

Focus newsletter

IN THIS ISSUE

With the future of higher rate income tax up for debate and major rule changes to limit landlord tax relief in the offing, forward planning is key.

Commercial property owners and certain residential landlords could be severely affected if a rule change limiting their ability to make lucrative capital allowance claims goes ahead next year. Added to this, there could be a time limited opportunity for investors to benefit from higher rate relief and potentially claw back many thousands of pounds in tax.

Lastly, alongside some top tips for start-ups, we meet one of the UK's most successful entrepreneurs, Lara Morgan, who built up and sold her global business, Pacific Direct, for £20m.

We hope that you find these articles useful. If you have any queries, please don't hesitate to get in touch.

Where now for 50% tax?

With the future of top rate income tax set to be announced next year and no end to the political wrangling in sight, David Nash, Head of Private Client Tax in the Midlands, surveys the Chancellor's options.

George Osborne has made it clear that he wishes to scrap the 50% income tax rate to attract wealth creators into Britain, but with many Lib Dems set against the measure and demanding new wealth taxes, the Chancellor's decision is far from straightforward.

January review

The Chancellor has always said that the higher rate is a temporary measure; however, recent reports suggesting that 50% tax receipts will be lower than expected may have prompted him to review the issue sooner than planned.

In order to put an end to the political stalemate, the Chancellor has asked HM Revenue

& Customs (HMRC) to review the 50% rate to see exactly how much tax it raises, with the results due out in January. It is possible that an announcement on the future of the rate could be made in the March Budget and implemented as early as April 2012 – however, the political fallout from such a move could be immense unless it's countered with a new wealth tax.

The failure of 50% tax

No one is in any doubt that a 50% tax rate is counterproductive for the economy. A lower income tax rate would mean more investment, which is key given that the 'recovery' is dependent significantly on the private sector.





Where now for 50% tax? Continued...

The Government has taken steps to improve UK competitiveness in corporate taxes to attract inward investment; however, hikes in income tax and NIC, together with other recent changes in taxation rules (for example, those relating to non UK domiciled individuals), mean there is a natural conflict between attracting inward investment from businesses whilst owners suffer personally by relocating here.

One of the most common misconceptions is that top earners don't pay their fair share of income tax, but based on HMRC's own statistics this couldn't be further from the truth. According to recent figures, those on incomes above £61,500 (representing the top 5% of taxpayers) pay 47% of the total income tax take; whilst those on incomes of more than £150,000 (the top 1% of taxpayers) pay 27% of all income tax. Indeed, from an Owner Managed Business point of view, that's just personal tax without accounting for company taxes and taxes paid by dependent work forces!

New wealth taxes?

Vince Cable has already hinted that a property tax on expensive homes may be the sacrifice high earners will have to make if the 50% rate is reduced. However, the problem with this idea is it assumes all owners of high value property

have earnings to match. Added to this, there are question marks over how the Government would implement such a tax, not forgetting the risk of destabilising the top end of the property market.

Ultimately, such a policy could prove unworkable; however, the Chancellor has admitted that he will be looking at ways to make wealthy individuals 'pay their fair share', so some form of new wealth tax may well be an area he targets in the future.

The next steps

Whilst the future of the 50% rate is up for debate, tax planning strategy remains as important as ever. Maximum use of allowances, exemptions and reliefs should be the aim. Those paying 50% tax may want to accelerate pension contributions to benefit from higher tax relief whilst the rate is in place. Further tax efficient investment options to secure 50% tax relief may include investments, such as those benefiting from the Business Premises Renovation Allowance - an enhanced capital allowance for the redevelopment of commercial property in certain parts of the UK. Other tax efficient investments, such as Enterprise Investment Schemes and Venture Capital Trusts, will also be attractive. ●

In numbers...

£125,000

The total potential tax relief from a pension when using the carry forward rules.

Source: Target Financial Management

Get in touch



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Pensions – act now to secure maximum rate relief

The 50% tax rate is under review, meaning time could be running out for investors to take advantage of maximum rate relief, as Head of Pensions and Retirement Options, Danny Parrish, explains.

George Osborne's announcement that the top rate of income tax could be scrapped gives investors added incentive to maximise their pension contributions now to ensure they secure the maximum rate relief.

The good news is that despite the reduction in the annual allowance to £50k, the potential contributions investors can make before 5 April could be considerable, thanks to the carry forward rules.

