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Business Matters

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inside this issue...

Loans or equity - choosing your business finance

It is important to be aware of the alternative means of finance while your business is in a healthy position. Leave it too late, when there are doubts the funds can be returned to the shareholder, and issues may arise with tax relief for the loss of funds.

If you run a family business, a shareholder will not always consider the advantages and disadvantages of the different finance options. It is very common for money to be injected into the company as an informal loan rather than making a further subscription for shares.

What tax relief is available on losses?

In general terms, a loss on a disposal of ordinary shares in a qualifying trading company may give rise to income tax relief. The loss can be set against income and so reduces the overall income tax liability. In the case of a loan you may suffer a capital loss, which can only be set against capital gains to reduce your capital gains tax (CGT) liability.

Certain conditions must be met in both cases.

Share capital losses

A loss on a disposal of shares is by default a capital loss. However, a loss on a disposal of shares which have been subscribed for in a qualifying trading company can be relieved against your income rather than capital.

If the shares are not actually sold, a claim can be made to treat them as if they had been, so long as their value has become negligible. Be aware that HM Revenue & Customs (HMRC) may seek to deny the claim if the company is in financial difficulties, on the basis that the shares had little value at the time of the subscriptions.

Certain trades are excluded including: companies whose trade consists of property development, farming, and nursing home management. Please contact us for full details.

Irrecoverable loans

If a company ceases to trade and a loan is still outstanding, this may lead to a capital loss since the loan will be irrecoverable. This may be offset against current capital gains or carried forward until gains are realised in the future.

The loan must have become irrecoverable, and HMRC will again seek to deny the claim if the company is already in financial difficulties at the time the loan is made.

Are there any other options?

Most taxpayers will prefer an income tax loss over a capital loss. For this purpose it is possible to convert a loan into shares before making a claim, and taking the loss on income.

If your company is already in financial difficulties, it means the value of the loan will be very low and hence the value of the new shares will also be very low. If the loan still has some value, the cost of the new shares is calculated according to their value at the date of acquisition and not the value of the loan that is given up.

The rules are complex, so please contact us for further advice on the best course of action for your business.

Is now the time to invest?

A number of Government approved investment schemes are available to encourage private individuals to invest in smaller high risk unquoted trading companies, and now in social enterprises. Various tax reliefs are available to encourage investment. Here we provide a round-up of your options.

All the schemes have detailed rules on qualifying investors, the investment vehicle and type of investment. The schemes are:

- Enterprise Investment Scheme (EIS)
- Venture Capital Trust Scheme (VCT)
- Seed Enterprise Investment Scheme (SEIS)
- Social Investment Relief (SIR)

Depending on the scheme, you may be able to take advantage of these incentives:

Income tax relief

A qualifying investment up to £1 million, depending on the scheme, reduces the investor's tax liability for that year. In some cases, claims can be made to carry back this relief to the previous tax year, if you have insufficient tax liability in the current year.

Income tax relief is 30% of the qualifying investment, except SEIS which is 50%.

The investments must generally be held for three years, except VCT which requires five years.

Capital gains and losses

Any capital gain on disposal of a qualifying investment (held for three years) will generally be exempt. If your investment is disposed of at a loss, the loss will be allowable but generally reduced by any income tax relief you claim.

There is no minimum ownership requirement for VCT shares to qualify for capital gains tax (CGT) exemption but losses are not allowable.

Capital gains deferral relief

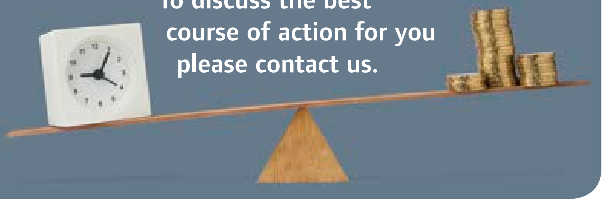
A gain on the disposal of any asset can be deferred by investing it directly in a qualifying EIS or SIR. This relief is not available for VCT or SEIS investments.

The deferred gain generally becomes chargeable when the qualifying investment is disposed of. However, for qualifying SEIS investments a relief exists which exempts 50% of gains up to a maximum reinvestment limit of £100,000 (i.e. £50,000).

Investment income

Any other income from the investment schemes is taxable, with exemption for dividends on ordinary VCT shares.

