

Tax advice for the expanding family business

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Webinar

06 November 2013

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= Content

- Owner managed business over an expected life cycle (commencement, expansion, sale or succession)
- Tax implications and benefits of the business vehicle options (sole trader, partnership, LLP, company)
- Structures that can be used to minimise tax and the risks associated with such planning.
- Tax decision trees including whether to expand to the VAT registration threshold

= VAT registration

- Threshold is £79,000
- Plumber, negligible inputs, turnover and profit £78,000
- Plumber, negligible inputs, turnover £79,001, profit £65834
- B&B in semi detached turnover £78,000, price £40
- B&B next door turnover £79,001 , price £48
- Fragmentation
- Directions from HMRC
- Period of returns (monthly if repayment traders) but BMW
- Pre-registration input tax
 - 4 years for goods and assets on hand at start
 - 6 months for services
- Khoshaba

= Voluntary registration

- Repayment traders & input tax recovery
- Customer is VAT registered and able to recover
- Registering voluntarily for VAT may be beneficial if it enables the recovery of significant amounts of input tax eg shopfitting & services
- Howard Rowland Patrick And Jennifer Rosemary Patrick v Revenue & Customs [2011] UKFTT 865
- A D and J Forster v Revenue & Customs [2011] UKFTT 469

= Choice of business vehicle

- two options and these are:
- Sole trader/partnership (including LLP) - income tax top rate 62%
- Limited company – corporation tax – 20% to £300,000 profit
 - **Profit extraction**
 - 1. salary
 - 2. dividends
 - 3. directors loan
 - 4. sale of company
- **Average Earnings ONS 2010/11 £26,500**
- Tables

= Tax savings comparisons 2011/12

TABLE 1 – POTENTIAL TAX SAVINGS ON INCORPORATION 2011/12

Profit	Sole trader	Company	Saving
£10,000	£885	£586	£299
£15,000	£2,335	£1,586	£749
£20,000	£3,785	£2,586	£1,199
£30,000	£6,685	£4,586	£2,099
£40,000	£9,585	£6,586	£2,999
£50,000	£13,463	£9,206	£4,257
£75,000	£23,963	£19,206	£4,757

= Table 2: Self employed 2013/14

Amount	Class 2 NIC	Class 4 NIC	Tax	Take home amount
26500	140	1687	3412	21261
50000	140	3203	9822	36835
100000	140	4203	29822	65835
150000	140	5203	50616	94041
300000	140	8203	118116	173541

= Table 3: Employment for 2013/14

Amount	ER 2 NIC	EE NIC	Tax	Take Home Amount
26500	2595	1938	2893	19074
50000	5838	5069	7487	31606
100000	12738	4960	24727	57575
150000	19638	6214	45743	78405
300000	40338	9214	86811	163637

