

SEED ENTERPRISE INVESTMENT SCHEME



As part of the Chancellor's Budget of 21 March, an announcement was made to encourage investment in new and start-up companies.

The 'Seed EIS' – or Seed Enterprise Investment Scheme – looks to provide substantial tax relief for individuals investing in businesses less than 2 years old.

It is a new and distinct tax relief to the Enterprise Investment Scheme (or EIS) that has operated for many years.

The tax saving for individuals using Seed EIS could be as high as 78% – and works in two separate ways.

Capital gains tax exemption

If you are considering disposing of a capital asset – such as shares or an investment property – this could be the tax year in which to do so.

Ordinarily, capital disposals are liable to capital gains tax at either 28%, 18% or 10% depending on the asset and your level of other income and gains in a tax year.

However, for the current tax year (6 April 2012 to 5 April 2013) there is a capital gains tax holiday on gains realised on a capital disposal (of any description), that are invested into qualifying Seed EIS shares before 5 April 2013.

Furthermore, so long as you hold the new shares for at least 3 years, any future gain you make on disposal of those new shares should also be exempt from capital gains tax.

Income Tax Saving

Individuals who invest in qualifying Seed EIS shares will also be able to claim income tax relief of up to 50% of the amount they invest.

The small print

1. What are 'qualifying Seed EIS shares'?

Qualifying Seed EIS shares are shares in a small company which:

- is less than 2 years old (or its business is less than 2 years old for recently incorporated sole traders or partnerships);
- is carrying on or preparing to carry on a new business;

- has 25 or fewer employees;
- has assets of up to £200,000 in value;
- has not raised more than £150,000 under Seed EIS;
- has not already generated investment using the 'regular' Enterprise Investment Scheme.

2. Is there a limit on the amount that I can invest?

The maximum annual investment under Seed EIS is £100,000 per investor but any unused amounts can be carried back and offset against income tax of the previous year.

3. Is there a limit on the number of shares I can acquire?

Generally, in order to claim the tax relief individuals cannot acquire a stake of more than 30% in the company – but the individual can be a director of the company (but not an employee).

Summary

If you would like further information on the Seed EIS regime please contact your local Rothmans adviser.



CHANGES TO RESEARCH & DEVELOPMENT TAX RELIEF

Announced in this year's Budget was an enhancement to the Research & Development (R&D) tax relief regime available to small and medium-sized limited companies.

A reminder of the relief

Companies who conduct R&D activities may be able to claim R&D tax relief, which could entitle them to additional tax relief against their corporation tax profits (or possibly even a physical cash tax credit from HM Revenue & Customs).

To qualify, a company conducting R&D must be seeking to 'achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty.'

In practical terms, this means looking for a solution to a problem.

The relief can apply across a number of different industries – such as pharmaceutical, medical, IT (hardware and software), sciences, manufacturing and technology.

The tax benefits

In summary, profit-making companies

receive an enhanced corporation tax deduction on their qualifying R&D expenditure.

Loss-making companies that incur qualifying R&D expenditure may be able to 'sell' part or all of their losses back to HMRC for a physical cash tax credit – boosting short-term cash flow to help fund further R&D and business growth.

The changes

1. Rate of relief

For expenditure incurred on or after 1 April 2012 the rate of relief (i.e. the additional corporation tax deduction uplift) has increased to 125% (100% before that date) – i.e. for every qualifying £1 your company spends on R&D it receives £2.25 worth of deduction against its corporation tax profits.

2. Minimum spend

Prior to 1 April 2012 there was a minimum amount a company had to spend on qualifying R&D expenditure before it qualified for the tax relief.

The minimum spend was £10,000 per year, but for expenditure incurred after 1 April 2012 this has been removed.

3. Tax credit

Although the rate of physical cash tax credit has been reduced to 11%, the cap on the amount of the tax credit – which was set at a company's PAYE/NIC liability – has been abolished. This will potentially allow loss making companies to claim more by way of a physical cash tax credit.

