paylesstax

2009budgetedition

Petersons

The sun shone while Darling announced tax and borrowing increases!

It may have been sunny outside on 22nd April 2009, but Alistair Darling brought the world's doom and gloom into his Budget speech. The message was clear: this is bigger than just the UK; it's an international, planet-wide problem and therefore, technically, not anyone's fault. He referred to the deep crisis of the 1930's and said that too little had been done too late. "We will not repeat those mistakes again". He used the past to justify the headline grabbing public borrowing figures, peaking at £175 billion this year, before falling slowly over the following years.

The speech was crammed with World doom and gloom, before Darling announced his rescue plan of investing to grow the UK out of recession. Darling used the gravity of the situation to increase the previously announced 45% top rate of tax from April 2011 within the blink of an eye to 50% from 2010.

As usual there were masses of details to wade through, 222 pages of budget notes, 42 pages of press notices, not to mention hundreds of pages of supplementary documents, before you even consider the budget report itself. In this edition of pay less tax we review the changes and what action you can take to save tax.

Company tax rates remain unchanged

The rates of corporation tax remain unchanged. The main rate of corporation tax will continue at 28%, and as previously announced in the 2008 Pre-Budget report the corporation tax rate for smaller companies is to stay at 21%. However it is still the highest it has been in recent years despite the recession. Despite this there are still significant tax savings to be enjoyed by transferring a business into a company.

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We offer a business health check to identify the possible tax savings that can be enjoyed.

The scope for enhanced capital allowances widened

The 100% enhanced capital allowances available for investment in energy saving or water efficient plant and machinery, is to be extended. Capital expenditure by businesses on plant and machinery would normally qualify for 20% writing down allowance. If the plant and machinery qualifies under the appropriate lists for approved energy saving equipment or water efficient technology then a 100% first year allowance can be claimed.

This enhanced 100% allowance is to include investment in uninterruptible power supplies from a date to be announced shortly.

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As investing in plant and equipment entitled to the enhanced allowances could result in the full cost being allowed for tax in the year that you bought it, then it is worth considering. It is surprising what qualifies, as it could be basic light fittings, heat pumps or mere toilets that could save tax. Further details of what qualifies can be found at www.eca.gov.uk

VAT Registration and Deregistration Limits Increase

From 1st May 2009 the threshold for registering for VAT will increase to £68,000 and the deregistration limit to £66,000.

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Consider using the flat rate VAT scheme if your business has few costs and turnover is less than £150,000 per year. The calculations of what VAT is due are much simpler and in some cases can provide a tax saving.

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Top rate of personal tax 61%

The Chancellor announced an increase in the top rate of personal tax from 2010 to 50%. This will be the highest personal tax rate in Europe, which could have a serious impact for those businesses that meet tax on behalf of employees on certain benefits. Those employers could face an effective tax rate of up to 126%.

What the Chancellor omitted to mention was that for those with incomes between £100,000 and £112,950 they will effectively be paying 60% tax on that income. This arises because of the gradual withdrawal of the personal allowance for those with incomes over £100,000 from 2010. This may even increase to 61% if all of your income is earned income as a result of the extra 1% National Insurance. Or 61.5% from 2011 when the extra 0.5% increase in National Insurance kicks in.

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If your personal income is likely to be between £100,000 and £112,950 in the tax year from 6th April 2010, then it may be worth looking at ways to reduce your income in that year to below £100,000, which could include making personal pension contributions.

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If your income is likely to be in excess of £100,000 we would be delighted to review your situation and discuss what options are available to you. These may include delaying some payments to obtain tax relief at the higher rate.

From 2010 there will be an increase in the tax rate for Trusts to 50%. Many Trustees may wish to consider the impact of the tax increases and what options are available.

With the increase in the personal tax rate to 50% for incomes over £150,000, comes an increase in the tax payable on dividends. Prior to 6th April 2010 the top rate of tax payable on dividends is 32.5%. This will increase to 42.5% on dividends where the individual's income exceeds £150,000.

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For limited company owners we offer a remuneration review to identify the most tax efficient combination of options to extract funds from the company to minimise your overall tax burden.