How it works

Now that the anti-forestalling rules have been lifted, investors are free to carry forward any unused allowances for the past three tax years into their pension scheme. Individuals who haven't made any contributions since 08/09, for example, have a £50k allowance to carry forward for each of the following three tax years. Including the current year's allowance, this would give them a maximum contribution of £200k, with tax relief at the 50% rate.

In some circumstances, it is also possible that the default pension end date for the 2011/12 tax year may close before 5 April, meaning that a contribution for the 2012/13 year can also be made, bringing the total maximum contribution to £250,000.

EXAMPLE:

- £200,000 net personal contribution is paid (full allowances for 08/09-12/13 tax years)
- Pension reclaims Basic Rate Tax relief (£50k) = £250k gross contribution
- Additional Higher Rate Tax relief claimed via tax return of £75,000

Total potential tax relief = £125,000



Timing is crucial

This higher rate of tax relief will only be available to investors if the top rate of tax remains at 50%. HM Revenue and Customs is due to complete its review of the tax collections in January next year. If the Chancellor does decide to lower the 50% rate, in our opinion, it's likely he'll make the announcement in the 2012 Budget. This means we could see a rate shift as early as April next year, so we would suggest investors may wish to consider using their carry forward allowances now to take advantage of this opportunity while it lasts.

Don't get caught out...

Unfortunately, the carry forward rules are very complicated. Firstly, investors must have been a member of a registered pension scheme in the years for which the carry forward is to be used (where there has been a break in scheme membership, the situation is less straightforward).

Furthermore, it is crucial to get the right advice in order to secure the right amount of tax relief, or else you could risk breaching the allowances. It very much depends on individual circumstances as to what each investor can carry forward. If, for example, an individual is a member of a defined benefits scheme, an adviser will need to recalculate what that defined benefit is. In most situations, advice from our Tax Planning team will also be needed in order to optimise the amount of tax relief. ●

The value of investments and the income from them can fall as well as rise and is not guaranteed and investors may get back less than invested. Target Financial Management Limited is authorised and regulated by the Financial Services Authority (FSA). Registered in England and Wales No. 4492934. Tax advice is not regulated by the FSA.

In numbers...

50%

The tax refunds which could be generated from early trading losses via a start-up Partnership.

Source: Target Tax Planning

Get in touch



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Capital allowances – use them or lose them!

HMRC is proposing to change the rules over capital allowances from April 2012, so commercial property owners and certain 'residential' landlords need to act fast to secure their claims in time, as director of Tax Planning, Mark Tuckwell, explains.

The rules on capital allowances - a very valuable form of tax relief available to commercial property owners and some 'residential' landlords - are due to be tightened up, possibly from 6 April 2012.

Capital allowances allow owners to claim tax relief for up to 100% of expenditure incurred on fixtures, fittings or equipment. Such items can be fixed to or form part of the building itself, such as heating, water and air-conditioning systems, sanitary ware etc, or free-standing items. Typically, up to a third of the building cost can represent such items so the tax savings can be substantial.

What's changing?

Currently, capital allowance claims can be made retrospectively and there is no time limit for submitting a claim. Therefore, it's possible to make claims stretching back many years if these have been missed previously.

However, HMRC is proposing to introduce a time limit so that in the future capital allowances will have to be claimed a short period after acquisition, otherwise the buyer loses the right to tax relief completely. The precise details are yet to be revealed, but a period requiring 'pooling' of expenditure within one or two years after it has been incurred would appear likely. The rule change is also likely to impact on expenditure incurred before 6 April 2012.

Qualifying criteria

Commercial property owners - capital allowances are available in two situations; firstly, when a commercial property is purchased and secondly, when a new commercial property is built, or fit-out/refurbishment works are undertaken. When an existing building is purchased, the buyer



can make a 'just and reasonable' apportionment of the purchase price to reflect the fixtures element, even if it was bought a number of years ago.

'Residential' landlords - landlords of houses in Multiple Occupation (or HMOs), such as student lets or shared houses, are able to make capital allowance claims for expenditure incurred up to 22 October 2010. Allowances can be claimed for plant and fixtures located in most communal areas, which in practice will cover the entire property (with the exception of individual bedrooms). It is also possible for landlords to claim for expenditure incurred on the original purchase price of the property (whenever that occurred) and any subsequent additions within the qualifying period.

Act now...

