

TAX MATTERS

friend

I am delighted to be introducing you to the first edition of "Tax Matters". This is the first in what I hope to be a quarterly series of newsletters highlighting topical tax issues for individuals and companies.

I am delighted to have joined Friend as Tax Partner. I hope to bring my 30 years of tax experience to bear for the benefit of all those that come in to contact with the firm. I am a Chartered Accountant and Chartered Tax Adviser with a degree in zoology.

I have spent my career with a number of firms, from a Big Four firm to a local independent practice. I have

spent the past 15 plus years advising owner managed businesses and their owners on all aspects of their personal and corporate tax affairs. I hope to bring this experience to bear for the benefit of the current and future clients of the firm.

This first edition comes hot on the heels of the Autumn Statement from George Osborne in which he clearly laid out his tasks for the coming year with regard to the taxation policy of the existing government.

Simon Littlejohns – Tax Partner

the autumn statement

George Osborne presented his latest Autumn Statement on 5th December against a backdrop of increasing optimism and belief that the UK economic recovery is gathering pace. The announcement of a further £3 billion of Government spending cuts may have helped to dampen the enthusiasm of his colleagues.

The tax initiatives he detailed had been well signposted and the highlights are:

- Further initiatives to tackle tax avoidance;
- Capital Gains Tax on residential property for non-residents from April 2015;
- Various initiatives to tackle the burden of business rates for smaller businesses;
- An Income Tax personal allowance of £10,000 from next April and a £1,000 transferable married couples' allowance from April 2015 for basic rate tax payers;
- The removal of Employer's National Insurance for employees under 21 from April 2015; and
- No fuel duty rise next year!

So despite the optimism, and Mr Osborne's comments that reducing Corporation Tax has had a marked, and positive, effect on the economy, no rabbits out of the hat - we will perhaps have to wait for the pre-election Budget in March 2015 for those!

entrepreneurs' relief

The Entrepreneurs' Relief regime gives a 10% rate of tax on personal capital gains arising as a result of the disposal of a business or shares meeting certain conditions.

Much more detail of the underlying provisions and how they work is given in the Briefing which is accessible on our website.

Many business owners see the prospect of a 10% rate of tax as very appealing knowing that if all the necessary conditions are met HM Revenue & Customs ("HMRC") will pay very little attention to the transaction. This gives business owners a considerable amount of comfort and certainty. However, with any such relief it is very important that all the necessary conditions are examined and any appropriate planning put in place as far in advance of any disposal as is possible. Such planning can be very profitable for many taxpayers where, for instance, ownership of share capital is spread amongst working family members. As with all tax planning matters, problems can arise for the unwary such that appropriate structuring and communication with the tax team at Friend is essential.



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research & development

There is no doubt that the UK is home to a large number of companies carrying out innovative R&D activities in bringing their products and services to market. In order to encourage this tax relief for R&D spend has been an important element of the corporate tax planning regime for a number of years now. However, I am still surprised by the number of companies which do not fully appreciate the benefit of the relief and indeed there are many companies who are completely unaware of its existence. If companies are undertaking R&D activity, as defined in the legislation, generous reliefs are available to secure reduced corporation tax liabilities and indeed in many cases a cash payment from HMRC. The level and nature of relief will depend on the size of the company.

The relief is not difficult to come by if a company is carrying out the appropriate activities. However, procedures and processes may need to change so that the company can collate all the necessary information in support of any claim that they may wish to make.

The rules can be complicated but with a little perseverance, and help from Friend, the reliefs can be secured. A briefing on our website gives much more detail. I would urge all companies involved in R&D activity to review the briefing note to assess whether or not a claim may be possible as part of their corporation tax routine.

I have experienced a number of situations where HMRC have been very helpful when they have been dealing with R&D claims to such an extent that they have helped some *companies to increase their R&D claim.*



"If any of the items in this newsletter has sparked any thoughts or questions please do not hesitate to pick up the telephone and discuss the matters with me. If not, I look forward to bringing further taxation matters to your attention in the months and years to come."

Simon Littlejohns – Tax Partner

enterprise management incentives

The final briefing note which I have drafted for the website is in connection with EMI. In my view this is an underused mechanism which companies can use to incentivise key members of their staff by giving them an equity stake in the business in an extremely tax efficient manner. If everything is done correctly the only tax charges which arise are when the individuals sell any shares they have secured as a result of exercising options under such a scheme. There are no tax implications for the company rather on the exercise of the options the company will get a corporation tax deduction. In many situations, business owners question my advice with comments such as "why would I want to give away part of my business?". The simple reason is that as a result of the efforts by the individuals who have been incentivised with a stake in the business, the value of the holding that remains with the business owner is worth more than it would have been had he or she retained 100% of the equity. It is possible to draft the scheme rules in such a way that they are extremely flexible for the company, allowing the company to set whatever performance criteria are appropriate and deal with such things as good and bad leavers. In essence, there is very little downside for the company and a lot of upside for the option holders.

The devil is always in the detail with such matters but with appropriate guidance from Friend the problems can be easily overcome leading to the creation of a far more motivated workforce. It should also be appreciated that having such a scheme in place will also enable companies to be competitive when trying to attract key personnel to the business and also retain those key personnel.

I have dealt with many such schemes in my career, all of which have led to positive outcomes for all those concerned.