

## MAY NEWSLETTER

### Family companies can help minimize tax

A family company can be used not only to safeguard assets but also to transfer wealth to offspring. Shares in a company will qualify for 100% Inheritance Tax (IHT) relief if it is engaged in an active business or trading activity. There is no specific IHT relief for investment companies, however, a company can be used as a wrapper to hold investments so that its shares can still be passed directly on to family members.

If you plan carefully this can be done so as to minimize both IHT and Capital Gains Tax (CGT). For example, parents may have built up a property letting company that contains buy-to-let properties. If the parents make annual gifts of shares, equal in value to their CGT annual exemption (currently £11,100) to their children over a number of years, they can, over time, pass their combined interests in the company to the children. Where a gift of an asset is made to minor children, income arising from that asset in excess of £100 per year remains taxable on the parent even though the gift is effective for IHT purposes. Providing the parents survive seven years after making such a gift it drops out of account for IHT purposes. There are many more relatively straight forward methods of IHT planning, so please contact us for further details.

### Using Entrepreneurs' Relief to reduce Capital Gains

The tax rules allow you to gain the benefit of a lower rate of Capital Gains Tax (CGT) when you sell, or gift, property that is owned personally and used by your partnership or company as part of your "withdrawal" from the business. Entrepreneurs' Relief (ER) reduces CGT to just 10%.

You can claim ER when planning for retirement, handing on land or buildings to children, or moving from one business into another business.

What makes this relief so useful to many taxpayers is its flexibility. For example, spouses and civil partners can transfer property between them without tax charge; they may also be able to transfer certain assets and potentially gain even more ER relief. The relief may be claimed, in some cases, up to three years after the sale - and the relief can apply more widely than at first you might think.

The 2015 Finance Act made some important changes to ER and it is very important to understand the rules and plan ahead to avoid the pitfalls which include:

- Not owning sufficient shares of the right class in your company
- Not disposing of a sufficient stake in your company or partnership business
- Not being sufficiently involved in the business for at least 12 months
- Failing to make a claim in time
- Charging rent for the use of the property
- Changing the nature of your business or company's business

But with a £10m lifetime limit available, it's time to start planning how to use it.

### Tax Calendar

#### May 2015

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

*19th for non-electronic payments,  
22nd for online payments*

31 Ensure all employees have been given their P60s.

#### June 2015

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

*19th for non-electronic payments,  
22nd for online payments*

#### July 2015

5 End of tax quarter and last date for agreeing PAYE Settlement Agreement (if any) for tax year ended 5 April 2015.

6 Deadline for expenses and benefits annual return forms P9D, P11D and P11D(b) to reach HMRC.

Deadline for employers to give copies of forms P9D and P11D to employees.

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

*19th for non-electronic payments,  
22nd for online payments*

31 Final day for second Self Assessment payment on account for tax year ending 5 April 2015.

31 Second payment due date for 2014/15 Class 2 NICs.

#### August 2015

2 Submission date of P46 (Car) for quarter to 5 July.

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

*19th for non-electronic payments,  
22nd for online payments*

#### September 2015

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

*19th for non-electronic payments,  
22nd for online payments*

#### October 2015

1 Due date for payment of Corporation Tax for period ended 31 December 2014..

19/22 Monthly PAYE/Class 1 NICs/student loan and CIS payments due.

## Income shifting: gifting assets to a partner or spouse



Couples, whether unmarried, married, or in a civil partnership, can decide to divide up their income-producing assets between one another in order to minimize their tax liabilities.

By shifting taxable income out of the hands of a higher-rate taxpayer to a partner who has unused personal allowances or a partially unused basic-rate tax band, the higher-rate tax payer may save significant tax.

Unmarried taxpayers need to consider both the Capital Gains Tax (CGT) and/or Inheritance Tax (IHT) implications when they make gifts of personal property

to each other. The same does not apply to married taxpayers and those in civil partnerships: there are several special tax reliefs that ensure assets can be transferred in life on a non-gain, no-loss basis.

Tax anti-avoidance rules, known as "the settlement provisions", apply to prevent income shifting between spouses or civil partners when there is no transfer of an underlying asset. There are also special rules for joint property which automatically split income for tax purposes.

For example, if Mr. Jones, a higher-rate taxpayer earns £5,000 in bank interest on his personal savings account, he cannot simply "give up" that bank interest for tax to his wife to report on her tax return unless he makes an outright transfer of the whole bank account to her. HMRC would accept that he had made a transfer of the account if he puts the account in her name. If he wishes to merely split the income arising on the bank account with her 50:50, he can put the account into joint names.

Please contact this office for further detailed advice on income shifting.

## Don't get caught out by P11D

P11D forms - showing employee benefits and expenses - need to be filed with HMRC by 6 July 2015. Remember that if you have received a request from HMRC to make a return (of class 1A National Insurance due on benefits and expenses) but have nothing to report, you should either make a "nil" return, or submit the on-line form "no return to make".

Failing to submit an accurate return on time can be expensive. Late filing attracts a penalty of £100 per month per block of 50 employees. Even careless errors can mean penalties of up to 30% of the tax underpaid.

Areas that can prove tricky include reimbursed expenses, including those for homeworking employees, benefits provided to family members, medical costs (with a new limited exemption from January 2015), vehicles and expenses with some private use. If any of the benefits were taxed via the payroll, make this clear to HMRC before submitting any returns on-line.

New for this year: you might not think of yourself as having a "share scheme", but if you issue shares or grant share options to directors or employees you need to notify HMRC for 2014-15 on-line by 6 July. This is not done on form P11D. If you have not already "registered" the scheme with HMRC, you must do this by 6 July otherwise HMRC will charge a penalty. HMRC won't be sending out reminders, so it is all the more important to be clear on what is needed, and allow time to upload the files.



If you have any queries in relation to any of the topics covered in this newsletter then please do not hesitate to contact us.