HOW TO PAY LESS TAX

AN ESSENTIAL GUIDE FOR GUEST HOUSES AND HOTELS

HANLEY & CO CHARTERED ACCOUNTANTS AND BUSINESS ADVISORS

Hello and welcome!

This Mini Guide gives you lots of tax saving ideas. We recommend you do not take action without professional advice and of course refer you to our disclaimer on the final page of this guide.

If you need any further information please, just call or email me or any of our staff to discuss any of the ideas in more detail

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Why This Report Has Been Created

This report **focuses on small hotel and guest house businesses**, identifies the key tax saving areas for them and uses jargon free language to explain them.

This isn't a report about what forms you have to fill in, what the deadlines are, etc. That's all the **boring compliance stuff that we will look after for you.** This is the **proactive** stuff that makes a real difference that you also want your accountant to be doing for you. This is the stuff that will pay for our fees many times over.

The Ideas That Are Best For Small Businesses

The type of tax planning ideas ideal for small businesses are:

- **LOW COST** in relation to the tax savings obtained. Small businesses don't have never ending budgets for accountancy fees and all solutions have to be cost effective for you.

- **QUICK & EASY**– you are busy with your business and don't have ages to spend on implementing tax ideas. So they must allow you to do them relatively quickly. At Hanley & Co we can show you exactly what to do and provide you with any standard documentation, makes this a lot easier.

- **LEGAL** – you don't want to get into trouble with the Taxman as this could lead to an **investigation** that can cost you thousands in accountants' fees, as well as a lot of time and stress.

- All the ideas in this report are legal. And they all follow the above principles - apart from one or two that were just too good to leave out! They are the key areas faced by many small businesses although in your own particular circumstances it is likely other tax planning ideas may also be suitable.

Tax Evasion v Tax Avoidance & Why The Taxman Isn't Always Right

In very simple terms, **tax avoidance is legal, but tax evasion is illegal** and you risk prosecution for breaking the law. However, in some sophisticated cases the Taxman has been trying to blur the boundaries and claim some forms of avoidance are illegal.

A few examples will show the difference…

- The most common example of Tax Evasion amongst small businesses is making **cash sales** and not putting this money into your bank account or recording it in your accounting records, so the tax man will never know about it, or so you think!

- A slightly more thought out example, may be making up some **forged purchase invoices**. You write out the cheques to pay them with the name of the fictitious supplier on the cheque stub but it's actually made payable to you and goes into a secret offshore account. Again, this is evasion and is illegal.

Choosing to run your business as a Limited Company rather than as a sole trader in order to benefit from lower rates of tax paid by Limited Companies is an example of Tax Avoidance and is **legal**.

But it's not always black and white, there are grey areas…

- This may be because the **law itself is in question** or the facts of your particular case are in question. It often arises that HMRC may interpret something in one way, surprisingly to their advantage, but the accountant and the taxpayer may interpret it differently.

- Please remember that HMRC **do not make the law of the land** and they often get it wrong. Be prepared to stand up for your rights if necessary and don't be bullied by them.

- You should fight HMRC on technical grounds, but you need to be very sure of your facts and the law. If you can't come to an agreement with HMRC, the matter normally ends up before the General Tax Commissioners who are an informal independent Tax Court to decide the matter. At Hanley & Co we don't mind going to the Commissioners if we have a reasonable argument.

- Some of the ideas may move into the grey areas, which is why it's always important to get full advice from us first.

Do Your Tax Planning In Advance

- Tax planning needs to be in advance, not after the year-end. Many small businesses will meet their accountant after the year-end to go through their accounts – **that's no good at all.**

- Pre year-end tax planning can be useful but you can't beat doing most of the planning before the year even starts. The sooner you act, the sooner you'll save the tax.

Tax Warning – Again!

- Do not attempt to implement any tax idea in this report without talking to us first to get full information on the idea in your own personal circumstances, as not all ideas may be suitable for **you**.

- OK, so that's the background. Let's get on with looking at the top tips for where you can save tax…

Minimise Your Taxable Profits

- Claim every cost you incur in running your accommodation business whether you have a **receipt or not** – you don't have to have a receipt to satisfy the Tax Inspector. Your own evidence can be used where you don't have receipts. Just because you pay someone in cash doesn't mean you can't claim it. Get a receipt if you can, but otherwise make a note or the amount you paid, when you paid it and why. This record, created at the time of the expense, should be sufficient for the Taxman. Of-course you can't claim the VAT back without a valid VAT receipt.

