



# 20 Ideas to Reduce Your Tax Bill

## Corporation Tax

### 1. Incorporate

There is still plenty to be gained from incorporation. A married couple in a trading partnership with profits of £100K will pay total tax and NIC of about £27K in 2009/10. By incorporating they can successfully avoid paying NIC and reduce their tax bill to about £20K leaving them about £7K better off.

### 2. Small companies' rate



From 1 April 2008, companies with profits of less than £300K pay corporation tax at 21% and profits of between £300K and £1.5M are taxed at the marginal

rate of 29.75%. If there are active associated companies with common control the limits are reduced for each company. Thus if there are three associated companies any of them with profits of more than £100k pay at the marginal rate of 29.75% on the excess.

The moral is to try to have only one active company and to keep its taxable profits to below £300K and to make any unnecessary group companies dormant before an accounting year-end.

### 3. Capital allowances

Timing asset purchases before the accounting year end can give tax relief a whole year earlier than would otherwise be the case. Care is needed on timing, however changes have occurred from April 2010 so that up to £100K of capital spend in a year may immediately be written off against profits. It is also well worth while looking into benefiting from tax relief

on research and development and energy efficient assets as there are a number of tax breaks surrounding expenditure on these items. In particular 100% tax relief is available on energy efficient and environmentally beneficial equipment as well as R&D expenditure. The definition of R&D can be quite broad and it covers far more than pure scientific research.

### 4. Qualifying Low Emission Cars

Qualifying low emission cars (QALPEC) can qualify for 100% capital allowances and therefore the cost may be deductible for tax purposes. In addition, where an employee is provided with a QALPEC as a company car, they will be only be taxed on 10% of the list price. Therefore if an employee is provided with a QALPEC with a list price of £7,000, the company may receive a corporation tax deduction of £7,000 and the employee will be taxed on a benefit of  $£7,000 \times 10\% = £700$ . A basic rate taxpayer will receive a tax bill of just £140 for the year!

### 5. Pay rent, interest and dividends

Paying a large salary to the owner/director of a company is usually far less attractive from a pure tax and NIC point of view than extracting profits by way of:

- interest on money lent by the owner,
- rent of business premises owned by a him/her (but be careful of Entrepreneurs Relief) or
- dividends



## Corporation Tax continued

### 6. Pensions

It is still the case that pension planning can be one of the most tax efficient ways of extracting profits from a company. So long as the total package paid to a director can be justified as reasonable remuneration for his or her duties, virtually all pension payments up to £235K (2008/09) in a year are allowable for tax in a company. In addition the individual should not be liable for income tax in respect of the pension contributions made by the company. The pension fund

can invest in a wide range of assets including the commercial premises occupied by the company and in some circumstances in a company's own shares.

There were new measures announced in the 2009 Budget that will limit this form of planning from 2011/12, however the new rules are complex and advice should be sought prior to making significant pension contributions particularly where the individual has earned more than £130,000 for the last two years.

## Value Added Tax

### 7. Partial exemption

If you are in business and are registered for VAT and also have apparently unrelated commercial activities such as residential lettings, you may be able to recover the VAT paid out in respect of the letting activity (repairs, management fees, etc.). This is because a single person, partnership or company only has one registration no matter how many 'businesses' are carried on by that single entity. Thus, for instance, a husband and wife who have a residential property that they let out and who also have a VAT registered partnership can recover up to £7,500 of VAT that they have paid out in respect of expenses on the rented property.

### 8. Fragment businesses

Businesses with an annual turnover of more than £70,000 usually have to register for VAT. If you are going to exceed this it MAY be possible to split the business into two or more by starting a new one with your spouse or in a limited company. If HMCE decide that the two businesses are really one they can order you to put them back together for the future. This is not a straight forward planning idea and care and advice should be taken.

### 9. Flat rate schemes

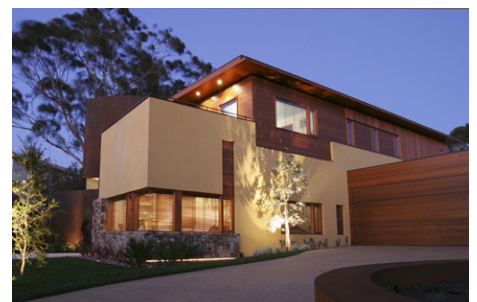
Many businesses with turnover of no more than £187,500 including VAT can register for the flat rate

scheme. This greatly simplifies record keeping and, if your VAT inputs are lower than the average for your type of business, can result in a saving in the VAT that has to be paid over.

### 10. Land and buildings and the option to tax

This is one of the most complex areas of VAT law but there are a number of overriding points.

- If the sales that your business makes are partially or entirely VAT exempt, avoid acquiring or renting premises that have been 'opted' to tax. If you rent a building that has been VAT 'opted' you may be unable to recover all of the VAT charged on the rents.
- Opt to tax land and buildings so as to be able to recover VAT on related costs.
- Do not opt to tax if you are likely to let to unregistered businesses or those with mainly exempt sales (for example letting premises to a bank or other financial services institution).