Property owners and landlords risk losing the opportunity to claim substantial tax relief if they don't ensure all available allowances are properly analysed and claimed before April 2012. The process of handling complicated claims can take time, so it is advisable to get in touch with your adviser as soon as possible. ●

In numbers...

£50,000

The maximum saving for start-up businesses using the National Insurance holiday scheme.

Source: Target Tax Planning

Get in touch



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Tax perks and Partnerships

Most people assume the most tax efficient way to set up a business is through a Limited Company, but this isn't necessarily the case, as Paul Morris explains.

There are several choices available to directors when setting up a business. The easiest and often 'default' option is to set up a Limited Company. However, contrary to popular belief, a company route isn't always the most tax efficient method.

An increasingly popular alternative is for start-up businesses to use a Partnership or Limited Liability Partnership (LLP) initially and transfer the business into a Limited Company later on. This method can provide some valuable tax breaks that would not be available otherwise.

Generate tax rebates from early-year losses

1 Many new businesses make losses initially as a result of set-up costs, etc. A Partnership or LLP can allow relief for 'early year' trading losses against the Proprietor's personal income for up to three years before the business commenced. This can generate sizeable tax refunds at rates of up to 50%.

Shelter future profits at lower corporate tax rates

2 Once the business moves into profit, the business can be transferred into a Limited Company to shelter future profits using corporate tax rates as low as 20%.

3 Alternatively, a 'Corporate Partner' can be included within the Partnership or LLP at the outset into which profits can be 'swept' each year. This allows the Proprietors to benefit personally from early year loss, but 'side-step' higher rate income tax on profits later on.

Extract profits at 10% tax by generating a loan account

4 If the business is sold to a Limited Company later on, a 'loan account' can be created against which future profits can be withdrawn at a 10% tax rate. Furthermore, when transferring a Partnership or LLP into a Limited Company, the business can be valued to take account of any 'goodwill' or Intellectual Property (IP) that has been created, in much the same way as if the business was sold externally.

Claim tax relief for internally generated IP and goodwill

5 To really enhance the benefit, once the Partnership business is sold to a Limited Company, the company can then claim tax relief for this 'internally generated' goodwill value against its profits. This would not be the case if a company was used from the outset.

Other benefits...

Bringing key individuals into the business as partners rather than as employees also means the business isn't liable for employers' National Insurance charges and can provide an effective mechanism to give staff a slice of equity without the employment tax issues associated with share-based incentives.

Furthermore, by using a Corporate Partner structure, it is still possible to access R&D tax credits, which are usually the preserve of businesses run as Limited Companies.

Summary

When considering the ideal business structure the message is to think more widely than just using a Limited Company...it really is possible to have your cake and eat it! ●

Get in touch



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Tax holidays for start-ups – are you missing out?

TAX TIP

Start-up firms are failing to take advantage of a new tax break scheme which could be saving them thousands of pounds, according to recent figures.

The National Insurance holiday scheme, which was established by the Government last year, provides exemption from up to £5,000 of Class 1 employer NIC for the first 10 employees hired during the first year of business. This

means a maximum saving on National Insurance payments of up to £50,000!

The scheme runs until 5 September 2013 and is available to qualifying new businesses set up on or after 22 June 2010 in certain regions of the UK (mainly outside London, the South East and East England).

Most kinds of business activity (including investment

and property businesses) will be eligible for the holiday, provided they employ staff.

The message to new business owners is therefore clear – if they meet the right conditions, they need to be taking advantage of this valuable tax break while they can. ●

For more information, please contact a member of the Tax Planning team.

Property Matters

Tax warning on high-end properties



HMRC is ramping up checks on the sales of high value properties to clampdown on legacies used to buy homes.

The investigation into Land Registry data on house purchases and sales affects people who use a monetary gift or inheritance to buy a property, or pay off a sizeable amount on their mortgage.

The taxman is also paying particular attention to instances where a high value property has been bought and sold within a short time frame of say two to three years.

In these cases, HMRC is demanding evidence of how the funds were obtained, including documentation from executors to prove how much money has been inherited, along with evidence of any income including salary.

The taxman is also investigating instances where properties have been sold for less than their valuation. In 2010 alone, HMRC investigated over 9,000 house price valuations to claw back some £70m in inheritance tax.

Estates and beneficiaries are therefore advised to obtain several valuations from

professional valuers and chartered surveyors so they can prove reasonable care has been taken to determine the property's market value.

If HMRC deems there is insufficient evidence, families can face penalties of up to 100% of the original tax liability on top of the tax due, so it is essential to plan ahead.

