



AAT 2010 tax update series

Help-sheets

Compiled by Michael Steed

Company taxation

Incorporation check-list

Cessation on incorporation for IT – use cessation rules;

No CAs, but balancing adjustments UNLESS S266, CA 2001 election made; this transfers P&M across to the new company at TWDV (needs joint election) (see below);

Value for goodwill (for valuation see below)?

Need to tell HMRC about the new business (the incorporation will automatically generate a new companies enquiry form).

National Insurance:

No more Class 2 – tell HMRC;

No more Class 4;

Class 1 and class 1A;

Benefits?

Suggest keep cars out of company (at least to begin with);

Mobile phone OK – no tax charge on one phone;

Pension contributions OK – but make sure reasonable level – must meet wholly and exclusively test.

Laptop OK, provided minimal private use,

VAT

Likely to be a TOGC – but need to carefully check

Taking old VAT number across? – suggest not.

CGT

Gains on incorporation – i.e. on disposals?

If yes – how big?

Within the annual allowance? – live with them?

If bigger than annual allowance consider the reliefs:

S162, TCGA 1992 – all or nothing- rather restricted; will apply automatically unless election made –see HMRC Helpsheet 276.

It may be beneficial NOT to go with S162 and instead pay the tax. Then the cash that the company owes for the assets will be available tax free in the company.

S165, TCGA 1992 – more flexible. Normally used for gifts of business assets, but it works very well on incorporation. Assets can be sold at an undervalue (could reduce tax bill).

Tax elections on incorporation

S266, CAA 2001 - transfers P&M to company at TWDV – saves the balancing adjustments.

Address

**H M Revenue and Customs
Address**

Date

Dear Sir

Insert Business names

Joint Election under S266, CAA 2001

We the following parties jointly elect under S266, CAA 2001 for the plant and machinery of:

XXXXXXXXXX

Signed:

To be transferred at TWDV to:

XXXXXXXXXXXXX

Signed:

The business of the sole trade was transferred on XXXXXXXXX

Yours faithfully

**S178 ITTOIA 2005 Stock election – saves a hidden tax charge when
stock is transferred to a company (which must be normally at MV)**

Address

H M Revenue and Customs

Date

Joint Election under S178, ITTOIA 2005

We the following parties jointly elect under S178 ITTOIA 2005, for the stock of:

XXXXXXXXXXXXXXXXXXXX

Signed:

To be transferred at cost (or actual sales value if higher), to

XXXXXXXXXXXXXXXXXXXX

Signed:

The businesses of the sole trade was transferred on XXXXXXXXXXXXXXXXXXXX

(This election must be made before the first anniversary of the normal self-assessment filing date for the tax year in which the cessation occurred)

Incorporation

Can be done through a company formation agent, but I highly recommend doing it online yourself through the Companies House website – It's good experience, quick and easy.

It costs £18.

Valuing goodwill – the super profits basis.

This is a common method of valuation.

It takes the superprofits out of the profits and multiplies it by a multiple between 1 and 3.

Example:

Fred's business (he is a sole trader) has made profits of £50,000 for the last three years.

What is the value of goodwill on incorporation – assume there is no personal goodwill?

Ave profits £50,000

Cost of a person to run it (including employers' NICs) says: £30,000.

So super profits are £20,000.

So a reasonable goodwill value is $2 \times £20,000 = £40,000$.

This can be purchased by the new company.

The cost is amortised over say 10 years.

The amortisation value will stand for tax and no adjustment is necessary only when all of the goodwill is the "right" goodwill, i.e. the sole trade started after 1 April 2002.

If the sole trade started after 1 April 2002, then the above will NOT work.

Suggested Specimen voucher

Any Company Ltd

Directors:

**Mr Smith;
Mrs Smith.**

Company Address

Date

Name of shareholder

Address of shareholder

Dividend for the period ending (financial year ended xx.xx.xx)

Number of shares

X ordinary shares of (nominal value)

Dividend

£X

Tax credit

£X

Please keep this voucher with your financial records. It is needed to support dividends declared in your tax return.

Yours sincerely

(Signature)

Company secretary