Price: £14.99

Special Report …

"How To Pay Less TAX – Mini Guide For All Small Businesses"

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Once upon a time there was a **shepherd** looking after his **sheep** on the edge of a deserted road.

Suddenly a brand new Jeep Cherokee screeches to a halt next to him. The driver, a **young man** dressed in a Brioni suit, Cerruti shoes, Ray-Ban glasses, and a YSL tie gets out and asks the shepherd: - " If I guess how many sheep you do have, will you give me one of them? "

The shepherd looks at the young man, then looks at the sheep, which graze and says: - "All right".

The young man parks the car, connects the notebook and the mobile, enters a NASA site, scans the ground using his GPS, opens a database and 60 excel tables filled with algorithms, then prints a 150-page report on his high-tech mini printer. He then turns to the shepherd and says: - "You have exactly 1586 sheep here."

The shepherd answers: - That's correct, you can have your sheep. The young man takes the sheep and puts it in the back of his jeep.

The shepherd looks at him and asks: "If I guess your profession, will you return my sheep to me?"

The young man answers: "Yes, why not."

The shepherd says: - You are an Accountant!

"How did you know?" asks the young man.

Very simple, answers the shepherd: "First you come here **without** being called. Second, you **charge me**, to tell me something I already knew. Third, you do not understand anything about what **I** do, because you took my **dog**!

Let's begin…

How To Pay Less Tax – Mini Guide For All Small Businesses

Hello

And welcome to "**How To Pay Less Tax – Mini Guide For All Small Businesses."** This Mini Guide gives you lots of tax saving ideas. If you want more information on any ideas, please ask for our complete guide which contains a lot more information on the ideas and a whole section on how to avoid tax investigations. Alternatively, just call us to discuss any of the ideas in more detail.

Why This Report Has Been Created For You

- ☐This report **focuses on small businesses**, identifies the key tax saving areas for them and uses jargon free language to explain them.
- ☐By reading the report, it will help you **get inside the head of your accountant** to put you in a position to know if your accountant is doing everything possible for you. You won't become a tax expert but it will enable you have more of an idea of what your accountant should be looking at in your own situation and to have a more informed discussion with 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 accountants look after.** 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 their fees many times over.

If You Can't Be Bothered To Read This Report

It's recommended that you do. However, if you just want someone to do it all for you, you need to choose the right accountant. If you want the type of advice contained in this report please call us.

The Ideas That Are Best For Small Businesses

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

1. **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**.**

2. **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. Having the right accountant who is experienced and can show you exactly what to do and provide you with any standard documentation, makes this a lot easier.

3. **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 apart from one or two that were just too good to leave out, they all follow the above principles. 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 planning is unlimited if you put your mind to it.

But my Existing Accountant Looks After All That Tax Stuff For Me

They may do, but consider the following…

- ☐ **How do you know** they are doing everything possible for you to reduce your tax bills and avoid the chance of having a tax investigation? This report will help you find out.

- ☐ Not **all accountants are the same**. Of course, partly thanks to Monty Python there is the stereotype of the accountant being that "appallingly dull fellow, unimaginative, timid, spineless, easily dominated, no sense of humour, tedious company and irrepressibly drab and awful". But not all accountants are like this!

- ☐ **Have you asked** your accountant to save you tax? May be they just prepare your accounts and tax return, a tax compliance job rather than tax planning.

- ☐ Because your accountant is qualified, doesn't mean he or she automatically has a high level of tax planning skills. **Every accountant has skills in different areas** and you need to find one suitable to you.

- ☐ Different accountants have different attitudes to tax planning and it's **attitude** that counts for so much.

- ☐ **Are you sure** if your accountant is doing a good job for you or not with saving tax. This report will help you to decide and then you can make an informed decision to do something about it. This report will allow you to have a more informed discussion with them. If you don't know what to discuss in the first place, you can't do anything about it. **Knowledge is everything.**

"My Mate Down The Pub" Syndrome

Do you have a mate down the pub that makes about the same amount as you do but his accountant sorts it out for him not to have to pay any tax, and wonder **why your tax bills so high**?