Monetary gifts

The latest round of HMRC investigations also affects people who are gifted large sums of money from their parents to buy a property.

Although a parent is able to give unlimited amounts tax free if they live for another seven years, evidence of such transactions is still required. It is advisable therefore to gift any money by bank transfer, and for the parent to write a letter to their child summarising the details of the gift and forward a copy of this to their solicitor and accountant.

To discuss how the latest clampdown could affect you, please contact a member of the Tax Planning team. ●



The latest round of HMRC investigations also affects people who are gifted large sums of money from their parents to buy a property.



Meet the entrepreneur

LARA MORGAN

Lara Morgan is one of the UK's most successful female entrepreneurs. At just 23 she'd set up her first company, Pacific Direct – a company which she transformed from a cottage industry into a multi-million business empire, manufacturing and supplying branded toiletries to luxury hotels in more than 110 countries.

In 2005, Lara famously took her workforce on holiday to Barbados to celebrate the company's record £1m profit, before selling her majority stake in the business for £20m three years later.

How did you start Pacific Direct? I started Pacific Direct during the 1991 recession without a plan or any formal business education, but with experience and skills in sales. The only business model I knew was my determination to always strive to be the best.

Direct sales or cold calling was important to your early success – is this still an effective business development strategy or is it outdated? Highly targeted, well-trained, persistent and selective cold calling will always pay dividends. I do think there is a current missing art in communication by always seemingly being by e-mail. Sales is a people business – ideally face-to-face – and persistence is the only way to become really successful.

How do you preserve the culture of an organisation during periods of rapid expansion? In our experience, the return on investment for time spent building the culture created value far beyond more easily measurable commercial benefits.

We did endless things to build on established culture which had to come from the leadership of each part of the global business. For example, we painted the different offices mad colours for brightening

up the workspace, always invested in the best technology for the team performance, continually looked for travel exchanges between different parts of the company for learning and experience and also held annual weekends away in all divisions to share the company goals, intentions and targets, whilst playing games, team building and sharing skills.

What do you look for in a leader?

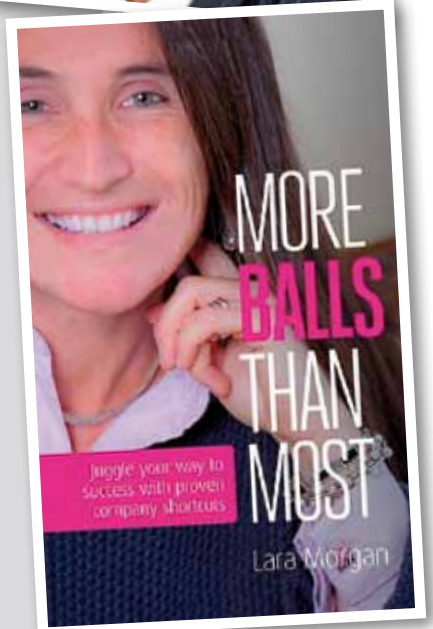
Fairness must be at the heart of the company values and personal integrity and leadership by example go a long way to enabling the successful management of people – for example, if you expect sales people to travel in economy, so should you.

Do you have any nicknames?

I have been known as the 'Ronseal of business' by friends for some time! This comes about because I generally speak directly, irrespective of the topic, from experience and I am not afraid of the tough realities we all have to overcome.

What would you say is your greatest achievement to date? Being the mother of three amazing children remains my most priceless achievement. I am a nightmare wife to a seriously patient man. Together we have managed to create a wealth of memories and experiences that are very valuable, a choice to do what we wish with the rest of our lives, and time in which to have a go at everything. ●

Lara Morgan's entrepreneurial business guide, More Balls than Most, is published by Infinite Ideas and is available to buy from Amazon.



Sales is a people business and persistence is the only way to become really successful. ●●

About Target

At Target Chartered Accountants we love our work with entrepreneurial businesses and the people who run them. Our exclusive focus is owner-managed businesses and private individuals which means that you are our number one priority.

So we get it; you'll receive advice that's spot on, swift responses and proactive ideas, as well as value that you can measure.

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For a fresh opinion on the challenges and opportunities that face you, talk to us.

Call 0845 241 3387

Changes for 2012...

Next year we'll be producing a new newsletter for our clients. **If you know anyone who you think would like to receive a copy please send their details to info@target-accountants.com**

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