Taxation Services

Tax & Financial Planning for You, Your Business and Your Family

Ideas from Garbutt + Elliott and G+E Wealth Management 2016

G+E Wealth Management Limited

Garbutt + Elliott

Ensure You Plan Throughout the Year

Tax and financial planning should be considered throughout the year, not just at the tax or accounts year end.

If you are interested in any of the ideas here or the examples of our services please contact us at enquiry@garbutt-elliott.co.uk. Planning should not be undertaken without bespoke advice on your own situation, and our Tax and Wealth Management teams can work together on solutions to suit you.

Optimising Your Own Rewards

You no doubt have a strategy for your own remuneration? From April 2016, dividends are taxed at higher rates for many company owners (generally an extra 7.5%), and with effect being felt through personal tax bills from January 2018 onwards. The change also means that the "tax credit" for dividends will go, so your gross dividend income will be lower.
However the right mix of salary and dividend, including a decision as to whether to bring the family into the business as shareholders, will still provide opportunities for significant savings in many cases.

Any company loans to shareholders should be repaid to the company within nine months of its year end to avoid a 32.5% company tax charge under the 'loans to participator' rules. Unfortunately "bed and breakfasting" such loans with temporary repayments is now subject to anti-avoidance rules.

But don't forget about incentivising and looking after your employees:

- Funding the purchase of your own or an employee's car through a car allowance and a tax free mileage rate could bring mutual savings compared to providing the car itself.
- If you provide private fuel benefit for a car then we can calculate a break-even point beyond which private fuel benefit should not be provided. It depends on the private mileage and fuel consumption of the car versus the CO2 emissions on which the fuel benefit charge is based. Low private mileage and high emissions for example would point towards removing a fuel benefit, but some employees still prefer a company car and fuel regardless of the relative cost.

For more information please contact:
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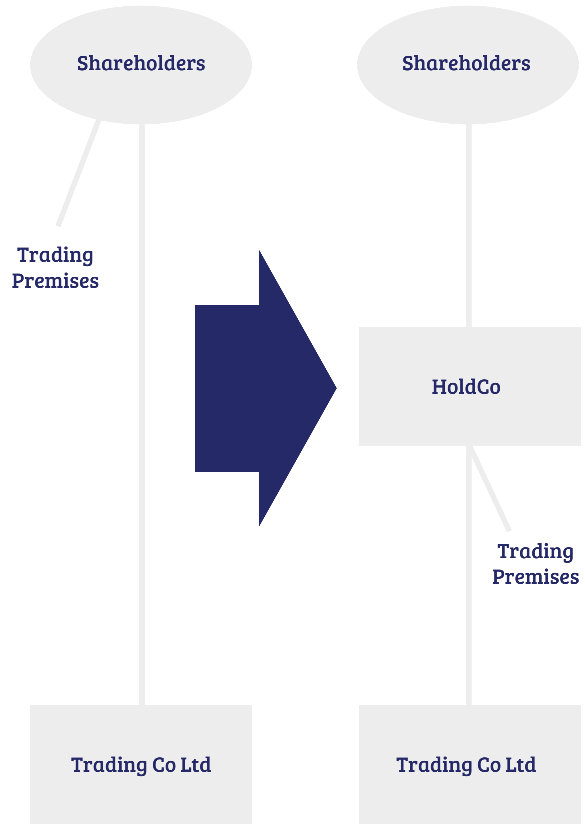
To incentivise key employees in an organisation you could consider establishing one of a number of different tax efficient share schemes. Employee Shareholder Status Shares for example can give employees a combination of tax free initial shares, plus exemption from Capital Gains Tax on their sale. Even a "phantom" share scheme in lieu of shares can be an effective incentive

Choose the Right Business Structure to Suit You

Your choice of business structure will have an impact on tax, administration time, and commercial protection. There is still a place for partnerships and sole trades, and a Limited Liability Partnership can offer the same protection as a company. Using the right structure can protect valuable business assets from trade creditors, and can also create or increase relief against Inheritance Tax (IHT).

Example: We advised our client to move their personally owned business premises into their trading company to increase the rate of IHT relief from 50% to 100%, saving a potential £105,000 IHT. To keep the property distanced from any trade risk a Holding Company was created into which the property was transferred. The restructuring included relief from Capital Gains Tax on the creation of the group and the property transfer, and a review of the VAT position meant that including a tenant's repairing lease enabled the trading company to reclaim VAT on repairs to the premises.

This isn't necessarily the best answer for every client, and it will depend on their other plans and aspirations



Don't Ignore Your Business Tax Allowances

Vehicle allowances

Ensure that any new cars you bring into the business fall within the lower emission CO_2 banding of 130g/km or less for significantly better tax relief. That threshold is critical whether you acquire the car through HP or an operating lease.

