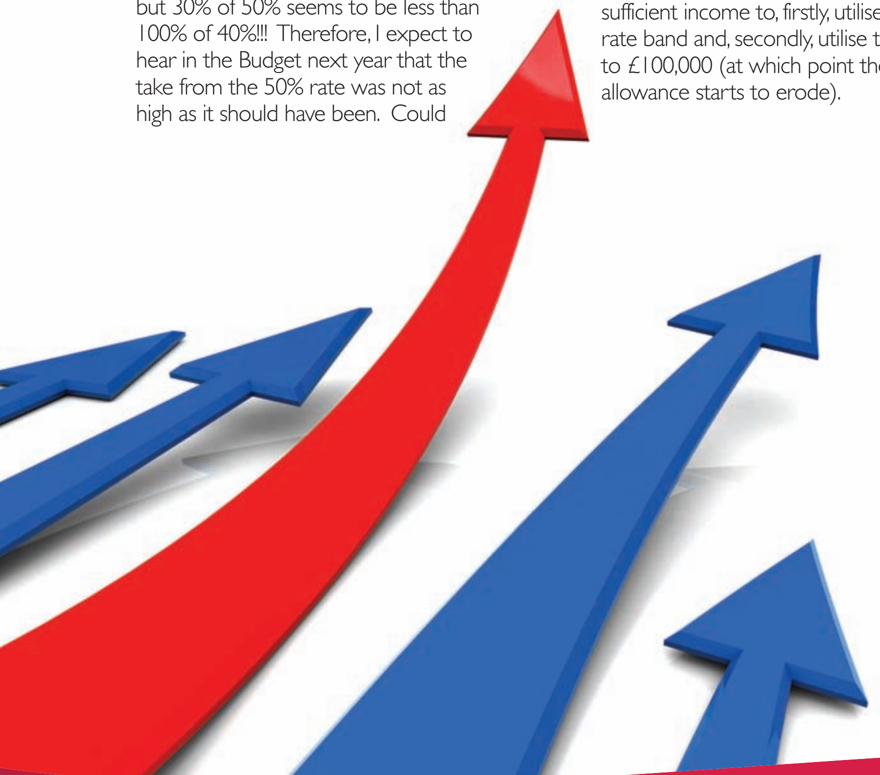
The Chancellor reiterated that he believes the 50% tax rate is still a temporary measure and that he is keen to remove it at the earliest possible opportunity. Before he makes the decision to remove the 50% rate, however, he wants to see how much it brings in so has asked HM Revenue and Customs (HMRC) to let him know once the income tax returns are in for 2010/11.

When the 50% rate was introduced, the then Labour Government estimated that they would only collect 30% of the maximum a 50% rate could yield. Now, I'm no economist, but 30% of 50% seems to be less than 100% of 40%!!! Therefore, I expect to hear in the Budget next year that the take from the 50% rate was not as high as it should have been. Could that herald the end of the 50% rate? We shall have to wait and see.

Whilst it is with us, however, we need to consider what can be done, and that's where the opportunities come in. Some thoughts are:

- If you do not need the money, leave it in your company. If the rate truly is temporary, a deferral in income for a year or two could save you 10%.
- Utilise both spouse's income. It never ceases to amaze me how many times I come across business owners who have not been advised to pay their spouse sufficient income to, firstly, utilise their basic rate band and, secondly, utilise the band up to £100,000 (at which point the personal allowance starts to erode).
- Consider your trading structure. If you are a sole trader or self employed, you are taxed on your profits regardless of what you take out. If you incorporate, you are only taxed on what you withdraw. Therefore, you can defer your income until the 50% rate disappears. Furthermore, you should be able to generate a lump sum through the disposal of your goodwill, and only pay 10% tax!
- Maximise your capital growth. With the top rate of capital gains tax being 28%, it makes sense to ensure your investments provide low income and high growth, so that you can use those profits to supplement your income.

What you shouldn't do is just accept that you have a 50% liability. Make sure you are getting proactive advice.



Entrepreneurs' Relief

There was a surprising announcement that, for the third successive Budget, the lifetime limit for Entrepreneurs' Relief (ER) will rise, this time doubling to £10m. The value of this relief is now up to £1.8m so is well worth having. In addition, you should try to ensure that as many family members benefit as possible. A husband and wife can make £20m gains and only pay 10% tax!

Be careful not to slip up and not meet the qualifying conditions.

- Don't think that you can change things just before disposal and qualify for ER. The rules state you have to have met the qualifying conditions for a year prior to disposal, so forward planning is essential.

Continued overleaf...

- It is not enough to just hold shares, you must also be an officer or employee of the company, or a business owner. Hours worked do come into play for employees.
- The company must be trading. This seems pretty straightforward, but if you have accumulated a certain level of investments, it could mean the company no longer qualifies and ER is not available.

The most important thing is to take advice, £1.8m is a lot to gamble with.

Stamp Duty Land Tax (SDLT)

Most of you will be aware of the existence of SDLT planning schemes. Well, so are HMRC! The Chancellor has announced anti avoidance measures to block some planning schemes that managed to make it to the press.

However, not all of them have been blocked and, with a recent legal case on SDLT being found in favour of the taxpayer, we may see an increase in people looking to mitigate the tax, particularly when the new 5% rate applies from April 2011.

Don't forget, commissions will be paid to Agents who introduce clients to us.

Enterprise Investment Schemes (EIS)

This can be quite valuable and could help if you were starting up a new company or seeking third party investment. If your company qualifies, it may enable you to attract the investment you need.

If an investor subscribes for shares in a company qualifying for EIS, they can obtain 20% income tax relief on the amount subscribed. This is increasing to 30% from 6 April 2011. The amount an individual can invest is £500,000 which is increasing to £1m from 6 April 2012.

In addition to the above changes announced in the Budget, there is also an increase in the gross assets and employees test, which will also come in on 6 April 2012. From this date a company will qualify if they have less than 250 employees and gross assets of no more than £15m prior to the share issue.

These changes bring a lot more businesses into the EIS net and could help you to attract investment.

Company Cars

The Chancellor emphasised the Government's commitment to green taxes and, with that in mind, the figure on which fuel benefit will be calculated has been increased from £18,000 to £18,800.

There is no doubt that the tax inefficiency of running company cars is continually increasing and it is important to review your current policy.

There are opportunities to move to very low emission vehicles, which not only create an incredibly low benefit in kind for employees, but also provide 100% capital allowances for the employer.

If green cars are not for you, then there may be benefits in moving away from employer provided vehicles, to reimbursing employees for using their own cars. If nothing else, you should look at the figures to see if a change makes sense.

And finally...

Of course, it is not just about the Budget... These are just a few issues that are topical following the Chancellor's statement. If you have any tax matters you would like to discuss, feel free to contact us and we would be happy to help put more money in your hands, and less in the Chancellor's back pocket!

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