Losses carry back extended

A measure announced in the 2008 Pre-Budget Report to help cash flow for struggling businesses has been extended for a further year.

Companies and unincorporated businesses can normally carry back losses against profits of the previous year although there are special rules allowing a carry back for three years for unincorporated start-ups and also for businesses that cease to trade.

For company accounting periods ending between 24th November 2008 and 23rd November 2010, and unincorporated businesses ending in tax years 2008-09 and 2009-10 the three year carry back will apply to all losses. The claims will be subject to a maximum loss carry back of £50,000 for each accounting year to the earlier two years of the three year carry back period. This will result in businesses being able to claim refunds of tax paid in the earlier years, albeit limited.

Temporary u-turn on first year capital allowances

From April 2009 first year allowances on plant and machinery are being reinstated temporarily. In April 2008, after lengthy consultations, first year allowances were replaced by a 100% Annual Investment Allowance (AIA) on £50,000 of capital expenditure on most plant and machinery. The Chancellor has decided that investment in businesses needs more help and is to reinstate the first year allowance.

The 100% AIA was welcomed last year as businesses are free to allocate the AIA in any way they wish, leaving them free to maximise their tax savings by ensuring that the allowance is allocated against assets that would normally qualify for the lowest reliefs.

Where businesses spend more than £50,000 on plant and machinery then it may be possible to claim the new 40% first year allowance on the excess, in addition to the 100% AIA on the first £50,000. There will be certain conditions and exceptions, such as cars and assets to be leased will not qualify.

Name and shame deliberate tax defaulters

HM Revenue and Customs will be able to publish the names and details of individuals and companies who are penalised for deliberate defaults. The measure is aimed at those that under declare their tax fraudulently as opposed to those legitimately seeking to reduce their tax liabilities.

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There are legitimate ways to reduce your tax burden and organise payments of liabilities. Please contact us if you would like us to explore these with you further.

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Company car tax to change in 2011

New benefit in kind rates will apply for company cars provided after 5th April 2011. Where an employee is provided with a company car for their private use they will be taxed on a benefit in kind, which is reported each year on HM Revenue and Customs form P11D. The calculation of the benefit in kind is based upon the list price of the vehicle and accessories provided and the CO2 emissions.
The rates used in the calculations will change in 2011 and subsequent years. The current £80,000 cap to the list price used will be removed increasing the taxable benefit for those employees with cars costing more than £80,000.

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We would be happy to review the taxable benefit on your company cars and advise on ways to reduce the tax burden.

No mention of income shifting

Whilst there was no mention of the previous income shifting rules mentioned, the Budget notices included reference to the disposal of income streams. If companies, partnerships or individuals dispose of the right to future income streams without disposing of the underlying asset then the proceeds will be taxed as income. Although in some circumstances this is already the case, the proposed changes are to be more comprehensive.

Investment limits for Individual Savings Accounts (ISA's) increase

The amounts that can be invested into ISA's will increase to £10,200 per tax year, of which up to £5,100 can be saved as cash.

This will increase the amount an individual can save without suffering income tax or capital gains tax on their investment. For those aged 50 or over before 6th April 2010, the new limits will apply from 6th October 2009.

For everyone else the new ISA investment limits will apply from 6th April 2010.

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As anyone 16 or over can open an ISA and earn interest tax free it is well worth older children considering opening an account.

Stamp Duty on residential property extended to 31st December 2009

The Chancellor announced a "holiday" from Stamp Duty Land Tax in September 2008 for homes costing £175,000 or less. This holiday was to be applied until 2nd September 2009. In the Budget the Chancellor has extended the period of this Stamp Duty Land Tax holiday for residential properties up to £175,000 until 31st December 2009.

Greener cars more tax efficient for businesses

From April 2009 the annual capital allowances for cars will be dependent on the level of CO2 emissions for the car rather than just the cost. Cars below 110 gm/km will continue to be entitled to a full 100% first year allowance, between 110-160 gm/km will get an annual allowance of 20% whereas cars in excess of 160 gm/km will only qualify for 10% in a special rate pool.