HP and operating leases have different tax implications, including VAT, and obviously different ownership costs, so you should evaluate if a different option makes a clear difference to you.

Buildings + capital allowances

The basic structure of a building does not qualify for capital allowances, but don't overlook a review of your commercial property for capital allowances on inherent "fixtures"- i.e. plumbing, wiring etc within the building fabric. This can be done on your existing property, and if you are purchasing one the claim now has to be agreed as part of the purchase process if you are not to lose out completely on a claim.

A public house acquired in June 2013 already had a full claim for capital allowances made by the vendor, who had owned the property since 2006. The sale parties in June 2013 had agreed a "section 198 election" for proceeds of £1 on those assets, removing the possible claim for the purchaser.

When a review was undertaken other assets were identified which could not have been claimed in the vendor's hands. As a result the purchaser got the benefit of additional allowances and just over 6% of the purchase price. This resulted in a £219,800 of cash benefit over time to the client.

Plant + Machinery

If your business spends more than the Annual Investment Allowance in a year on plant and machinery then you should seriously consider making "Short Life Asset" elections on new equipment. This election applies to most assets apart from cars. Being a bit of a misnomer, there is no requirement for the expected life span of the asset itself to be of a particular length. The benefit is if you sell or scrap the asset within eight years of purchase, you will accelerate the tax relief if an SLA was used at the time of purchase. This is only worthwhile if you believe that the value will reduce faster than the capital allowances value. Incidentally, HMRC should accept that assets with an expected useful life of less than two years is not plant in any case, and can be relieved against the profit and loss account.

Case Study

Garbutt + Elliott claimed over £60,000 of special tax reliefs on behalf of an Ilkley manufacturer who had undertaken product development and expanded its factory. The company invested the tax savings. It also invested in new machinery including a tube laser cutter, two new robot welding cells and created more than twenty new jobs. The tax reliefs included:

- Research & Development Tax Relief provides an effective rate of tax relief of 46% on qualifying costs rather than the standard 20% corporation tax relief
- Patent Box gives a lower rate of corporation tax on profits arising from patented products; in this case it was the manufacturing process itself which was patented.
- Land Remediation relief offers 30% tax relief on capital expenditure in clearing land affected by toxins, which was necessary to accomplish the factory expansion.

For more information please contact:

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Choose The Right VAT Approach for Your Business

Voluntary VAT registration

The VAT registration threshold is £83,000 from 1 April 2016. This threshold determines when a person or entity established in the UK must register for VAT. Businesses generating income in the UK without being established in the UK do not benefit from the threshold.

Only taxable income counts towards the compulsory VAT threshold - that is, income that would be subject to VAT (at 0%, 5% or 20%) if the business or charity was registered for VAT. Income which is exempt from VAT or outside the scope of VAT should be ignored when considering if the threshold has been exceeded.

An example of VAT exempt income is that from letting a residential property, however income from letting holiday accommodation is subject to VAT at 20% if the property owner is registered for VAT, or should be registered. An example of income that is outside the scope of VAT is income a charity receives by way of donations freely given in circumstances where the charity is not obliged to provide anything to the donor.

A decision to register for VAT voluntarily will usually be beneficial if the VAT can be added to, rather than absorbed within, prices charged to customers. Having VAT added to prices will not usually be a problem for customers who can fully recover the VAT and a voluntary VAT registration can give a small business more credibility when selling to such customers. In addition, a voluntary VAT registration will enable a business to recover VAT on the costs incurred when making taxable supplies.

Where businesses sell mainly to private individuals the VAT element often has to be absorbed. Whether voluntary registration is worthwhile in those cases will depend on the level and the nature of the VAT bearing costsin the past and future. In some cases a backdated voluntary VAT registration can result in significant VAT savings for example, where a business has incurred significant costs refurbishing a property prior to starting trading.

For more information on VAT please contact:

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Planning for you and your family

The key personal tax thresholds for the 2016/17 tax year are:

£5,965	Threshold for Class 2 national insurance for self employed profits. It might be worth paying it voluntarily even when below this threshold in order to gain a qualifying year for state pension entitlement.
£8,060	The starting point for Class 1 (employee) and Class 4 (self employed profits) national insurance.
£11,000	Personal tax allowance
£43,000	The 40% tax threshold
£50,000	If you or your partner receives child benefit, it can potentiallybe clawed back if the higher earner has income in the range of £50,000-£60,000. For a two-child family that could cost nearly £1,800 a year.
£100,000	A 60% tax rate applies to income between £100,000 - £122,000 as you will gradually lose your personal tax allowance within that band.
£150,000	The threshold for 45% tax.