Summary

R&D tax relief can be quite a technical area. For further information on the relief including what is defined as 'qualifying expenditure' please contact your local Rothmans adviser.



Jonathan Poulter
Director, Winchester



BENEFITS OF THE PATENT BOX

The Government is seeking to promote development and manufacture of technically innovative products by UK companies.

The patent box is a tax break for company income earned through the exploitation of a patented invention. From April 2013 the patent box will tax worldwide profits attributable to patents at a 10% corporation tax rate.

Critically, even if a small part of the product is protected by a qualifying patent, the profit from worldwide sales of the product would potentially be eligible for the patent box tax break.

To qualify, a company must:

- own a patent, or
- have exclusive licence to exploit a patent, or
- have partnership, joint venture or cost sharing arrangements, or
- have income from the sale of a patent

and must receive income relating to that patent.

Once a company has opted into the patent box there is a three step formula for calculating how much of its profits are derived from its patents.

The steps are that the profits from patented products are identified and 'the expected routine' return, currently set at 15%, is eliminated from the profits, leaving the residual profits. The third step is an adjustment to eliminate a further element of the profit which relates to other intellectual property not patented.

The Government has suggested that a simplified regime may be appropriate, where smaller claims are made. In these circumstances the third step is ignored and instead it is assumed 50% of the residual profits relate to patents and so are eligible for the 10% tax rate.

The patent box will apply to new and existing patents but will be phased in from 2013/14 at 60% of the benefit available and full relief will not be available until 2017/18. Full details will be published in the Finance Act 2012.

Please contact us if you require more information.



Sue Sullivan
Partner, Salisbury

CAPITAL ALLOWANCES ON COMMERCIAL PROPERTY

From 1 April 2012 capital allowances on commercial property are due at a rate of 8% in respect of integral features and 18% in respect of other fixed plant and machinery.

Integral features are broadly:

- electrical and lighting systems
- hot and cold water systems
- heating systems
- powered ventilation systems
- lifts/escalators
- external solar shading.

The Finance Bill 2012 will be introducing revised legislation regarding claims for capital allowances on commercial property following a change of ownership. This revised legislation may have a dramatic effect on the availability of capital allowances to the new purchaser of a property post 1 April 2012.

Prior to 1 April 2012 there was no time limit in place to govern when a vendor and purchaser of a property should agree the proportion of the sale price to be attributed to the qualifying fixtures. As a result,

current owners were able to make late claims for capital allowances by which time it was too late for the attributed value to be brought into account by both parties.

With effect from 1 April 2012 capital allowances on fixtures will only be available to the purchaser of a property subject to the following conditions:

- A capital allowance claim in relation to previous expenditure on qualifying fixtures must have been made by the vendor before the property is sold to a purchaser (this may not be needed where a property is sold before 1 April 2014) and,
- A seller and purchaser must fix their agreement about the value of the fixtures transferred within two years of the date of transfer. This must be done either by election under the Capital Allowances Act 2001 or by referring the matter to the first tier tribunal, or
- The previous owner must provide a written statement of the disposal

value of the fixtures previously brought into account (for example on cessation of a business) within two years of the date of transfer.

This has implications in respect of the sale of commercial properties. A purchaser's ability to claim capital allowances on fixtures will now be contingent on the vendor having previously claimed allowances. If a purchaser's ability to claim capital allowances going forward is restricted due to an insufficient claim having been made by the vendor, this may adversely affect future sale values. Effectively, the purchaser will pay less to reflect the value of the lost allowances.

It is important that all capital allowance claims are reviewed now in order to preserve their availability in future. There are special rules where a property owned by a pension scheme or charity is sold.

If this is something that may be relevant to you please contact us for further advice.

Ian Fielder, **Tax Manager, Havant**



ROTHMANS NEWS

ROTHMANS APPOINTS NEW DIRECTOR

Jonathan Poulter has been appointed a director of Rothmans Winchester office. Jonathan, who grew up in Winchester, joined Rothmans in 2009 having previously worked for a top 5 accountancy firm in London and Southampton.