The changes add further complexities to already complex rules, making it more difficult for business owners to make informed decisions. For example, businesses purchasing cars costing more than £30,000 and over 110 g/km CO2 may well be better off under the new rules. However if the car is likely to fall drastically in value and perhaps not be owned for too long, then the changes are going to be costly. Motorcycles are excluded from the definition of cars and will not be subject to the new rules, but will qualify for the 100% Annual Investment Allowance.

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As the issues may not be straightforward and there could be significant amounts at stake then please contact us prior to making the purchase.

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Cars with low emissions may be a very cheap way of providing family members with cars whilst saving tax. It is surprising what cars have low emissions. A list of cars can be found at www.comcar.co.uk.

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Tax Relief restricted on Pension Contributions for high earners

From 6th April 2010 tax relief on pension contributions will be restricted for people with taxable income of £150,000 or more. These high earners will suffer restrictions on their pension contributions until they eventually only receive 20% tax relief in the same way basic rate taxpayers do.

An individual receives relief at their marginal income tax rate on their pension savings. Relief for these high earners could be at 20% from 2010 instead of their new marginal rate of 50%. Broadly for every £100 pension contribution from April 2010 it will cost the higher earner £80 rather than £60, as is currently the case.

Although there are no limits to how much can be saved in registered pension schemes, the maximum tax relief available in any one year for pension contributions is limited to 100% of a person's earnings and by what is called the "annual allowance". One option may be to make substantial pension contributions in the current tax year when 40% tax relief is possible.

Before you rush out and make such substantial payments into your pension, hold on. The Budget includes rules to catch any payments in excess of £20,000 in a year that are not the usual level of contributions paid. It is difficult to see how these rules are going to work this year, let alone avoid catching innocent individuals who had already planned to make substantial contributions this year that are not part of a normal pattern.

EIS carry back rules relaxed

From 6th April 2009 the rules regarding the carry back of income tax relief for investments into Enterprise Investment Schemes (EIS) have been relaxed. Previously only up to half of the investment made (with an overall maximum of £50,000) prior to 6th October in a tax year could be carried back. These restrictions have been removed and the full investment, up to the maximum in any one year of £500,000, can be carried back.

For investments made on or after 22nd April 2009 into EIS, Corporate Venturing Scheme (CVS), or Venture Capital Trust (VCT) the funds need to be employed for the purposes of a qualifying activity within two years of the issue of shares or if later within two years of trade commencing. The time limits were previously much tighter.

Financial advice should always be sought to ensure the right investments are made for your circumstances and the risks you wish to take.

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If you are setting up a new business and introducing funds, consider whether it can be set up under the EIS rules and you enjoy the same tax breaks as for an EIS investment. Care would be needed but the tax savings could be substantial.

We can help

Taking advantage of tax saving opportunities and avoiding the tax pitfalls can mean that action often needs to be taken on a timely basis. We can provide such timely advice and ensure that you maximise your tax savings.

The key message is to seek advice early. Many tax planning opportunities are only available if put in place before undertaking a transaction, or before the rules change.

If you would like to discuss ways in which you may be able to make tax savings then please do not hesitate to contact us.

We would be delighted to advise you on any of the issues identified in this edition of "Pay less tax."

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Plan to reduce tax costs

This budget merely defers the pain. The brutal truth is that the changes announced barely scratch the surface of the tax rises we will see over the next few years. The real problem is that the already huge shortfall between spending and taxes looks set to grow even bigger as the true cost of the recession and the government's rescue packages really start to be felt. All of the extra borrowing projected will need to be repaid out of much bigger tax bills for all of us in the future.

Tax is already a significant cost for most people and businesses; this is set to become worse. There are various tax planning solutions that can be explored, depending upon exact circumstances. Tax planning solutions can be broken down into basic, medium and advanced. We are happy to explore all of these with you.

We have teamed up with a number of tax experts in the UK to bring leading edge advanced tax planning strategies to you… strategies that can save many thousands of pounds in tax. Please do not hesitate to contact us if you are interested in discussing these further.

Have you made taxable gains in last 3 years?

