HOLLIS AND CO

CHARTERED ACCOUNTANTS

HOLLIS NEWS

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Planning to sell your company?

Lots of work to do before a deal

The process of selling an established business can take some time. Even when you find a buyer the negotiations over exactly what will be sold can be drawn out. It makes sense to smarten up the company financially first by disposing of any assets which are not really pulling their weight, such as obsolete machinery. Also any assets which have a personal connection with the directors, such as holiday homes or valued cars, should be put in the directors' own names.

You also need to plan to take advantage of tax reliefs available on the sale. If you leave the country before the sale and stay abroad for a period of five years or more, you could avoid paying UK capital gains tax on the gain. However, you may pay tax on the profits in your new country of residence.

Entrepreneurs' relief can be claimed for many small company sales. It reduces the effective rate of tax from 18% to 10% on the first £1 million of gains made by each shareholder who qualifies. This can save up to £80,000 in tax for each shareholder, where the shareholder and the company meet all of these conditions:

- The shareholder must hold at least 5% of the ordinary shares of the company and 5% of the voting rights for the company for at least one year ending with the sale;
- The shareholder must be an employee, or director, or company secretary of the company for at least one year up to the date of the sale;
- The activities of the company must be at least 80% trading, as opposed to investments, or it must be the holding company of one or more trading companies.

Where family members hold a small number of shares check whether they will each meet the 5% threshold based on their own shareholdings alone. Consider gifting some shares to your adult children or spouse to achieve this threshold. Where shareholders do own over 5% of the shares but do not work for the company, consider making them a director, or giving them a small part time job at the company. Both of these actions need to happen at least one year before the sale.

There can be further tax complications where a property which is owned personally by the directors or shareholders, is used by the company, see the article on page 2. Company sales require a lot of planning, so talk to us as soon as you consider selling so we can help with the long term arrangements.

Reclaiming VAT on car fuel

You can reclaim the VAT element of your employee's mileage allowances but only on the proportion of the allowance that relates to fuel. The mileage rate of 40p per mile covers running costs and fuel.
The HMRC advisory fuel only rates for company cars can be used as the fuel only element for private cars, see: http://www.hmrc.gov.uk/cars/advisory_fuel_current.htm
Say the vehicle has a 1500cc diesel engine and you reimburse the driver for 1,000 miles, the value of the fuel used is 13p per mile: £130. The VAT element is 7/47 x £130 = £19.36. The employee must supply you with fuel receipts totalling at least £130 to allow you to reclaim the VAT of £19.36.

TAX DEADLINES

1 July
Rate of special withholding tax on off-shore accounts increases to 20%
5 July
Final day to reach PAYE settlement agreement for 2007/08.
6 July
Last day to file forms P11D/P9D for 2007/08 with HMRC and issue copies to employees. Also report shares, or share options awarded to employees in 2007/08.
19 July
Cheques for PAYE/NIC for month and quarter to 5 July 2008, and class 1A NICs for 2007/08 must reach HMRC.
22 July
Electronic payments of PAYE/ NIC must reach HMRC.
30 July
Company accounts to **30 September 07** must reach Companies House.
31 July
Pay second on account tax instalment for 2007/08. Unpaid tax for 2006/07 attracts 5% surcharge. £100 fine for all outstanding 2006/07 tax returns. Must return renewal claims for Tax Credits.
2 August
Submit form P46(car) to report new or changed company cars in quarter to 5 July.
19 August
Cheques for PAYE/NICs for month to 5 August must reach HMRC
22 August
Electronic payments of PAYE/ NIC must reach HMRC.
19 September
Cheques for PAYE/NICs for month to 5 Sept 2008 must reach HMRC
22 September
Electronic payments of PAYE/ NIC must reach HMRC.
31 October
Submit 2007/08 paper tax return for tax due of up to £2,000 to be included 2009/10 PAYE code.

Tax Tip

When your business becomes VAT registered you can reclaim VAT charged on goods and services bought for the business, before the VAT registration date. You must hold the VAT receipts and goods, at the date of registration. You can also reclaim VAT when you incorporate your business and apply for VAT registration at the same time.