Many accountants are familiar with this type of story, told by their clients.

Lets take a look at the reality of this….

Does your mate declare all his earnings to his accountant, (and hence to the Taxman)? Perhaps there is a large amount of **cash takings** that don't go through his books. The accountant may say " your cash takings must go into your accounts", so your mate doesn't let on about cash-in-hand jobs..

Either way, the figure of earnings the accountant is working with is very different to yours, so your tax position will be very different as well.

This has nothing to do with the skill of the accountant. Your mate is simply exposing himself to the risk of a tax investigation, a process known to have triggered **heart attacks**, depression and nervous breakdowns. You don't want this and this report will show you how to avoid these **legally**.

Also, many people like to brag about their accountant. After all, it's a reflection of the good choice they made. After **a few pints**, don't believe everything you're told.

There is so much you can do legally, so please do it and you'll have less need to act illegally.

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 first tier Tax Tribunals who are an informal independent Tax Court to decide the matter. **Many accountants don't like going to the tribunal** but they shouldn't be afraid to go if they have a reasonable argument.

- The Taxman knows it costs you money in accountants fees to argue with them and you may back down as the tax saved is not worth it after paying your accountant. In these situations look at getting your accountant to work on a **no win, no fee basis** for you.

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

Perhaps after the year-end your accountant suggests putting some wife's wages through the accounts to keep the tax bill down - **this can really harm your financial health**. Get it right at the beginning and you can do it. If not…face the consequences.

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 an accountant who specialises in tax planning 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. Any rates shown are for the 2019/20 tax year.

Minimize Your Taxable Profits

- ☐ Claim every cost you incur in running your 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 do any work from home, claim the part of the costs of **running your home,** which could even include a proportion of your mortgage interest.

- ☐ Avoid **Business Rates** or **Capital Gains Tax** payable on use of your own home for work by not using any part exclusively for business. Even then, both are very unlikely to occur in practice and can be avoided.

- ☐ Check how much your accountant is saying is for **private use** on mixed private/ business expenses such as telephone & motor costs. This should be based on today's reality, not on a discussion you had years ago. So review the private use proportions every year.

- ☐ 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.

- ☐ Get you home classified as your main place of work, so you can then claim for all **motor** costs as soon as you leave home. This can apply if you run your business from your home, or your employment contract requires you to work from home.

- ☐ Purchasing items **1 day before** your year-end can get you tax relief one whole year earlier.

- ☐ If your business looks to make only a very small profit below £9,568 (for 2021/22), it pays to <u>not</u> claim any **capital allowances** you are entitled to, as they will be wasted. Better to save the allowances for future years when they are needed.

- ☐ If you promote your business through a **box at a football club, or by sponsoring a rally car,** etc you need to show the business will benefit for the cost to be tax deductible.. For example have the name of your business shown prominently on the car, display pictures of the car where potential customers will see them, and maximise publicity for the car and your business in the local papers and TV programmes. Also avoid a sport in which owners of the business are personally involved.

- ☐ 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.

- ☐ If you use your **goods from your business for your personal use** they are taxed on you at your selling price. So make sure you buy them directly from your supplier yourself to avoid this.

- ☐ 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, 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 <u>plan</u> 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.

- 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 your accountant deal with the visit if possible, or ask the Taxman/VATman to send his queries in writing to your accountant. 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 dear!

Choosing Your Business Structure

- Get the right business structure – having a **limited company** can change the tax rate of a 40% tax payer from 40% to 19%, halving their tax bill. The exact tax savings do depend on how much of the profit you leave to reinvest in your business. All taxpayers who run their business through a limited company can also avoid paying any national insurance at all by using dividends. For someone earning £30,000 in a year as a sole trader, the amount of national insurance to be saved is just over £2000.