- If you live in the accommodation business check how much we are saying is for **private use** on mixed private / business expenses such as food costs, telephone & motor costs. This should be based on today's reality, not what was accurate a few years ago. So you should review the private use proportions every year.

- The treatment of the costs of private accommodation for the proprietor and their family are important areas. HMRC do offer sole trader and partnerships a 'flat rate' deduction for private use of business premises from £350-£650 per month depending on how many people are living there. The alternative is to only claim tax relief for the running costs of **only** the rooms used for business. This is significantly more complicated and time consuming than the flat rate option but can be worthwhile. Some areas of the UK have standard agreements with HMRC, others do not. You can be assured that we discuss family accommodation circumstances in detail with our clients to ensure the maximum relief is obtained.

- You may be able to reorganise your personal loans as **business loans**, and get tax relief on the interest. In some circumstances it is even possible to reclassify part of your personal mortgage.

- Purchasing capital (equipment, computers, TV's, and furniture) items **1 day before** your year-end can get you tax relief one whole year earlier.

- You get relief for these capital items by claiming 'capital allowances'. These are deducted from your profit, so that you pay less tax. But if your profit is below £8,164 (the level at which you'll start to pay NI and tax) then there is little point claiming capital allowances that year – they will just be wasted. So you're better to save them to set against future years when the profit will (hopefully!) be higher.

- Property repairs and refurbishments are generally allowable against your profits in the year when they are incurred. Property improvements are not tax allowable until the business is eventually sold. Because of this disparity of treatments it is important that you get the right advice and paperwork before the work is done so you know whether to expect tax relief or not. A good example would be the 'en-suite conversions issue.' If you split some bedrooms up and create new separate bathrooms or en-suites the building work is not tax allowable. If you install shower cubicles in your bedrooms you will probably get tax relief as the cubicles could class as equipment. On the other hand, if you rip out an existing bathroom and replace the facilities with modern but similar items it will class as a repair and will attract tax relief in the year.

- Claim back any statutory maternity, paternity or adoption pay, you pay to employees who become parents. Small businesses can get 103% of the amount paid out back from the Taxman.

- The lower your **stock value**, the lower your taxable profits. If any stock is now worth less than you paid for it, or less than the amount it cost you to produce, make sure you're the value for this stock shown in your accounts is the lower amount.

- If you are starting a new unincorporated business (sole traders and partnerships), and expect to have low profits or even losses in the first few years, choose a **year end early** in the tax year such as 30th April. This will help keep your tax bills down in the early years. In addition, having a year-end early in the tax year, helps give you more time to plan for your tax bills.

- You should also consider if your trading pattern will be seasonal. If it is, choose a year-end just before your peak sales period to lengthen the time between making most of your profits and paying the tax due. For example, for a business with heavy Christmas sales, an October year-end, will delay paying the tax for 12 months on the profits made in November and December. Typically for Small Hotels and Guest Houses a year end of 31 March or 5 April will achieve this.

- If you run an existing unincorporated business you may benefit from overlap relief, which arose when some of your profits were taxed twice at the beginning of your business, by changing your business year end.

Taxman Visits

- When HMRC asks to **visit** your business let us deal with the visit if possible, or ask the Taxman/VATman to send his queries in writing to us. You don't have to answer the Taxman's questions immediately, especially if you do not have all the information he requires to hand. A misplaced comment or guess may cost you dearly!

Choosing Your Business Structure

- Typically Guest Houses tend to be sole trader businesses in the proprietors name or sometimes they are husband and wife partnerships.

- For larger more profitable accommodation businesses a limited company trading structure may be more commonplace and some tax savings may be made.

- Get the right business structure – having a **limited company** can bring some great benefits such as the Corporation Tax rate is just 19% for any level of income (if you traded as self employed you're looking at 20% or even 40% and 45% tax rates). So a limited company could halve your tax bill.

- Another example is with a limited company you can choose whether or not to draw (and therefore be taxed on) dividends. If you are self employed you are taxed on the profits of the business – not just what you've taken out of it. This can be particularly useful if you or your partner already have other taxable income.

- Also taxpayers who run their business through a limited company can also avoid paying any national insurance at all by drawing dividends.

- The exact tax savings do depend on how much of the profit you leave to reinvest in your business – so we will be happy to run through your projected (or actual) figures with you to see what savings can be made.

Especially For Limited Companies

- By taking **dividends instead of salary** you can avoid both employees and employers National Insurance altogether. On a straightforward situation of a small Limited Company where the choice is between taking £40,000 salary or £40,000 dividend the National Insurance savings can be quite significant. There are issues to consider but for the vast majority of small businesses, this is perfectly achievable. Dividends can be taken more than once a year, ideally quarterly but monthly is possible as well.

