

Budget Changes and Your Business

The notes below are taken from the Simpkins Edwards seminar 'Budget Changes and Your Business', which took place in November 2007. If you would like further information on any of these areas, please contact us at info@simpkinsedwards.co.uk.

Understanding Capital Gains Tax

Capital Gains Tax (CGT) has been making the news following the changes announced in the Pre-Budget Report in October 2007.

Key changes:

- Taper relief abolished from 5 April 2008
- Replaced by single tax rate of 18%
- Charged on gains after losses and annual exemptions
- Some new anti-avoidance rules

CGT is paid on disposal of an asset by: selling, giving away, exchanging, otherwise ceasing to own, receiving money for an asset, e.g. compensation for damage.

Winners post April 2008: owners of non-business property, buy to lets, investments in stocks and shares.

Losers: owners of business assets.

Action Plan:

- Accelerate disposals (e.g. gift shares to trust); sell property up to 5th April 2008; transfer assets to spouse
- Thinking of incorporating: CGT reliefs used when realising value of goodwill and other assets transferred to the company
- Thinking of disincorporating: Use of extra statutory concession to treat winding up as a capital distribution. Value of company taxed at 10%
- Consider small gifts to make use of current reliefs

In summary:

This is still draft legislation and has caused much controversy amongst business groups, with the Chancellor agreeing to meet with key groups such as CBI to discuss the proposed changes. Press reports of retirement relief of £100K, but this has not yet been confirmed.

When planning for CGT, watch anniversary dates as taper relief applies to full years only. Review assets held for business use and non business use and the length of ownership before taking action.

Planning for Capital Allowances

There is a range of allowances for businesses - e.g. on your capital expenditure (mainly plant and machinery); First Year Allowance (explanation...); Writing Down Allowance (explanation...). These are the tax equivalent of depreciation.

The main changes coming into effect from 2008/9 tax year point to a reduction in available relief:

- Decrease in the annual "writing down allowance" from 25% to 20%
- Abolition of the "first year allowance" of 40% or 50%
- Reduction of the "writing down allowance" rate for integral fixtures within buildings from 25% to 10%
- Industrial Buildings Allowance to be phased out by 2011

There is also some good news, though:

- Introduction of a new Annual Investment Allowance" of £50K per annum. Qualifying expenditure (this does not include cars) within this limit will be relieved at 100% in the year of investment.
- Rate of "writing down allowances" for "long life assets" increases from 6% to 10%
- 100% allowances for certain energy saving and environmentally beneficial plant

The impact of these changes will be different for different profile of business. For example, those with no buildings and within AIA will benefit while those with a high expenditure of over £50K and buildings/fixtures will not benefit.

Increased importance of planning expenditure:

- Action now on integral fixtures
- Full identification of revenue
- Use of short life asset election

In summary:

Again, there is an uncertainty of exact legislation and there will be a transition period to cover some of the allowances. There are benefits for many small/medium business; advance planning more important than ever.

Grooming your business for sale

Corporate finance function advises on the various 'lifecycle changes' in your business - such as finance raising, transactions (mergers, sales, acquisitions), and succession and exit planning.

These are major events in your business life so professional advice is paramount to make sure you get it right.

Succession and Exit Planning:

- Give your business a coat of paint
- Identify and deal with potential issues
- Increase the value
- Increase likelihood of success
- Do it early!