With the relaxation in the carry back rules for Enterprise Investment Schemes (EIS) announced in the budget, it may be worth exploring some of the benefits of the investment.

You will be entitled to 20% tax relief on the initial investment against income tax, providing the EIS shares are held for at least 3 years. It is now possible to carry back this relief to the previous tax year and get your tax back much earlier.

Provided that the shares are held for at least 3 years, there will be no capital gains tax payable on their subsequent disposal. Once the shares are owned for 2 years, they will attract business property relief for inheritance tax, meaning that if the owner dies whilst holding them the shares will be 100% relievable against Inheritance Tax.

If you have suffered Capital Gains Tax at rates in excess of 20% in the last three years, then all is not lost. You may be able to defer the gain into an EIS investment. Providing qualifying conditions are met, then when you come to sell your shares, the gain rolled over would be taxed at the current capital gains tax rate, 18%.

Before making an investment in EIS shares, financial advice should be taken;

- As EIS are longer-term investments, they should not be contemplated for periods of less than 5 years. In any case, the shares must be held for 3 years to maintain the tax relief.
- Shares in an EIS must be regarded as risky investments, and are only suitable for individuals with the capacity for risk for such investments. These can fall in value, as well as rise.

Review your investments

With such dramatic increases to tax rates in 2010, it is worth planning ahead in order to avoid paying unnecessary tax. For example if you have fluctuating income, such as from investment bonds, then you may wish to bring forward any spikes in your income to before 6th April 2010. It is worth having a full review of your circumstances to ensure tax savings are maximised and your finances are maximised. We can refer you to an appropriate Financial Adviser to help you plan for the difficult times ahead.

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Take money out of your company with no tax – part 2

In the last edition of Pay Less Tax, we explored how dividends could be used to extract profits from the company with no tax in some circumstances. In this edition we turn our attention to EFRBS.

What are EFRBS I hear you ask? EFRBS stands for Employer Financed Retirement Benefit Schemes, which are sometimes referred to as non-registered pension schemes. EFRBS replace what were, prior to April 2006, known as international pension plans and/or funded unapproved retirement benefit schemes (FURBS).

In broad terms EFRBS enable employers to provide executives and employees with benefits on or in connection with their retirement. EFRBS are particularly attractive in moving funds out of the company as, providing certain conditions are met, there is no UK income tax or National Insurance for the employee on the employer contributions made to the EFRBS.

There is no tax or national insurance for the company on the employer contributions to the EFRBS. The contributions may be tax neutral in that the company may not be entitled to corporate tax relief on them. In certain circumstances a corporation tax deduction can be obtained for appropriate contributions into an EFRBS.

EFRBS are not subject to the same limits on contributions as registered pension schemes, as a result higher earners can have substantial payments made into their EFRBS without any of the restrictions announced in the budget applying. There are also no scheme surcharges or taxes on benefits that exceed registered scheme limits.

Likewise the contributions paid into the EFRBS will not affect the annual allowance limit on contributions or the lifetime allowance limit for existing or new UK registered pension schemes.

There is no specific retirement age, and no requirement to buy an annuity at any age, although the minimum age at which benefits can be taken will be 55 from 6th April 2010. However that is not the end of the story, as the rules governing EFRBS are much more relaxed than registered pension schemes. This means that there is a very wide investment choice not normally allowed with a registered pension fund, including residential property, chattels and alternative investments.

The EFRBS will be liable to tax on its UK income at the rate applicable to Trusts, currently 40%, but increasing to 50% in 2011. As the EFRBS trusts can be set up either onshore or offshore, setting them up offshore may avoid UK taxes on income and gains for the EFRBS. However care is needed and advice should be taken. Depending upon how the EFRBS is set up there may well be Inheritance Tax savings on the fund.

When the employee does decide to take the pension, the income will be taxed according to the individual's residence at the time. EFRBS are available to both UK-domiciled and non-UK-domiciled employees.

We offer a remuneration review for company owners to identify the most tax efficient combination of options to extract funds from the company and save as much tax as possible. In future editions of Pay Less Tax we will consider other alternatives.

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