Planning options for individuals and families might include:

- If you have a let property, then income could be shared within the family by transferring part of the property to them. The proportion of income does not necessarily need to match the portion of capital value transferred. This can also be very effective for Inheritance Tax planning. There are Capital Gains Tax and SDLT implications to consider as part of such planning.
- Capital Gains Tax planning may include making disposals over different tax years, or transferring an asset to your spouse or civil partner prior to making a joint disposal of it but that can also depend on individual circumstances, for example who qualifies for Entrepreneurs' Relief.

For more information please contact Richard Whitelock - rwhitelock@garbutt-elliott.co.uk

How Can You Save Inheritance Tax

Your first priority should be to ensure that you have a valid Will which reflects your wishes – otherwise not only will Probate take longer for your family to arrange but the new intestacy rules from October 2014 could distribute your estate in a way that you did not envisage.

You should review how tax efficiently your estate is arranged, and this could include:

- If you have personal property used in a business, this may be better held in the business itself which could fully exempt the asset from IHT. (In contrast, the "wrong" assets in a business could create extra IHT.)
- Including a "nil rate band trust" in your Will. Even though any unused amount can be passed to the surviving spouse the current exemption of £325,000 is unlikely to increase significantly. (The use of a nil rate band trust may be advantageous particularly if the value of assets grows at a greater rate than the value of the nil rate band.)
- The new £1m main residence nil rate band won't be as generous as it seems. In effect it is only an extra £175,000 per spouse from 2020 on top of their existing £325,000 nil rate band. The rules are particularly complex if you are thinking of downsizing to a property worth less than £350,000. It's still worth having – although if your estate is worth more than £2m then the extra main residence allowance is clawed back. (However, using a nil rate band will trust on the first death or making lifetime gifts could help to ensure that your chargeable estate on death is less than £2m.)
- Gifts Out of Income during your lifetime remain one of the most effective IHT planning routes. Gifts are instantly outside of your estate without needing to survive seven years, and – subject to the other conditions - there is no limit on the amount that you can gift from your estate.
- Buy land & buildings from your personal fund which qualifies for Business Property Relief (BPR), with personal cash.

G+E WM Section: More pension changes ahead in 2016

The government's decision on pension tax relief will define 2016 for financial planners helping their clients plan for their retirement. In the budget in March, whilst the chancellor did not change pensions, the introduction of a lifetime ISA may well be the first step to a pension ISA.

The government's auto-enrolment initiative will continue in 2016 with half a million small and micro-employers staging this year. We have been helping businesses ensure they are compliant with the new legislation since the rules came into law and will be working with many more firms this year.

Have I saved enough for my retirement? How much income can/should I take from my pensions?

Previous constrictions on the shape of retirement income have now fallen away, meaning that a pension pot is accessible in full as soon as you are 55.

Clearly, there is a planning requirement about timing, tax efficiency and tax consequences of any course of action.

The old model of 'fund your ISA first, then your pension' is being challenged by the new pension freedoms and many take the view now that your pension should be the first thing to fill up and the last thing to touch.

But it's never as simple as all that, so there is a planning need around the various tax wrappers at play in any portfolio, and the role of each in generating growth/income as appropriate.

Consider how you are going to provide for vulnerable family members, or ensure that assets do not end up outside of the family – a trust is not just about tax planning, but also about control and security.

Where to invest

The key to success with an investment portfolio is less about timing the market, and more to do with time in the market and the choice of asset class.

- The Barclays Equity Gilt Study, which has tracked the performance of UK assets since 1899 to the end of 2014, shows that the longer you hold share-based investments, the more likely they are to out perform cash.
- According to the study, over an 18 year period there was a 99% chance of shares outperforming the returns of cash. This dropped to 68% if the investments were held for only 2 years.

Make provision for loved ones

The change in pension legislation does have an impact here, assuming that there are some pension assets in the portfolio. Death benefits have been a consideration in timing decisions previously (see below).

Going forward, a wider planning point centres on whether ANY pension assets should be accessed prior to age 75, where income requirement can be met from other sources.

Although spouses can now inherit ISA wrappers – a useful and positive change, for which it is worth planning ahead - there is still no IHT relief for ISAs so in many cases it may be worth using the income and capital built up in ISAs before drawing from your pension funds.

Whether you are a business owner, non-resident, family member, risk-taker, or any number of things you should take time out once in a while to think if there are things you could be doing differently to put yourself in a better position. We want to help you do that.

Payment Type	Age of the annuitant at Death	Tax
Lump Sum - Annuity Protection/Capital Protected Annuity	Death before age 75	Tax-Free
	Death from age 75 onwards	45% (taxable at marginal income tax rate of the recipient from 2016/17 onwards)
Income - income from guaranteed payments or joint life/nominees'/successor' annuities	Death before age 75	Tax-Free**
	Death from age 75 onwards	Taxable at marginal income tax rate of the recipient

For more information, please contact Kevin Hilton - khilton@ge-wm.co.uk

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Please contact us to discuss any of the featured topics and to ensure all possible options have been explored.

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