- If you have two distinct sets of customers, perhaps businesses and private households you could benefit by splitting your business in two to serve these customers separately. One business could run as a Limited Company and one as a sole trader/partnership to get the best of both structures. This can also save VAT costs.

- Where you have business partners who want to restrict their exposure to business risks, you can use a partnership but with one of the partners being a limited company. Alternatively you can operate through a Limited Liability Partnership (LLP). There is a lot that is possible once you start to put your mind to it.

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 come to over £8,000 per year. 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.

☐ As long as you pay more than £6,240 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 £9,568. Amazing, you really can get something for nothing. So the best mixture is to often to pay yourself a salary of this level and take all your other income needs as dividends.

☐ If you don't pay the dividends correctly there is a real risk 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.

☐ Use different **classes of shares** held by different shareholders to pay different levels of dividends to different shareholders. In this way shareholders who put varying amounts of effort into the business can be rewarded differently. Where there is only one class of shares you need to pay all the shareholders at the same rate per share, whenever you pay a dividend.

☐ 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.

☐ If you have created some intellectual property such as a design for a product, or software programme, why not allow your company to use it under a licence. The tax advantage is that there is **no National Insurance** payable on the licence fees the company pays to you. Alternatively you could sell the intellectual property to the company, the proceeds of which would normally be treated as a **capital gain** in your hands**.** Where the gain is no more than £12,300 you will not pay any tax, as this is below the annual Capital Gains Tax exemption. The sales value of the intellectual property must be a fair market value, as you will be subject to income tax on any amount paid in excess of the market value. .

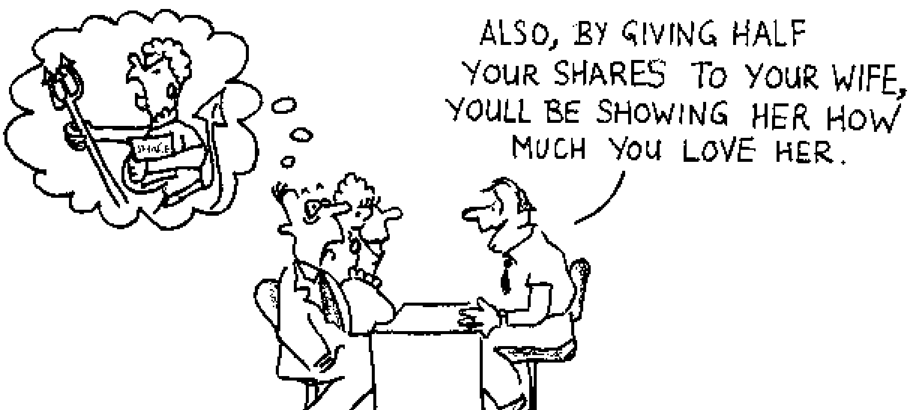
- Beware having more than one Limited Company under **your control or under the control of close relatives**. It can mean these companies end up paying a higher rate of corporation tax. Try to include all the various businesses within one company, using different divisions to keep the trade separate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

  Another option is to get your **pension fund** to purchase the property so that any gain would be completely tax-free but any profits would be **locked** in your pension fund until you retire.

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 of £9,568 in 2021/22 was paid to them as wage, they would pay no tax on it and your business profits could 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. It's no good the accountant just putting the family wages through the accounts at the end of the year.

☐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 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.

☐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 a higher rate of tax than your spouse/partner pays, 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

☐If you supply the **general public** beware of going over the VAT registration limit, which is currently £85,000 (from 1 April 2017) of sales in 12 months, so you need to become registered for VAT. 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.

☐If you supply other businesses that are **VAT registered**, you will probably benefit from registering for VAT as you will be able to reclaim VAT on what you buy. You are allowed to voluntarily register before you get to the registration limit.

☐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.

This can greatly improve your cashflow. The cash accounting scheme 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.

