shipleys LLP
Godalming Business Club

Meeting Summary

20 February 2015

Saving tax

Task 1 - tax saving scenario.

Our delegates were asked to note points to be raised with a tax specialist in connection with the scenario (reproduced below). Issues raised included:

A. Company cars

Victor has been paying personal tax of approximately £12,000 per annum on the £26,250 benefit in kind attributable to the Range Rover company car (£75,000 list price when new @ 35%, taxed at 45%). For 2014/15 he only had it as a company car for six months so the benefit was £13,125.

Now that it is available to his wife, by virtue of her employment with the company, the personal allowance and her basic rate band may significantly reduce the tax payable to approximately £3,000 per annum (assuming she has no other income) or £5,250 per annum if the benefit is taxed at the basic rate.

It therefore worth the Greens considering buying the car from the company – it's worth about £5,000. Mrs Green could run it personally and charge the company for business travel (45p/25p per mile). Of course she would then be personally responsible for maintenance and repairs but the ongoing tax cost would be avoided.

There is no benefit in kind attached to the Tesla electric car for 2014/15 but next year it will be 5% or £4,000 per annum. The company should be able to claim the whole of the purchase price as a deduction against its trading profits (100% FYA). The car is exempt from road tax and the London congestion charge.

B. Mobile telephone

Victor's company could provide him with a mobile phone and meet the cost of business and private calls without a benefit in kind arising to him. At present the cost of the phone (≅£720 every 18 months) and private calls (≅£15 / month) are met by Victor out of his after tax income. Getting him the £660 annual expense costs the company (after corporation tax relief) over £1,000 per annum. If the company incurred and paid these expenses directly, the net of tax cost would be just over £500, saving over £500 per annum.

C. Marginal tax rate and expenses

Victor's £85,000 salary, car benefit of £13,125 (half the year of the Range Rover £75,000 list price @35%) and bank interest @say 1.5% of £900 and proposed £10,000 bonus, depending bonuses declared to cover past expenses might mean his income is in the £100,000 - £120,000 60% marginal rate band. This high marginal rate is due to the withdrawal of the personal allowance. This and employers (13.8%) and employees (2%) national insurance contributions (NIC) on the bonus need careful thought, as do other reliefs.

The £10,000 bonus plus employers NIC amount to £11,380 - or ≅£9,100 after corporation tax relief – might put just £3,800 in Victors pocket. If the company simply reimbursed these expenses Victor would have no personal tax liability and the cost to the company would just be £3,800 (no corporation tax relief) - saving the business about £5,300. As this is just two or three months expenses, the annual saving could amount to be around £20,000 (note Victor's marginal tax rate at

higher income levels would reduce to 45%). He may also consider what other expenses associated with his home office should be reclaimed from the company.

D. Other family members

As his wife, son and daughter all work for the business they could be employed by it. As they have no other income (except of course the wife's benefit in kind on the range rover – unless this is bought from the company as outlined above) this would take advantage of their personal allowances and basic rate bands, rather than the 40%, 45% or 60% marginal tax rate suffered by Victor. They may be some additional NI cost - but this is likely to be significantly less than the tax saving and this also builds up a NI contribution record for the other family members. Even with the company car, if Mrs Green is paid say £10,000 per annum this would save tax of £2,000 each year. If Victor is funding his children and their work done for the company is worth say £10,000 each, then employing them at this level would save Victor over £9,000 each year!

E. Profit extraction

Victor should review his on-going mix of his salary and dividends, as the latter are likely to be more tax efficient. Dividends are not subject to NI.

F. The bar

The £25,000 investment in the bar (before 5 April 2014) was structured in accordance with the rules of the Seed Enterprise Investment Scheme (SEIS), which gave Victor a £12,500 (50%) income tax credit, and meant that any gain on sale of these shares after at least three years would be exempt. In addition it means that £12,500 of other gains realised in 2013/14 are also exempt.

He might be able to claim income tax relief for the loss on the shares if they are valueless. This loss would be after taking in to account the SEIS relief – therefore £12,500. The disposal of the bar shares would ordinarily trigger any gain held over gain but the special rules applicable for 13/14, are that other gains (on a bakery for Victor) of half of the SEIS subscription are exempt rather then held over, so there is no held over gain to crystallise.