Have you told HMRC about your let property?

HMRC is looking at let property

HMRC can access a huge amount of information about properties from land registry records, stamp duty returns, and from letting agents. By comparing this information to tax returns Tax Inspectors can see where discrepancies lie.

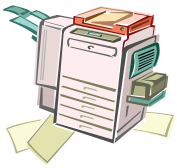
Landlords should include all of their rental income on their tax return form, even where no profit has been made, as the expenses incurred exceed the rents received. When the property is sold any gain must be reported on the capital gains pages of the tax return, unless the gain is less than the annual exemption (£9,200 for 2007/08). HMRC have started to write to the landlords they can identify, who haven't included property income on their tax return forms.

The letter asks for details of any property income received in the last six tax years, together with expenses incurred. This is an informal approach by HMRC, it does not indicate the opening of a tax investigation, and as such you are not obliged to respond. However, if you don't reply within 30 days you will receive another letter and then the Tax Inspector may well open a formal tax enquiry if he doesn't receive some satisfactory answers.

Even if you think you have declared everything correctly on your tax returns, don't just ignore a letter from HMRC. It is possible that HMRC's data contains errors; names do get confused and typing errors can occur. Talk to us before responding, but don't delay, as things can quickly escalate.

This property income campaign is starting slowly with just a few hundred letters sent out in the first batch. However, HMRC plan to write to landlords who have not submitted a tax return, and those who have no tax records at all. So if you have friends or relatives who are letting property, but who have not declared the income, do them a favour and recommend they talk to us before a letter arrives from HMRC.

New capital allowances for equipment



A new printer can get 100% tax relief

Any equipment (excluding cars) you buy for your business from April 2008 is likely to qualify for the new annual investment allowance (AIA) of £50,000 per year. This gives all sizes of business a 100% allowance for equipment up to the AIA limit. Additional 100% allowances are available for specific items that have been classified as energy or water efficient, and which are listed on the website: www.eca.gov.uk

Where your accounting period straddles 1st April 2008 (or 6th April for unincorporated businesses), the AIA limit is reduced to reflect the number of days that fall after the start of the AIA in April. A company with a year ending 31 December 2008 will be entitled to an AIA of £37,568 (275/366 x £50,000) for 2008. If you spend more than the AIA limit any excess will receive tax relief at 20% per year, or at 10% for certain types of equipment normally fixed to buildings called integral features.

Only one AIA limit is available for each group of companies, defined as a parent company and subsidiaries of which it owns at least 51%. The group can allocate the total AIA available between the group companies as it wishes.

Businesses under common control are also treated as one business for AIA and can have only one AIA limit to divide between them. Common control means the businesses are controlled by the same group of connected people, and the businesses are related as they are either carried on from the same premises, or more than 50% of the businesses' turnover is derived from the same type of trade. For example where a husband and wife own separate companies that trade from the same building, those companies are under common control and are related. The two companies will only get one AIA limit to share between them, even if they operate completely different trades.

Should you hold the business property personally or not?

Many business people hold the lease or freehold of the property their business trades from in their own name, rather than in the name of their company or partnership. When the business was incorporated, or took on partners it didn't seem worthwhile to transfer the property and incur stamp duty charges. Also the taper relief given on a future sale favoured the property being kept in the proprietor's own name.

Taper relief has now been abolished, and its replacement: entrepreneurs' relief doesn't favour the personal ownership of business property. Entrepreneurs' relief can apply on the sale of shares (see page 1), and may also apply where a property is sold in association with a business. However, the property must be sold in the three years following the disposal of the main business. If the company or partnership pays rent to use the property, the entrepreneurs' relief will be restricted.

If the freehold or lease of the property is held within your company, the property will be transferred along with the company shares, which may qualify for entrepreneurs' relief. If you want the property to generate an income for you in your retirement, you will need to keep the property in your own name. This will increase the value of your estate for inheritance tax (IHT) purposes, as only 50% of the property value will be exempt from IHT.

It's a complicated decision, which depends on your future plans, so talk to us about this long term tax planning.