Top 20 Tax Tips
for Entrepreneurs & Individuals

WardWilliams

There are a variety of tax reliefs and planning ideas currently available for Entrepreneurs, Owner Managed Businesses and Individuals. Here are our Top 20 Practical Tips:

Entrepreneurs:

1 **Capital Allowances** - Can be claimed on a wide range of qualifying capital assets including plant and machinery, fixtures and fittings (known as integral features) and cars. A variety of allowances are currently available some of which give an immediate reduction in taxable profits of 100% of the allowable expenditure. Capital allowance claims should be maximised where possible claiming all available allowances and thinking carefully about the timing of expenditure. Professional advice should be sought to maximise the capital allowance position, particularly in the case of property sales, purchases, refurbishments and new developments.

2 **Profit Extraction** - With the top rate of income tax currently at 45% for some types of income, it is important to think about the most tax efficient way of extracting profits from a limited company. For the director/shareholder there are several ways of doing this including taking dividends instead of salary, company contributions to a pension and receiving tax efficient benefits.

3 **Contributing to a Pension** - Pension contributions are tax efficient for both employers and employees/directors. Company contributions to an employee's pension will attract corporation tax relief and will be free of income tax and national insurance for the employee (up to certain limits). Individuals can claim relief from income tax and national insurance for contributions to personal pension schemes (again, subject to certain limits).

4 **Entrepreneurs' Relief** - Can offer significant tax savings to individuals and certain trustees when selling shares or the whole or part of a business. Where a claim is made, gains on qualifying business assets suffer a very low effective tax rate of only 10%.

5 **Research & Development Relief Claims** - Broadly speaking, your company or organisation can claim an additional 130% tax deduction on qualifying R&D costs if it undertook an R&D project that seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty. The definition of research and development is much wider than many people think. You could therefore be eligible for enhanced tax deduction and not realise it!

6 **Patent Box** – The Patent Box regime present companies that are holding patents and using them in their business with the opportunity to significantly reduce their tax burden. Under the regime profits from qualifying patent interests are taxed at rates as low as 10%, delivering effective tax rate benefits. Companies should take action now to understand how to benefit from the regime and what business changes might be advantageous.

7 **Investors' Relief** – offers relief from capital gains (CGT) for individuals other than officers and employees. It applies to gains arising on disposals of shares in unlisted trading companies that were issued on or after 17 March 2016 and that have been held for at least three years from 6 April 2016. The relief applies an effective rate of CGT of 10% to qualifying gains falling within the cumulative lifetime limit of £10 million.

8 **Family Tax Planning** - Structuring of a family owned business in a commercial yet tax efficient way can maximise the tax reliefs available. Tax should also be an important consideration in succession planning.

9 **Enterprise Management Incentive** - The EMI is a share scheme designed to help small, ambitious companies retain the right talent. By rewarding staff you're looking to recruit or retain with tax advantaged share options, you offer key employees an incentive to continue to work for you to develop and grow the company.

10 **Enterprise Investment Scheme** - EIS is designed to help smaller higher-risk trading companies to raise finance by offering a range of tax reliefs to investors who purchase new shares in those companies. Subject to specific conditions being met, individuals are able to obtain income tax and capital gains tax reliefs on investments in companies that qualify for EIS.

The Seed Enterprise Investment Scheme (SEIS) offers more generous reliefs to individuals investing in smaller, potentially risky early stage companies who may otherwise experience barriers to raising external finance. In addition to a 50% income tax reduction, there is also a 50% exemption from CGT for gains realised on any asset, where the gains are invested in SEIS."

Individuals:

11 **Main residence election** - Where two or more properties are occupied concurrently as a home, the taxpayer should 'elect' which property is to be treated as the main residence in order to mitigate any potential capital gains tax charge in the future.

12 **Jointly owned property for married couples** – An election on 'Form 17' can be a useful tax planning tool. Such a declaration enables a married couple to be assessed on the income arising from jointly held property in accordance with their actual beneficial interest, as opposed to having the income taxed upon them equally.

13 **Deeds of Variation** – Such a variation to a deceased's estate could be an important tool to both the estate itself and beneficiaries for inheritance tax purposes. These should however not be relied upon and should be considered as a reserve as opposed to a substitute for appropriate tax planning. There is a two year time limit for varying a deceased's estate.

14 **Tax Credits** – A protective claim for tax credits should be considered, particularly for self employed individuals with fluctuating profits. This is even more evident given the current economic climate. Claims for tax credits can only be backdated by one month and need to be made on an annual basis.

15 **Capital gains/losses** – Transfers of chargeable assets between married couples are exempt from capital gains tax (CGT). Taxpayers sitting on a potential capital gain should consider transferring the asset in question to their spouse, where the spouse has unrelieved capital losses brought forward or where capital losses can be crystallised. Transferring assets into joint names can also ensure that both spouses' respective annual exemptions are fully utilised on a future disposal.

16 **Income shifting** – Married couples should consider transferring income generating assets to their spouse in order to fully utilise their respective tax free personal allowances. This exercise is also effective where one party pays income tax at the higher rate/additional rate and the other is a non taxpayer/basic rate taxpayer.

17 **Additional rate of income tax** – Personal pension contributions and gift aid donations can reduce the amount of income tax high earners pay at the additional rate of 45%.

18 **Personal allowance** – Individuals with a statutory total income in excess of £100K could look to make personal pension contributions in order to preserve their personal allowance. Salary sacrifices in exchange for tax efficient company benefits are also effective for these purposes (in regard to exempt non-cash benefits).

19 **Tax efficient investments** – Investors can reduce their annual income tax bills by making investments through Venture Capital Trusts, Enterprise Investment Schemes and Seed Enterprise Investment Schemes. Capital gains tax deferral relief/exemption may also apply.

20 **Exempt transfers for inheritance tax (IHT) purposes** – With the nil rate band having been frozen in recent years, gifting during lifetime has become increasingly important. The typical exempt transfers for IHT purposes include (1) the annual transfer of £3,000, (2) small gifts of up to £250, (3) gifts in consideration of marriage and (4) normal expenditure out of income.

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