- Please note – from April 2016 the tax treatment of individuals receiving dividends changed. This will reduce the tax savings previously available by changing from a sole trader to a Limited Company. In general there is still a tax saving of around £1,000 per annum for a small business owner if trading as a Limited Company. We can run detailed calculations to clarify and also explain the pros and cons of incorporation.

- As long as you pay more than £5,876 a year in salary, you will still be entitled to all the main **state benefits** including your primary old age pension and there is still no National Insurance to pay until the salary gets to £8,164. The best mixture generally is to pay yourself a low salary and take all your other income needs as dividends. At Hanley & Co, for 2017/18 we are actually suggesting a salary of £8,400 per annum for sole directors, or £11,500 if you have employees (as HMRC's £3,000 National Insurance Allowance is available to reduce the NI cost of a slightly higher salary if you have employees). We believe that salaries of £5,876 are more likely to be scrutinised first, if HMRC start trying to challenge the low salary policies. The National Insurance cost at this low level of salary is quite nominal.

- If you don't pay the dividends correctly there is an increasing risk that HMRC won't accept they are dividends and attempt to treat them as a loan or even salary with adverse consequences. Make sure you use all the **proper procedures** at the time the dividend is paid, do not leave the checks and paper work until the year-end when your accountant has to deal with any money you've taken from your company. Check you have the profits available either in the current year, or brought forward from an earlier year before proposing a dividend. Make sure all the directors vote on the dividend and record their votes. Pay the dividends into the shareholders' personal bank accounts and issue dividend vouchers. If you fail to take these precautions you and your company could both pay higher taxes.

- By treating the company bank account as your own you run the risk of being taxed on a benefit in kind, when you take a cash advance or have the company pay expenses on your behalf. So make sure if you take money from the company treat it correctly as a salary paid under PAYE, or a valid dividend, and not deal with the matter after your year end. Avoid paying your personal bills through the company account.

- If you have an overdrawn directors loan account and it is not practical to declare a dividend to clear it, you may **write off the loan account** and have the write off treated as a dividend. This should be done in your capacity as a shareholder, not a director.

- Beware of having more than one Limited Company under **your control or under the control of close relatives**. It can mean these companies end up paying a higher rate of corporation tax. Try to include all the various businesses within one company, using different divisions to keep the trade separate instead.

- You can look to use Inter Company **Management Charges** to move profits from one company to another. This could help to even out the profits of the companies and reduce the total amount of corporation tax paid by the whole group.

- By owning your business premises personally you can avoid a potential double tax charge when you come to sell it. The double charge arises from the gain when your company sells it and then again when you have to get your money out of the company. You can also charge a **rent** to your company which is a way of getting money out of your company and avoiding National Insurance.

Spouses/Civil Partners, Children & Other Family Members

- Your other half may not have any income at all, and almost certainly your children don't. This means their personal allowance is being wasted every year. Even children are entitled to a personal allowance. If the amount up to the level at which National Insurance becomes payable at £8,164 in 2017/18 was paid to them as a wage, they would pay no tax on it and your profits would be reduced. It must be for work **actually done**, and children are only permitted to work from the age of 13. The amount also must actually be **paid** to the individual. This is an excellent way to encourage children to work for their 'pocket money' whilst at the same time reducing the tax bill. Please note if an employee earns more than £113 per week the employee gets National Insurance credits – but this means you, as an employer, have to run a PAYE scheme. Equally if the employee has another part-time job you may be required to deduct tax off them and this also requires a PAYE scheme. We can set this up and administer it on your behalf of course.

- A Marriage Allowance was introduced on 6 April 2015 so if your spouse / civil partner is not liable to income tax (and you are not a higher rate tax payer yourself), they can transfer up to 10% of their own personal allowance to you. This avoids wasting that much of their personal allowance and also reduces your tax bill. We can help with this too

- Consider making your **spouse/civil partner a partner or shareholder** in your business. This can reduce your tax bill if their income is taxed at a lower tax rate than yours. You reduce the income you take from the business and pay some of the profits to your spouse/ civil partner as dividends or profit share. The taxpayer has recently won a long running case on this point (known as Arctic Systems) but the Taxman is a bad loser and may change the law at some point so it is all the more important to get expert advice in setting this up correctly. At present they could earn dividends of up to £5,000 per annum tax free.