G. Pension

Victor's pension arrangements, and those of his family, should be reviewed. A company pension contribution secures full CT relief and within limits is not taxed on Victor.

H. Bank Interest

Victor should consider using his ISA allowance each year so that interest is tax free.

I. Victor's mother

Victors mother might not need to worry about the reduction of the exemption from CGT of the period immediately before the disposal of a main residence from 36 months to 18 months, as this does not apply to long-term care home residents.

She should consider estate planning to mitigate inheritance tax (IHT). The illustration below shows the potential exposure is material - the house may have to be sold to fund it:

	£
Cash deposits	3,000,000
Exemption (including that from deceased husband)	(650,000)
Chargeable estate	2,350,000
IHT payable at 40%	940,000

She may wish to consider making potentially exempt transfers – the full benefit of which would be obtained if she lives for seven years after making the gift. If she dies within seven years, but after three, taper relief reduces the IHT payable.

As her income exceeds her outgoings, she might be willing and able to take advantage of the exemption for gifts made out of surplus income, £3,000 annual exemption and £250 per recipient annual exemption. The latter two exemptions mean that irrespective of her surplus income she could give £3,250 to Victor and £250 each to the wife and children – totalling £4,000 each year. These gifts would be exempt rather than potentially exempt. If she died after 5 years, £20,000 would have been given away saving IHT of £8,000.

Another option would be for her to consider Enterprise Investment Scheme Investments which qualify for business property relief – effectively reducing the value of her estate subject to Inheritance tax once they have been owned for two years.

Summary

Many of these ideas are quite straightforward and will considerably reduce the tax payable without causing unwanted attention from the tax man! There are potentially huge savings in IHT.

This is not a definitive list or discussion of the issues arising from the scenario and the possible tax mitigation strategies. Specific advice should be obtained before taking action or refraining from taking action on any of the subjects covered above.

The scenario

Victor Green is 56, married, and has two children at University. He owns and runs Highbrow Events Ltd in Farncombe. It has nine employees and turns over some £700,000, making about £120,000 profit after paying his £85,000 salary. He works partly from home. His wife helps him with the bookkeeping and business admin, but is unpaid. Their daughter built the company's website as part of her degree course and deals with the regular updates. Their son also helps out with some events.

Victor's old company car, his cherished and reliable 2004 Range Rover Vogue supercharged V8, was allocated to his wife early in October last year when the company purchased his new Tesla P85D for a shade over £80,000. He likes his gadgets and gets the latest mobile phone each year (iphone 6s), reclaiming the cost of business calls from the company.

He often entertains potential new customers, but pays for this himself as he knows it's not tax deductable. He’s considering paying himself a £10,000 bonus to cover the last few months’ expenses.

Victor has £60,000 savings with his bank. Last year he subscribed £25,000 for a 25% shareholding in a friend's start up business – a late night bar in town. Unfortunately this has had to close due to planning and other problems. The investment is lost and he’s worried about his credit rating.

Victor's mother moved into a care home two and a half years ago, but has only just finally sold the eight bedroom family home for just short of £2m, adding to her cash savings. Although her£3m cash

deposits don't earn much interest, she has a pension from her late husband (a Detective Inspector, Surrey Police), as well as her own pension from British American Tobacco where she had a successful career as head of PR. These pensions comfortably cover the care home fees and her doctor reports she's in better health now that she has cut back on cigars and is adding butter, not milk, to her tea.

Task 2 -Quiz (The correct answers are those highlighted)

Question 1: What % of a company car's list price is taxed as a benefit if its CO2 emissions are 215 g/km?							
A	10%	**B**	20%	**C**	35%	**D**	75%

Question 2: What is the current cash ISA, or NISA subscription limit?							
A	£7,500	**B**	£11,520	**C**	£11,880	**D**	£15,000

Question 3: What is thestandard inheritance tax "nil rate band"- above which tax is charged at 40%?							
A	£325,000	**B**	£500,000	**C**	£650,000	**D**	£1,000,000

Question 4: Entrepreneur's Relief reduces CGT from 28% to 10% and is available in respect of the sale of shares in your "personal company". A company can't be your personal company if you don't own at least:							
A	5% voting rights	**B**	10% voting rights	**C**	25% voting rights	**D**	>50% voting rights

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