## Income Tax

### 11. Spouse income

If your spouse works in your business you can legitimately pay her or him a salary and contribute to a pension fund. A business partnership with your spouse can enable trading income to be shared and your limited company can pay dividends to him or her if you each own some of the shares.



The Government has been trying to counter what it calls “income shifting” arrangements but following a loss in the House of Lords last year, HMRC seems at present to be fairly powerless against these schemes. The Chancellor was recently forced to back down on a new plan to counter “income shifting” in order to “ensure that taxpayers pay the correct amount of tax”. But that has now been indefinitely postponed.

In the meantime, it seems that most arrangements that transfer income from a high earning spouse to one with little or no other income will be effective. Whilst there are significant tax advantages to be had from both spouses having reasonable levels of income, good professional advice is still needed in order to minimise the risk of an HMRC attack.

### 12. Pensions – SIPP’s

It is possible to make pension contributions equal to one’s entire earned income up to a ceiling of £235K and to get full tax relief on the contribution (but beware 2009 Budget changes, see 6 above). Additionally your pension fund will be able to invest in non-residential assets that your business uses and it will be able to buy assets from you. The entire pension regime changed in April 2006 and for most people the new rules are a great improvement on the old system with more relief and less regulation.

For many one of the most significant relaxations is the ability not to be required to purchase an annuity at or before the age of 75. However if you defer the annuity purchase there are some complex issues when you die after that age and good professional advice is needed so if you need help why not get in touch with Monahans Financial Services Ltd in Bath?

### 13. Interest tax relief

If you have private borrowings the interest on which does not qualify for tax relief and are in business, it can often be possible to do some refinancing so that all of the borrowings qualify for income tax relief. This tax relief can give an effective discount of up to 40% on the interest paid.



## Capital Gains Tax



### 14. Entrepreneurs' Relief

Big changes occurred to CGT on 6 April 2008 and after that date:

- Indexation and taper relief no longer apply
- Tax is charged at a fixed 18% rate on most gains
- Entrepreneurs' Relief will reduce the tax rate to an effective 10% for some sales of businesses and business assets

Disposals of assets and shares needs to be undertaken with care in order to ensure that sales of business assets qualify for Entrepreneurs' Relief.

### 15. Rollover or defer

A gain on any asset can be deferred if you invest in shares in many types of trading companies. The liability is then postponed indefinitely until you sell the shares in the company. So for instance if you sell a family heirloom for £20K you can buy new shares in your own trading company and defer the capital gain.

Gains made on business assets (but not on shares in companies) can be rolled over into the purchase of new business assets. It is perhaps worthy of note that holiday homes can qualify, for the moment.

The new CGT rules referred to in 14 above can make rollover and deferment relief more or less advantageous dependant upon the exact circumstances.

### 16. Private residence – elect

If you have a second home, be it a flat in London or a seaside house it is usually a good idea to elect that the second home is your main private residence for tax purposes. You can then revoke the election after a very short period and the final three years of ownership of the second property will qualify for tax exemption. Additionally if the second home has been let at any time a further exemption of up to £80k for a couple can become due.

The election must be made within two years of acquiring a new property.

### 17. Die!

Not the ideal way to go about tax planning but it is worth remembering that there is a tax-free uplift to market value on death. This can be particularly applicable if a married person is terminally ill as assets that are in their ownership at the time of death can revert to the surviving spouse with all of their inherent gains written off.



## Inheritance Tax



### 18. Give it away!

Gifts of any size made at least seven years before death are completely exempt from tax. Regular gifts out of excess income are immediately exempt from inheritance tax as

are gifts totalling up to £3K per annum.

### 19. Business assets - 0%,50%,100%

Make sure that business assets qualify for as much inheritance tax business property relief as possible.

Generally:

- Assets held in a partnership or by a sole trader qualify for 100% relief, as do shares in unquoted trading companies.
- Assets personally owned by a partner and used for his or her partnership business qualify for 50% relief
- Assets owned by the controlling shareholder of a trading company and used for that company's business qualify for 50% relief.
- Assets owned by a non-controlling shareholder of a company do not qualify for any relief even if they are used for the company's business.

### 20. Make a will and leave it all to your spouse

Go and see a solicitor and make a will – the intestacy rules or an old will almost certainly do not result in your assets being divided up as you would have wished or in the most tax efficient way.

Married couples both qualify for the full lifetime inheritance tax exemption of £325K and a new relief means that on the second death any unused proportion from the first death is also available. Until this change it was often considered best not to leave all of one's assets to one's surviving spouse but instead to leave something direct to the next generation or to a special sort of trust. Wills created more than 18 months ago should therefore probably now be redrawn.

However if you have a relation (or spouse) who has died without a current or tax efficient will, do a deed of variation within two years of the death and effectively rewrite the will so as to make the assets go to where you would wish and in a tax efficient way.



For further advice and assistance

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