- ☐ When you pay a **fixed mileage rate** to employees for business travel such as 45p 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. Your accountant 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.

☐ 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…

1. The facts must show it is an inducement to take up the new post and not a reward for future services.

2. The payment must not be refundable if the person does not take up the employment.

3. 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, 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 – this doesn't apply to directors.

- **When taking on a new employee** You are responsible for deducting the correct amount of tax and NIC from the pay of all your employees. If a new employee arrives without a form P45 from a previous employer, get them to fill in a Starter Checklist from HMRC and keep a copy. This is evidence HMRC will accept that the amounts you have deducted for tax and National Insurance are correct. You won't be able to give your employee any personal allowances against his pay without following this procedure.

- 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 £3,090 irrespective of the age of the van. There is also a fuel benefit of £594 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.

  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 £10,000 are OK.
- A **company bus** - with minimum seating for 9!
- Employer provided bi**cycles 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.
- 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.

  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 an employee can have a £5,000 interest free loan from the company tax-free. You probably get the idea.

☐ 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.

Pension Matters

- ☐If you invest £2880 into a registered pension scheme, the government makes a **tax contribution** of £720 for a basic rate taxpayer making your gross contribution £3600. A **higher rate** tax payer can claim additional tax relief of £720 through their tax return.

- ☐If you are over 55 and under 75, you could take a **tax free lump sum** from the pension fund of 25% x £3600 = £900. So as a higher rate tax payer you invest £2880 less £720 less £900, a total of £1260 and now have a pension fund left of £3600 - £900 = £2700. Worth looking into a bit more! How else can you turn £1260 into £2700 overnight?

- ☐You can set up a pension for the <u>kids</u>. 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 £24,000 capital gain in this tax year (net of taper relief) you will pay tax on £11,700 (£24,000 less the £12,300 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.

  Alternatives to Bed & Spousing are:

  - Bed & Trust
  - Bed & Company
  - Bed & ISA

  All these do pretty much what they say, with the Trust, Company or ISA (all controlled by you) buying the shares back on the open market.

- If you've owned your trading business for more than 1 year that you are selling, the first £1 million of qualifying lifetime gains (was £10 million from 06th April 2011 to 10th March 2020) 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.

- When a 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 taxpayer - not bad. To get the income tax relief there are a few more restrictions. 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.

- The **Seed Enterprise Investment Scheme (SEIS)**
Investment in smaller companies can also attract tax relief. For an investment of up to £100,000 per year you can achieve Income tax relief at 50%, Capital Gains Tax relief on shares held for 3 years or more and you can also defer 50% of gains on amounts reinvested in SEIS shares.

- 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 2021/22 credit you have to claim by 5th July 2022 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.

  Universal Credit is starting with certain areas of North-West England in April 2013. From October 2013 there is a national launch of Universal Credits for new claimants.

- If you let out a **furnished spare room** in your own home, the first £7500 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 (previous limit was £40,000) 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 1.0% at present, which is better than the gross rate some bank or building society accounts pay. More importantly perhaps, there is also two opportunities 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**. For 2019/20 the ISA limit will be £20,000 for shares and/or cash. The investment in all types of ISA grows 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.

Inheritance Tax Basics

☐ If your estate is worth less than **£325,000** when you die, no inheritance tax (IHT) is payable.

☐ 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. Spouses and civil partners can 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 2021/22). 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.

Stamp Duty

Beware the stamp duty land tax **thresholds** where buying any property. When you buy a house there is stamp duty land tax to pay depending on the price.

Try to negotiate down the price below the stamp duty land tax thresholds by offering to buy any extras such as garden furniture or curtains in a separate deal.

Finally

The above gives you a flavour for some of what is possible with tax planning. If you would like us to help you save tax wherever you legally can, we would love to help you.

We also have available a far more detailed report which covers a lot of the above in more detail and more ideas. If you would like the complete guide to “How To Pay Less Tax” which is provided **FREE** to potential and existing clients please contact us.