- For non-married/non-civil partnership couples, and other relatives such as brothers, sisters or grandparents, the legislation makes it harder to gift a share in the business to achieve profit sharing. . However, if your relative buys a share in the business at the outset for a fair value it will work.

- Look at your investments held by you and your spouse/civil partner to see if the total tax you pay on the income can be minimised. If you pay 40% tax and your spouse/partner pays 20% or less, you should consider transferring some income producing investments to your spouse/ partner to reduce higher rate tax you pay. Any **jointly** held investments with your spouse (other than shares in the family company) are treated as being owned 50/50 for tax purposes, however actually owned, unless you make an election to the contrary.

VAT

- Your guests are generally members of the public, who are not VAT registered. Therefore, small accommodation businesses you should beware of going over the VAT registration limit, which is currently £85,000 of sales in any 12 month period (from 1 April 2017), as they would then need to become registered for VAT. In our experience most small guesthouses are not registered for VAT so their prices are naturally lower than their larger competitors, because they do not have to charge VAT on the price. Once VAT registered your prices may be undercut by smaller competitors who do not have to charge VAT. Splitting a business into two different formats is one option to try, but very good advice is needed as artificial arrangements don’t work.

- Using the **Cash Accounting Scheme** for VAT means you do not have to pay VAT on your sales until you have been paid by your customers. For most small businesses this scheme works out well. However, as accommodation businesses tend to get paid straight away it would be disadvantageous to use the cash accounting scheme. Using the standard VAT scheme will allow you to claim back your input VAT on purchase invoices, straightaway. This is available for businesses with a turnover of up to £1,350,000.

- There is also the **Annual Accounting Scheme** for VAT that allows businesses with a turnover of up to £1,350,000 to complete a VAT Return once a year, instead of quarterly to ease the admin. You can then pay on account for 9 months of the year and pay a balancing payment within 2 months of your year-end.

- The **VAT flat rate scheme for small businesses** is designed to simplify the completion of VAT returns, but it can also save you money if you have a low value of purchases for your business sector, or make sales that fall into more than one trade sector. To use the scheme your annual taxable supplies (excluding VAT) must be less than £150,000. Accommodation businesses that are VAT registered can charge guests VAT at 20% but only pay 10.5% of the gross takings over to HMRC. In fact in the first twelve months of using the scheme the 10.5% is reduced by a further 1% giving even more potential savings. Businesses using this scheme cannot claim input VAT incurred on purchases (such as food and alcohol etc for guests) but the VAT that would have been recoverable is usually a low figure anyway. Also the business can still reclaim VAT suffered on large capital items such as kitchen equipment and computers.

- When you pay a **fixed mileage rate** to employees for business travel such as 40p per mile, part of it contains a fuel element, which you can reclaim the VAT on. If you have not reclaimed this VAT in the past, you can go back 3 years and reclaim the VAT now.

- If you reclaim VAT on fuel that is used for private journeys, you must pay a **VAT scale charge** based on the CO_2 emissions of the car. This is a fixed charge that is not related to the amount of actual use. £1 of private petrol and you're caught. We can help calculate whether it is best for you to reclaim VAT on fuel through your business or not.

Tax Savings for Employees

Remember if you're a **director** of your Limited Company that normally includes you.

- Are your workers **Self Employed** or **Employees**? The important point here is that it's not up to you or the worker to choose. Whether the worker is self-employed or not is judged on the circumstances surrounding the particular job the worker is performing. Individuals may be self-employed for some contracts, and correctly treated as employees for other jobs. If your workers can be considered to be self-employed there are enormous tax and other benefits to you and the worker. If you get it wrong the consequences can devastate your business. A self employed contract will help and expert advice is essential. Beware – unless you are employing registered established independent traders most people employed within the accommodation industry will be classified as 'employed' and therefore PAYE will apply. Obviously you can employ 'agency staff' (where the agency generally takes responsibility) otherwise, in general, PAYE will apply to all your staff.

- The **Staff Suggestion Scheme** is a simple scheme that allows you to pay staff up to £5,000 free of tax and NI for suggestions that make that make a real and measurable difference to your business. Good ideas which don't produce measurable results can be recognised with £25 awards.

- If you've been a director of your company for over 20 years you can have a **long service award** which takes the form of a **tangible** article worth up to £50 for each year of service. The cost is paid for by the company and provided tax free. How about the Taxman contributing to a new set of golf clubs?