To discuss the best course of action for you please contact us.



Hiring the best talent for your business

When it comes to hiring top talent, smaller businesses can't usually compete with the major corporations on things like salary and benefits – and with the economy on the upturn, potential employees can increasingly afford to hold out for the best jobs. So how can you make sure that you're able to find and attract the best recruits? Here are some ideas…

Know your competition

Hiring the best people means knowing who else is looking for them. Jobs boards and employment agencies can be valuable for your research purposes, allowing you to see who's hiring and for what.

Many businesses advertise opportunities on their websites, and a quick search online can reveal your rivals. Take a look at their recruitment listings and think about how you can improve on them to attract more applicants.

Public Relations

Online search engines are often the first point of contact between potential employees and a business. Your website is your first chance to attract their attention, and that's before they get to the recruitment page.

New business and new employees will respond well to good content. Blogs, articles, news and social media links are just some of the ways you can make your online presence more interesting.

Make sure you're visible

There are numerous ways for individuals to contact businesses, and making sure you're available through all these channels is a way to get more applications. With a broader reach, you're more likely to grab the attention of your perfect employee.

Your own website, employment agencies, online job listings in your industry, and social media may prove vital – as well as newspapers, jobs boards, and mailers to your database of contacts.

Advertising your 'company culture'

Larger businesses often find it difficult to maintain the kind of public image that makes them appealing to today's qualified candidates. While maintaining a professional look and feel, it's easier for smaller businesses to avoid the overly corporate, old-fashioned style of larger corporations.

Being seen as fresh, youthful and unique could bring the applications flooding in, even when you're not actively recruiting. Creating an interesting place to work – with the right office, a sociable team, and ethical values – might put you ahead of even the largest businesses.

Keep searching

Even if you're not currently recruiting, it's likely that you'll have another open position soon – especially if you're a small business with a lot of potential to expand. By accepting CVs and keeping a note of the most promising individuals you meet during the daily running of your business, you'll begin your recruitment drive with a great head start.

Don't forget to have your current staff on the case as well. Remuneration or benefits for employee referrals can help you find the people you need, and can also work as a great selling point in your advertisements.

These are just a few of the ways that you can expand your business and fill positions with the most qualified individuals, who'll help you achieve great things in the future. Contact us to make the most of your finances and help prepare your business for any changes which may come.

Selling your business – plan ahead for entrepreneurs' relief

Entrepreneurs' relief can be very valuable, potentially reducing the capital gains tax on the sale of a business from a rate of 28% to 10%. However, the relief is only available as long as the qualifying conditions are met. Because the conditions generally need to be met for 12 months prior to the disposal or the cessation of the business, it is essential to plan ahead for the sale to maximise the aid you are able to receive.

The relief is available to individuals and to some trustees on qualifying gains made on the disposal of all or part of a business, the disposal of the assets of the business after it has stopped trading, or shares in a personal trading company. Individuals may qualify if they are in business as a sole trader or in partnership, or if they hold shares in their personal trading company.

Relief is available up to the lifetime limit (currently £10 million). Each spouse or civil partner has their own lifetime limit. The relief must be claimed.

Conditions

The conditions which must be met for the relief to be forthcoming depend on the nature of the disposal. These conditions must be met throughout the qualifying period.

Where the disposal is of the whole or part of a business, the individual must either own the business directly or in partnership. If the disposal is of assets following the cessation of a business, once again, the individual must have owned the business directly or in partnership, and the assets in use at cessation. Further, the disposal of the assets must take place within three years of the date on which the business ceased.

In the case of a disposal of shares or securities, to qualify for relief the company must be:

- the individual's personal company;
- either a trading company or the holding company of a trading group; and
- the individual must be either an officer or an employee of that company (or of one or more members of the trading group).

A company is the individual's personal company if he or she holds at least 5% of the ordinary share capital and that holding has at least 5% of the voting rights.

Planning ahead – the importance of the qualifying period

The conditions for Entrepreneurs' Relief must be met throughout the qualifying period. Disposal of the whole or part of a business has a qualifying period of one year ending with the date of the disposal. If the business ceases, the qualifying period is the period of one year ending with the date of cessation. Where the claim for relief relates to the sale of shares or securities in a personal trading company, the qualifying period runs to the date of their disposal. (However, if the company ceases to be a trading company or a member of a trading group within the period of three years before the date of disposal of the shares or securities, the qualifying period runs to the date on which the company ceased to be a trading company or a member of a trading group.)