He qualified as a chartered accountant whilst working in audit before developing an expertise in corporation tax. Since then Jonathan has qualified as a Chartered Tax Adviser and now operates as a general practitioner, specialising in accounting and tax planning for owner managed businesses.

He deals with a wide range of clients across a variety of sectors and his specialisms include start-up businesses, incorporations, corporation tax planning and R&D tax relief claims.

Jonathan is also a certified adviser of Xero, the 'cloud' based accounting system.

Jonathan is married and lives in Winchester. He is a passionate musician, playing saxophone, piano, guitar and is also a keen sportsman, regularly playing golf and tennis.

Jonathan commented, "I am extremely pleased to have been appointed a director at Rothmans. I take great pride in providing practical advice to owner-managers and believe regular communication with clients is key to understanding a business. I aim to explain all of the accounting and tax commitments to the owner-managed business in a clear and uncomplicated manner."



Jonathan Poulter
Director, Winchester

VENUS AWARDS NEW BUSINESS WINNER ANNOUNCED

The winner of the New Business Award category, sponsored by Rothmans, in the Venus Awards for Hampshire women in business, is B Organic Skincare (www.b-organic.co.uk), based in the New Forest. Founder, Aycin Wateridge, was presented with her award by Sue Sullivan after winning the Final at an Awards Ceremony held at the Grand Café in Southampton.

Aycin set up her multi-award winning business on a shoestring budget after developing a skin cream to treat her daughter's eczema when doctors were unable to help. She now produces a whole range of skincare products, all made locally, for adults and children. B Organic is sold nationwide and internationally, counting celebrities among its fans.

"Aycin is an inspiration to young mums looking for the courage to set up a business," Sue Sullivan commented. "All the finalists impressed me with their drive and persistence to succeed; they have come a long way in such a short period."



"There were many excellent entries for this award for businesses under two years old and it is exciting to see that entrepreneurial businesses in Hampshire are prospering."

The other two New Business Award finalists were:

Golden Groove Entertainment (www.goldengroove.co.uk). This music agency provides music for venues in Hampshire, helps young talented musicians become

established and helps charities and non-profit organisations with their events.

The Marketing Collective (www.themarketing-collective.com) helps more than 100 small and medium-sized businesses in the tourism, arts and hospitality industries to work collectively and cost-effectively, and manages the marketing campaign to promote 'Hampshire's Top Attractions'.

Visit www.venusawards.co.uk/southampton for more details.

INCREASED ISA ALLOWANCES

New allowances for individual savings accounts (ISAs) – which offer tax-free returns on investments – have now come into force.

For the 2012/13 tax year, the total amount that can be invested into an ISA has increased to £11,280 (previously £10,680), of which a maximum £5,640 can be invested in cash. The remaining £5,640 can be invested into a stocks and shares ISA with either the same or different provider.

Junior ISAs are also now available, and have been in force since 1 November 2011 as an alternative to child trust funds (CTFs) which have since been disbanded (although CTF vouchers may still be cashed in). Like their adult counterparts, Junior ISAs are tax-free, although the annual allowance limit is £3,600 which can be invested in either cash or stocks and shares.



ROTHMANS NEWS

EMPLOYMENT LAW AND TAX SEMINAR

Rothmans and Verisona, solicitors, co-presented a very well attended seminar at Lakeside, North Harbour, Portsmouth on 26 April 2012.

Martin Osborne and Daren Laidlaw from Rothmans presented on employment tax and pensions. Sue Ball and John Taylor from Verisona covered employment case law, TUPE and social media.

Martin Osborne said, "This is the second year we have co-presented a seminar with Verisona and the feedback from the attendees has been excellent. The combination of legal, tax and pension topics seem to have attracted a great deal of interest and provided those attending with some relevant up-to-date information."



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