- Where there is a **genuine gift** in recognition of some personal quality of the employee, and is in no sense a reward for performing duties past, present or future, then it can be paid tax free. The gift could therefore be on personal grounds (such as a wedding present) or as a mark of personal esteem or appreciation. It is sensible to evidence such gifts with an appropriate covering letter.

- A **golden hello** is when a lump sum is paid on taking up an employment. Tax is normally payable on such payments as if they were salary. However, the payment should be tax free if it satisfies the following conditions - the facts must show it is an inducement to take up the new post and not a reward for future services AND the payment must not be refundable if the person does not take up the employment. Case law shows it is more likely to be acceptable if the employee has previously been self-employed and has given up some right or asset to take up the employment.

- When an employment contract is terminated (of an employee or director) it is possible that any **termination payment** of up to £30,000 can be made tax free. For the payment to escape tax there must be no contractual requirement to make payment

- if full notice of the termination of the contract is not given. Ideally, the contract just has a notice period or at worse a clause that just gives the employer the right to make payment in lieu of notice (but not an obligation). So if the employer breaches the contract by not giving notice, any payment will be tax free up to £30,000.

- Beware, if the company pays for **£1** of **petrol** to be used for a private journey, this can result in a full taxable benefit in kind for the provision of private fuel for the full tax year, which is likely to be far higher than the actual benefit received. It is now almost always cheaper for employees to pay for their own fuel out of extra wages.

- Almost all **personal liabilities** that are paid for by the employer incur Class 1 NI charges for the employee and employer. Where the employer **contracts directly** to pay something for the benefit of the employee, then only Class 1A National Insurance is normally payable by the employer. For example, if personal fuel was provided under a company account or by using a company credit card this would only attract a class 1A NI charge for the employer. However if the employer reimburses the employee for the cost of fuel used personally this would attract class 1 NI charges due from both the employer and employee.

- Paying **Bonuses** half yearly or yearly rather than monthly can save on employees National Insurance although this doesn't apply to directors.

- **When taking on a new employee** you are responsible for deducting tax and NIC from their pay. Without a P45 from a previous employer, you need to get them to fill in a **P46 form** and keep a copy. This is the only evidence HMRC will accept that the amounts you have deducted for tax and National Insurance are correct. If you don't fill in the P46 form the cost can be significant. You won't be able to give your employee any personal allowances against their pay without following this procedure.

- Naturally we can assist clients with **cost effective payroll services** and advice throughout the year.

- There is no taxable benefit if the employee merely takes a business **van** home with no other significant private use allowed. However, where there is private use, the taxable benefit is now £3,230 irrespective of the age of the van. There is also a fuel benefit of £610 if fuel is provided. These are significant increases on previous taxable benefits for vans and so it's important to think about your company van policy and get no private use agreements drawn up with the van drivers.

- By paying **benefits tax free**, it means your employees or you don't have to pay for them personally out of money that has already been taxed.

- As previously mentioned the Government is currently offering businesses a £3,000 'Employers NI Allowance' per annum to reduce the Employers NI cost burden of employing people. We can help claim this on your behalf.

Here's a list of the main tax free benefits:

- **Crèches** - The crèche must be for the use of the employees children, sited on the company premises or premises of a group of employers. Also, the first £55 per week of **childcare vouchers** will be exempt from tax and NI providing they meet certain conditions.
- **Uniforms** - they must have the company logo and be available to all employees or to all employees of a certain class.
- **Training** - the training must be related to a task the employee carries out as part of their job, or may have to carry out in the future.
- **Health-checks** - the provision of regular health checks is not taxable but the provision of health insurance, or medical treatment is.
- **Canteen meals** - this must be open to all employees.
- Low interest or interest free **loans to employees** of up to £5000 are OK.
- A **company bus** - with minimum seating for 9!
- Employer provided **bicycles and safety equipment** available to employees generally.
- There are **fixed mileage rates** that can be paid tax free to employees for using their own **bike** or motorcycle.
- **Annual Staff events** - if less than £150 spent per head per year.
- Provision of one **mobile phone per employee** – make sure the employer has contracted for the phone, not the employee.
- If members of staff generally finish work before 9pm but are required to work later on occasions you can pay for their **taxi fares home** on these occasions without the payments being a benefit.
- There are set **mileage rates** that can be made tax-free to employees using their own **car** for business purposes tax-free. 45p per mile for the first 10,000 miles and 25p thereafter.

- It is ideal to provide benefits to employees that avoid an income tax charge and NI for both the employer and employee. To replace salary with benefits it is important to get the employee to sign a salary sacrifice letter before the reduced salary takes effect. The **salary sacrifice** means it is a permanent alteration to the employees contract and they do not have the option to revert back to their higher salary if they so wish. Otherwise HMRC will argue they are taxable on the benefit as if it were salary.