= Table 4 : Limited liability for 2013/14

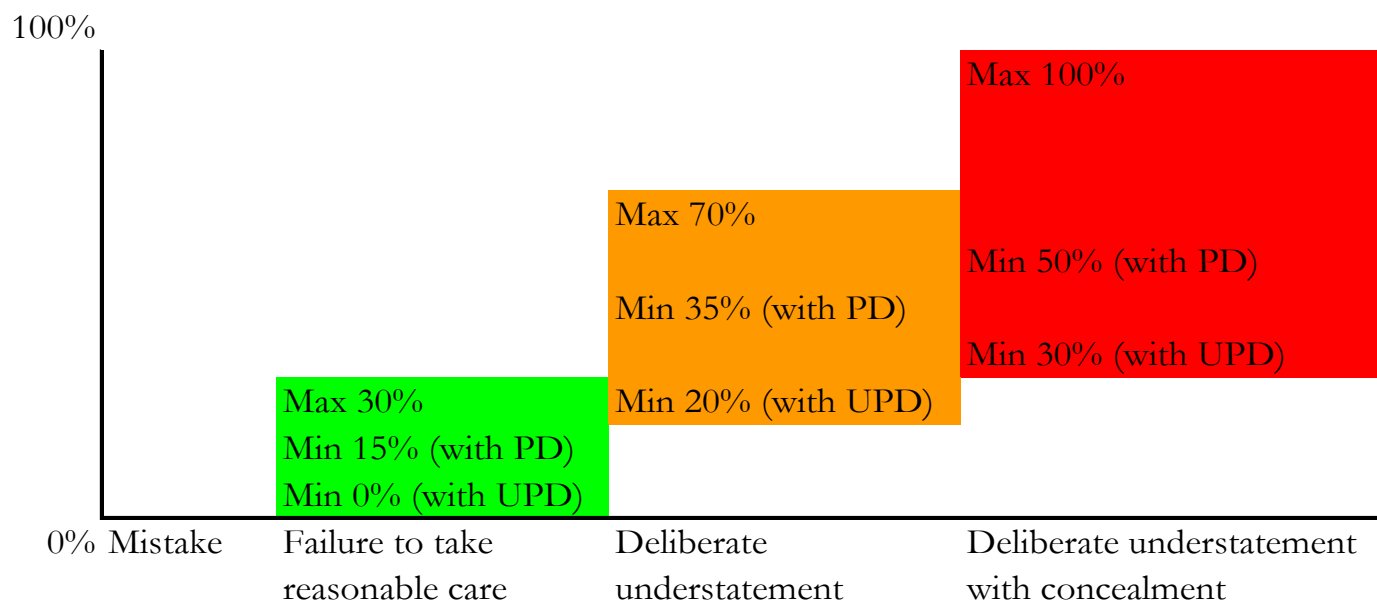
Amount	CT	Dividend	Tax	Take Home Amount
26500	5300	21200	0	21200
50000	10,000	40,000	676	39324
100000	20,000	80,000	10673	69327
150000	30,000	120,000	20673	99327
300000	60,000	37305	0	37305 + 202595

= Employee benefits

- Contributions into a pension scheme
- Use of a very low emission company car with very low scale benefit
- Christmas party £150 each
- Training costs (Spanish lessons, martial arts and CPD)
- Professional subscriptions
- Free parking near place of work
- Incidental use of pool car (or van or double cab pick up truck)
- Bicycles
- Phone (1 each)
- Eye tests and corrective glasses for computer users
- Beneficial loans??

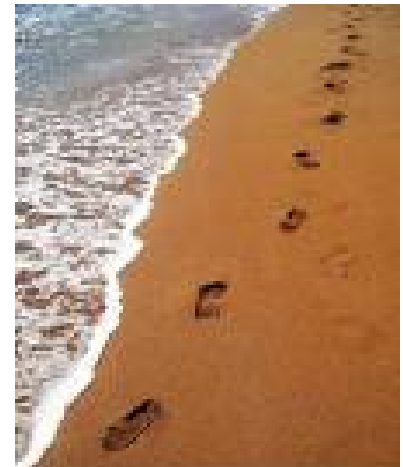
= Schedule 24 FA 2007 penalties

UPD = Unprompted voluntary disclosure; PD = Prompted (after HMRC challenge) disclosure



= Reasonable care

- Legal and Professional fees are a risk area
- Never negligence if wrong but tenable view taken
- VERY IMPORTANT! If it can be shown that the taxpayer took reasonable care then there is no penalty due.
- IMPORTANT that there is a clear 'audit' trail
- Leave big FOOTPRINTS!!!
- Disclosure and transparency after Veltema
- Discovery – now 4 years



= Cars

Whitby and Another v HMRC 2009, UK FTT 311

Stanford Management Services Ltd [2010] TC 00409

G R Solutions Ltd v Revenue & Customs [2012] UKFTT 234,

Cooper & Others (Leaside Timber and Builder Merchants Ltd) v Revenue & Customs [2012] UK FTT 439

**High business, high emission, expensive list price
better out of company**



= Other considerations

- Choice of accounting date
- Planning the profit
 - AIA £250,000 for 24 months from 1 January 2013
 - Pension contributions
 - Employ family members
 - Parallel service company
 - Working less
- Exit strategy
 - Succession
 - Sale
 - TOGC
 - IHT and preserving BPR/APR



Thank you for listening

Any questions?

