

New businesses

Losses can occur when a former employee has taken the entrepreneurial leap into self-employment but in the first year of trading they have made a loss.

During the first four tax years in which the trade was carried on, provided the business profits and losses were not calculated using the "cash basis", then any loss arising from the trade can be used against the individual's general income for the three years before the loss was made. This is particularly useful when the new business was set up by a previously employed person and in the years prior to set up that person paid income tax.

We would calculate the loss and then assess what had been the tax position during the preceding three years.

Losses which arise at other times in the cycle of business life are complex and your account manager will advise you on the most tax efficient method of relieving losses.

An individual has a limit on the amount of loss relief he can claim from 6 April 2013 this amounts to £50,000 or 25% of the individuals total income for the tax year if this is greater. If the loss is greater care needs to be taken to claim the losses in the correct order so as to maximise the relief obtained.

Losses, personal and capital allowances

Loss claims are made on an all or nothing basis and so often the loss relief claimed causes an individual's personal allowance to be wasted. One way to prevent the wasting of some or all of the personal allowance is by disclaiming any capital allowances due.

Capital allowances are an allowance for the wasting of an asset owned and used in the business and they increase the trading loss relievable for tax. If there is a possibility of losing some or all of your personal allowances then it may be worth considering disclaiming the capital allowances. This action will preserve your personal allowances in the year, which in 2014/15 amount to £10,000, and then it is possible to claim the capital allowances in the following tax year thus maximising the benefits of the allowances due.

Tip: The calculation and the treatment of the different kinds of losses are a complex area of tax legislation however the team will advise you on the best way to obtain maximum relief.

Amnesty update

The Health and Wellbeing Tax Plan closes for voluntary disclosure on 6th April 2014. This amnesty is directed at workers in areas of physical therapy, alternative therapy and other types of therapy. The amnesty gives professionals who work in these industries the opportunity to bring their tax affairs up to date by voluntary disclosure.

Tip: Before approaching HM Revenue and Customs (HMRC) to make a voluntary disclosure it is vital that you speak to a member of the team as there are protection structures which require establishing prior to the disclosure being made.



We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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Back to the future

The married couples allowance was abolished in Gordon Brown's budget in 1999 and took effect from 6 April 2000. Worth £520 per annum to married couples born after 6 April 1935 it was replaced by the child tax credit also worth £520 per annum for one child. However in a move which would reintroduce an element of joint income taxation, last seen in our taxation system in 1990, the chancellor, George Osborne, now proposes a reprieve of the ability to transfer some of the unused tax allowances of one spouse or civil partner to another. This may, just a few months ago, have been viewed under the heading of tax avoidance – reducing tax liabilities by the use of legal methods.

If one party to the marriage or civil partnership has little or no taxable income then from 6 April 2015 up to £1,000 of tax allowances can be transferred to the other party saving up to £200 in income tax – not a great amount, however certainly worth considering if both tax payers pay tax at the basic rate or less.

For a complete review of your personal balance sheet why not book an appointment with the team as where there is potential to transfer income producing assets, capital, property etc it may also be worth considering equalising holdings to minimise tax liability.



Business Property Relief

Business Property Relief (BPR) was introduced by HM Revenue & Customs in 1976 to provide relief of either 50% or 100% of the value of a relevant business asset against Inheritance Tax (IHT) following an individual's death.

Relief can be claimed against: the value of a business or an interest in a business (100% relief) or on the value of unquoted shares (100% relief), on the controlling holding of shares in a quoted company, which is defined as more than 50% of the voting rights (50% relief), and of land, property, and plant or machinery owned by a partner or controlling shareholder which was used wholly or mainly in the business immediately before transfer (50% relief). If the relief to be claimed is at the 50% rate then it is essential that the value included in the claim is the open market value.



Relevant business property has generally been owned for a period of two years but more complex rules apply when the asset has been acquired on the death of a spouse or civil partner or when the asset has replaced a previously qualifying asset.

According to reports, the numbers of individuals and trusts paying IHT is expected to double by 2016/17. With the nil rate band static at £325,000 and a substantial tax charge of 40%, this is a considerable gain for the treasury.

Be aware that in some cases business premises held outside of the company may not qualify for BPR and that companies whose main business is property rental do not qualify for BPR.