- A check should be made on whether it is better to provide a company car or for the employee to own it personally. If a car is provided by the company a contribution of £5,000 can be made by the employee to reduce the list price on which the car benefit is based. It just so happens that an employee can have a £5,000 interest free loan from the company tax-free – i.e. without it too being classed as a 'Benefit In Kind'. You probably get the idea.

Pension Matters

- If you invest £2,880 into a registered pension scheme, the government makes a **tax contribution** of £720 for a basic rate taxpayer making your gross contribution £3,600. A **higher rate** tax payer can claim additional tax relief of £720 through their tax return.

- If you are over 50 and under 75, you could take a **tax free lump sum** from the pension fund of 25% x £3,600 = £900. So as a higher rate tax payer you invest £2,880 less £720 less £900, a total of £1,260 and now have a pension fund left of £3,600 - £900 = £2,700. Worth looking into a bit more! How else can you turn £1,260 into £2,700 overnight?

- You can set up a pension for the kids. If you invest up to £2,880 net (£3,600 gross) per year there is no need to provide any proof of earnings. Any UK resident can pay into a pension even whether or not they have a job. It is quite possible for a parent or other relative to start making pension contributions from the day a child is born. The fund then grows tax-free, but cannot be accessed until the child is aged 55. There are also certain inheritance tax advantages for grandparents.

- If your company makes contributions into a registered pension scheme for you, rather than you paying those contributions out of your net income, you and the company both save National Insurance on the value of those contributions. .

- Your company may want to purchase its own freehold property but doesn't have the money to do so. You could borrow the money but there is a way to buy the property and get a personal pension at the same time with its tax advantages by using a **Self Invested Personal Pension (SIPP)** that gives you control over your pension fund rather than an insurance company.

- If you have a company, you can alternatively look at having a small **self-administered scheme (SSAS).** Within certain restrictions, they allow loans to the company itself out of the pension scheme and they allow you to buy and leaseback the company premises. Specialist advice is essential for such schemes.

Capital Gains Tax

- If you make a £22,000 capital gain in this tax year you will pay tax on £10,700 (£22,000 less the £11,300 Annual Exemption). If you had owned those same assets **jointly**, say with your spouse or partner, and they had no other capital gains this year, then you would pay no CGT.

- **Bed and Spousing** is used to avoid wasting your CGT annual exemption. If you hold shares that will create a gain when they disposed of, you could sell just enough to create a gain that is covered by your annual exemption. However, you don't want to lose the shares, so your spouse/civil partner decides to buy them back immediately. This raises their base cost to decrease any future taxable gains on the shares. It is important that someone other than you buys the shares back.

- If you've owned your trading business for more than 1 year that you are selling, the first £10million of qualifying lifetime gains are only taxed at 10%. This tax relief is known as **entrepreneurs' relief**. So if you are approaching the 1 year ownership mark, make sure you hang on before you make that sale.

- Also you could gift 5% of your shares to a spouse – so their Annual Exemption is also used on disposal. And as long as you transfer the shares 12 months before the disposal then they can also be taxed at 10% - not 18% or 28%!

- When a limited company is sold, the purchaser will normally want to buy the **assets** rather than the shares of the company, as they then don't take on the risk of any subsequent liabilities of the company that may come out of the woodwork. The purchaser should also be able to claim capital allowances or other tax relief on the assets. If the purchaser buys the shares of the company, they get no immediate tax relief. The seller will normally prefer to sell the shares, as if they sell the assets they'll pay tax on the gain on the assets but the money is still in the company and they may have to pay tax on it again in getting it out. Every case is different, so if you are selling or buying a business take advice on which is going to be best for you and negotiate for it.

- The **Enterprise Investment Scheme (EIS)** allows you to roll over the tax payable on a capital gain so that none is payable immediately. You need to reinvest just the gain you made (not the sale proceeds) into new shares in an unquoted trading company that issues EIS shares. This can be a company you run yourself, or run by a third party. If you do this, your CGT bill is deferred until you eventually sell the EIS shares. There are various conditions to be met.

- In addition, if you are not connected with the EIS company, you receive 30% income tax reduction when investing in EIS shares, giving total tax relief of 58% for a 40% rate band tax payer - not bad. To get the income tax relief there are a few rules. You must not have more than 30% control of the company or be an employee or director when they are issued. Certain trades are excluded and the maximum investment per tax year is £500,000.