The cost of failing to meet the qualifying conditions throughout the qualifying period can be high. It is therefore essential to plan ahead for the disposal. To maximise relief, this may mean that shares need to be transferred from one spouse to another to ensure that each holds 5% of the ordinary share capital and 5% of the voting rights. Shares can be transferred between spouses and civil partners at a value which gives rise to neither a gain nor a loss. In some cases, it may be beneficial to delay the disposal to ensure that the conditions have been met throughout the one-year qualifying period.

Effect of the relief

Where the conditions for entrepreneurs' relief are met, gains on the qualifying disposal are taxed at 10% to the extent that they exceed the capital gains tax annual exempt amount (£11,000 for 2014/15), as long as the lifetime limit remains available. For example, if the conditions for relief are met (and assuming the annual exempt amount is utilised elsewhere) capital gains tax of £50,000 would be payable on a gain of £500,000. Without the relief, the liability could be £140,000 (28% of £500,000). A failure to plan ahead could be very costly.

We can help you plan for the future of your business. Be sure to contact us for further assistance.

Business Round-up

RTI relaxation extended

HMRC has announced that it will exempt employers with fewer than 50 staff from Real Time Information (RTI) late filing penalties until 6 March 2015. Until that date, they will be allowed to submit PAYE information monthly.

RTI requires employers to provide information about tax and National Insurance deductions every time they pay an employee rather than annually. The original deadline for implementation by small firms was on 6 October 2014.

The relaxation for small firms is the latest in a series of deadline moves since RTI was rolled out in October 2013.

HMRC's Ruth Owen said: 'We know that those who have had most difficulty adjusting to real-time reporting have been small businesses, so this staged approach means they have a little more time to comply with the new arrangements before facing a penalty'.

Employers with 50 staff or more will still be fined if they file PAYE returns late, after the 6 October 2014 deadline.

Sharp increase in graduate employment

New figures suggest there has been a significant fall in graduate unemployment in the UK.

Research by the Higher Education Careers Service Unit (HECSU) and the Association of Graduate Careers suggest that 70% of new graduates were in employment by January 2014.

The report looked at the destinations of 256,350 new graduates six months after they left university. Some 7.3% were unemployed in January 2014, down from 8.5% in January 2013 and the lowest level since 2008.

The figures also suggest more graduates were in professional and managerial work – 66.3% of new graduates, compared with 64.9% the previous year, and fewer were working as retail, catering, waiting and bar staff – down to 13% of the total from 13.7% the previous year.

Web Watch

Essential sites for business owners

www.e-skills.com
Working with employers to improve staff skills

www.flexibility.co.uk
Resources for new ways of working

www.mentorsme.co.uk
Helping small businesses find a mentor

www.unclaimedfinances.co.uk
News articles on available funding

Reminders for your Winter Diary

December

30 Last day for online submission of 2014 Tax Return for HMRC to collect tax through clients' 2015/16 PAYE code, where they owe less than £3,000.

31 Last day for non-EU traders to reclaim recoverable UK VAT suffered in the year to 30 June 2014.

End of relevant year for taxable distance supplies to UK for VAT registration purposes.

End of relevant year for cross-border acquisitions of taxable goods in the UK for VAT registration purposes.

End of CT61 quarterly period.

Filing date for Company Tax Return Form CT600 for period ended 31 December 2013.

January

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

14 Due date for income tax for the CT61 quarter to 31 December 2014.

19/22 Quarter 3 2014/15 PAYE remittance due.

31 First self assessment payment on account for 2014/15.

Capital gains tax payment for 2013/14.

Balancing payment – 2013/14 income tax/ Class 4 NICs.

Last day to renew 2014/15 tax credits.

First payment due date for 2014/15 Class 2 NICs.

Deadline for amending 2013 Tax Return.

Last day to file the 2014 Tax Return online without incurring penalties.

Liability to 5% penalty on any tax unpaid for 2012/13.

February

1 £100 penalty if 2014 Tax Return not yet filed online. Additional penalties may apply for further delay. Interest starts to accrue on 2013/14 tax not yet paid.

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

14 Last date (for practical purposes) to request NIC deferment for 2014/15.