Investments into Seed EIS or full EIS qualify for income relief at 50% and 30% respectively and if the shares are held for two years they qualify for full BPR. The two year qualifying period is not required if the original assets already qualified for the relief. This means that if a qualifying business asset is sold and the proceeds are reinvested into an EIS or a Seed EIS then the proceeds immediately qualify for BPR.

If the original qualifying asset had attracted a capital gain on its disposal then if the proceeds are invested in a Seed EIS they are totally eliminated, subject to certain limits. Proceeds reinvested into a full EIS are merely deferred until the eventual sale of the underlying EIS shares. However, if you are anticipating a future capital loss, this deferred gain "leapfrogs" the loss and may be used to offset it. Remember, that if SEIS/EIS are held for three years they become **free of all UK taxes**.

Tip: If you would like to discuss the structure of your property ownership, re-evaluate private ownership of business premises or discuss the potential for a SEED or full EIS please speak to the team.

HMRC calls half time for principal private residence relief!

The 1965 Capital Gains Tax legislation introduced a period of exemption of 12 months so as not to disadvantage taxpayers who have two homes, recognising the difficulties individuals may have in a property market which was stagnant and when the period from placing a home for sale through to completion of the sale may often take many months if not years. By 1991 this exempt period had risen to 36 months.

There was an anomaly in tax law which meant, without this exempt period, a taxpayer acquiring a new residence would cause the original to be considered as an investment and as such chargeable to capital gains tax. To combat this anomaly the final 36 months of ownership of a previously occupied private residence is always considered to be exempt from capital gains tax.

From April 2014 that period falls to 18 months which will impact on taxpayers with two or more residences.

One possible course of action for property owners is to "flip" the residence status of a previous principal private residence prior to sale and if you anticipate selling a property in the near future why not discuss the potential impact on your property ownership of this change and the potential for saving capital gains tax.

Tip: A member of the team will be happy to make an appointment to discuss this with you.



Capital Gains Tax Implications of using your home for business purposes.

A gain made on your main residence is generally free from Capital Gains Tax (CGT) but the exemption is restricted if and to what extent any part of your home is used 'exclusively' for the purpose of a trade or business. The important word here is 'exclusively'. Use of a part of a home for the business will not compromise the CGT relief if that part is also used for domestic purposes.

If part of the home is used exclusively for the business there may in the event of a sale be little or no CGT to pay if the gain is within the annual exemption (from 6 April 2014 this is £11,000). However it must be considered on an individual basis and will depend on other Capital Gains made in the year of sale, increases in domestic property prices and the rate of tax you pay.

Tip: The team review premises expenditure as a key part of the accounts production process. We will be pleased to discuss with you the amounts which will be acceptable and the records you need to retain.

VAT – to register or not to register, that is the question!

For the year which commenced on 1 April 2013 the threshold for registering for VAT is £79,000 but it may be worth considering registering even if you are not yet reaching that level of turnover.

If you incur VAT on the items you purchase and especially if the majority of your customers are VAT registered you will be able to reclaim the VAT you pay whilst not impacting too greatly on your customers, as they can reclaim the VAT you will charge.

If your business is in a zero rated market, for example the supply of food then you will be able to reclaim the VAT suffered on the items you buy and this may give rise to a quarterly refund, a great boost to cash flow!



Tip: To assess if registering for VAT may be beneficial or necessary contact the team.

Low emission cars

Have you considered a low emissions vehicle? For capital allowances purposes it is possible to receive a 100% deduction from profits when you choose a car with CO2 emissions below 95g/km2 or less.

This first year allowance is available for vehicles purchased before 31 March 2015 which means that the full cost of the vehicle is allowable as a deduction in the form of an allowance against profits. If those profits were chargeable at the small companies rate of 20% a low emissions vehicle costing £15,000 would secure a tax saving of £3000!



Trading Losses

Many businesses may find that the past years have not gone so well and as the UK heads out of recession they may find their accounts show a trading loss. Whether you plan to wind up the business or continue to trade there are various ways trading losses can receive the most beneficial tax treatment.

First and foremost, loss relief can only be claimed if the trade is carried on commercially with a view to profit. If you run your business as a hobby then you can only claim for the loss to be set off against any future profits.

When a business ceases to trade

If a business makes a loss in the tax year in which he permanently ceases to trade then that loss can be claimed against the total income of the year of loss and the preceding three tax years. This is particularly useful if the business was previously successful with a tax liability as the loss relief may give rise to a tax repayment.