- When people sell their businesses or any assets on which there are large capital gains one of the more extreme steps they consider to avoid CGT is to move **abroad** and become non-resident in the UK. However, you must take permanent residence abroad for five complete tax years including going abroad in the tax year before you sell as well as meeting a number of other conditions.

Other Personal Issues

- An important point to note about **Child Tax Credit and Working Tax Credit** claims is that they relate to your income of the actual tax year, which is originally based on your income of the previous tax year and then amended based on your actual when known. However, claims for tax credits cannot be backdated more than three months and to be entitled to your 2017/18 credit you have to claim by 5th July 2017 to get your full entitlement. The problem is you don't actually know your income for the year at this point so it always pays to make a provisional claim, even if your original assessment is Nil. It will then be backdated when your actual income is known but only if you made the provisional claim.

- Note: Universal Credit will replace Child Tax Credits and Working Tax Credits as well as income-based Jobseekers Allowance, Income Support and Housing Benefit. It does not replace Child Benefit. Existing claimants will be phased into Universal Credit by the end of 2017 – the roll out has already started in certain areas of the North West of England in April 2014. All new claimants will be automatically enrolled onto the Universal Credit scheme.

- If you let out a **furnished spare room** in your own home, the first £7,500 of rent is received tax-free.

- If you invest in **premium bonds** all the prizes you receive are tax-free. There is a limit of £50,000 you can invest but if you invest the full amount you are likely (but not guaranteed) to get a reasonable rate of return because of the amount of bonds you hold. Prizes are based on a rate of return of 1.5% at present, which is better than the gross rate some bank or building society accounts pay. More importantly perhaps, there is also the opportunity of winning the big prize of £1 million each month.

- Winnings on the **national lottery** are also tax-free but your chances of winning are far lower. If you win the lottery as part of a syndicate, make sure that you have a written agreement setting up how the group will be managed i.e. who buys the tickets and how prize winnings are to be shared out. Without such an agreement the person who collects the prize and shares it out may be considered to be making gifts for Inheritance Tax purposes.

- **ISA's** - you can invest up to £20,000 each tax year and any interest on your money is tax free.

- Investing in **Venture Capital Trusts (VCTs)** can be used to obtain 30% income tax relief. VCTs are quoted companies that hold at least 70% of their investments in shares in unquoted companies of the type that qualify for EIS. They are therefore a higher risk investment.

- When giving to charities through **Gift Aid**, you make your contribution net of basic rate tax, so the charity can reclaim this back from the Government. If you are a higher rate taxpayer, you can then get relief for the higher rate tax on the donation through your tax return.

- **Furnished Holiday lettings** have tax advantages over other let properties. Also if you have owned the business for over 1 year, entrepreneur relief can apply to the gain you make when you sell it. This tax relief can reduce the tax you pay on the gain to an effective rate of 10%, but this will depend on how long you have owned the property. There are various conditions to be met for a property to qualify as a furnished holiday let.

Inheritance Tax Basics

- If your estate is worth less than £325,000 when you die, no inheritance tax (IHT) is payable. If it is worth more than this, you may also be entitled to the new additional allowance of £100,000 to offset the sale of a family home on death. This is set to rise to £175,000 by 2020, allowing a couple to pass on £1m estates tax-free. This allowance is not available to those without children or to many business owners, or if property is left in trust or passed to anyone other than directly related children, stepchildren, adopted children or grandchildren. So whilst it sounds very generous at the outset, there are many caveats; contact us for more details!

- No inheritance tax is payable on most gifts made in your lifetime so long as you live **7 years** after the date of the gift. If a gift is made but there is some reservation on it, such as gifting your house with the understanding you can still live there until you die, this will not count as a gift for IHT and will still form part of your estate to pay IHT on at death. However, the gift will be effective for capital gains tax, which can create a double tax charge.

- A transfer between married couples/civil partners is normally exempt from IHT whether made during lifetime or in a will. With effect from 9th October 2007 spouses and civil partners will now be able to make full use of the nil rate band belonging to each spouse. This is retrospective and applies to anyone with a spouse or civil partner previously deceased. That gives a total inheritance tax exemption for a married couple of £650,000 (for 2016/17). The new rules allow any unused part of the nil rate band on the death of the first spouse or civil partner to be passed to the surviving spouse or civil partner for use on their death. There is a maximum of an amount equal to the nil rate band in force at the time of the second death that can be used in addition.

- **Business Property Relief** is available which gives up to 100% relief from inheritance tax on death for business assets. This allows you to leave your business to someone other than your spouse/civil partner with no IHT becoming payable. This is because what you leave to your spouse/civil partner is tax-free as long as they are domiciled in the UK. You may want to leave your business to your children or grandchildren, or even your employees. If you leave the business to your spouse, as well as your other personal assets, this may increase their total estate value so that when they die it is above the inheritance tax threshold of £325,000.

- By keeping hold of your business until death, it avoids any **capital gain tax** on the disposal it as there is no capital gains tax payable on any assets at all on death.

- When you take out **life assurance**, if the policy is written **in trust** for someone else, so that the life insurance payout goes directly to them, it avoids the value of the policy becoming part of your estate for IHT and so avoids the 40% IHT charge.

- If you are gifting or otherwise transferring assets other than cash to your relatives watch out for any potential **capital gains** problems on transfers between connected persons. **Connected persons** cover most of your main relatives. Transfers, including gifts, between connected persons are valued at market value for capital gains purposes so may give rise to a capital gain on which tax is payable.

- It is possible for those entitled to your estate to vary the way in which it is distributed, provided that they do so within 2 years of your death. A **deed of variation** or disclaimer is used for these purposes and can improve the inheritance tax position.

- Another point to bear in mind is that if 10% of the estate is given to charity, the IHT will be 36% instead of 40%. The 10% is a strict limit, even if the charitable donation made is 9% this will not count. The 10% limit is therefore a cliff edge, so it may be beneficial to check any gifts to charities currently pledged.

Finally

The above gives you a flavour for some of what is possible with tax planning.

What can we do for you?

Your choice of an accountant is a difficult one. How do you know which accountant is going to give you the right kind of advice? How do you know you're going to get the support you need? We've made it easier for you. First, we'll be glad simply to meet you or just chat with you on the telephone. During our FREE no obligation meeting, we'll evaluate your current situation - whether you're starting a new business or thinking of changing your existing accountant. We'll talk about your issues, goals and frustrations. We'll tell you more about what we do. We will show you our informative 'free access' website which includes numerous testimonials from satisfied clients. You can hear our ideas for your business and tax situation and also see - if you feel comfortable with us, if we speak your language. If you like what you see then we invite you to become a client.

You'll then automatically receive...

- Access throughout the year to our experienced partner Dean Logan.
- Access to our FREE Online Bookkeeping System 'Kashflow', if required
- Our monthly email newsletter 'Tax Tips & News'
- A fair fee quotation, no small print, no extras. We set out the work you require and the fees we will be charging for that work.
- A 100% Risk Free Satisfaction Guarantee - you see we know how hard it is to appoint a new accountant. We know how good we are, but we give you time to try us out with absolutely no risk to you! If for whatever reason you're not happy with the services we provide, you decide how much fees you will pay, your decision, no quibbling.

TESTIMONIALS FROM EXISTING CLIENTS

"Hanley & Co are fantastic - their team is friendly and approachable and their advice is tailored to my business' needs. They are excellent for eBay/Amazon sellers and I highly recommend their services!"

"Probably my best decision in my 30+ years in business was to employ Hanley & Co as my company's accountants."

"Hanley & Co's Bookkeeping System has been a real breath of fresh air for my business. It is easy to understand and very user-friendly; a 5-minute phone call to 'show me around the system' was all the training I needed. The system provides instant and easy to understand reports."

"What we have found particularly impressive has been Hanley & Co's professionalism and approachability. Dean Logan and his team have dealt with any queries we have had promptly and efficiently, giving the impression that nothing is too much trouble. We would not hesitate to recommend them to others. Hanley & Co provide reliable, sound advice to take your business forward to the next level.

"Over our many years with Hanley & Co. we have found that they really are "Accountants you can talk to!" Staff, both present and past, have always been helpful and informative. Queries are dealt with in a prompt and efficient manner."

"From setting up our business from a home office to today where we operate from substantial office premises on a major new business park, the advice and professionalism of our Hanley & Co has been second to none."

“A great team, friendly, very professional and efficient.”

“Dean and his team are extremely well organised and prompt in the production of accounts, self-assessment etc. etc. They have recently introduced new software which helps with keeping accurate records and can be used for invoicing, credit control and bank reconciliations. All the team are helpful and always on hand by telephone or email to answer my queries.”

So, if you’re starting a new business or are looking for a fresh approach to accountancy and business advice (and not just ‘number crunching’), we urge you to call our partner Dean Logan FCA now (details below). Thank you.

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