

## TAX AND YOUR COMPANY: PLANNING AHEAD



Managing a company always presents challenges, and the forthcoming months, while offering opportunity to some business owners, will be challenging for many as we face continued public sector cuts and tax increases. Financing and cash flow are already proving difficult for many businesses, even some of those benefitting from a growing market share. Don't let tax become another problem this year. Stay ahead of developments and make sure you seek our professional advice. Here are a few of the tax issues directors and company owners should currently be aware of:

### **Corporation tax rates**

Corporation tax rates have been set at 20% for the financial year starting 1 April 2011 for companies with taxable profits of less than £300,000, at 27.5% on the next £1.2m taxable profits and at 26% for companies with taxable profits above £1.5 million.

The Government has announced that the 26% rate will reduce by one percentage point in each of the next three years to

reach 23%, but has given no indication if the lower rate will be changed.

### **Capital allowances**

For the entrepreneur, getting the maximum in capital allowances for your business is an important part of minimising the net cost of a capital investment. The annual investment allowance is 100% for the first £100,000 of expenditure on most types of plant and machinery but this reduces to the first £25,000 from April 2012. The writing down allowance on unrelieved expenditure brought forward is currently 20%, but reduces to 18% from April 2012. Timing of capital investment is obviously vital.

### **Cars**

The tax treatment of cars in a company is a complex issue, as recent changes have affected both the capital allowances that the company can claim on the purchase of a car and the benefit in kind that employees will pay tax on (and the company will pay national insurance contributions on). The general

thrust of these changes is to encourage both companies and employees to choose more fuel efficient vehicles, by linking both taxes to the official emissions rating of the car. Choosing a fuel efficient car can benefit both the employee and the business, with the lowest emission cars attracting 100% tax relief on purchase and carrying a benefit in kind as low as 0%. In addition no vehicle excise duty and congestion charge is payable on the lowest emission cars.

### **Going green - 100% capital allowances**

It's not just some cars that are eligible for 100% first year capital allowances. Any investment in approved environmentally friendly or energy saving equipment also qualifies.

### **Research and development**

The research and development rules offer tax opportunities for SMEs, provided your expenditure is over £10,000. Research and development expenditure carries a substantial 200% deduction against profits.

Continued overleaf

From April 2012, this deduction is planned to rise to 225%, and the minimum expenditure level is planned to be abolished.

Furthermore, if your business is not making a profit, there is a tax credit system which allows the relief as an up front cash sum, as long as you surrender the corresponding trading losses. The credit cannot exceed the company's PAYE/NIC payments during the same accounting period, although it is proposed this will be abolished from April 2012.

### Pensions

Pension contributions attract tax relief for both the employee and the employer. Some employees and employers agree to a 'salary sacrifice', whereby a portion of salary is exchanged for a pension contribution by the employer. There is a

limit of £50,000 in the total of employer's and employee's contributions, however if maximum contribution limits from the previous three years have not been used, these can be carried forwards.

### Salary v Dividend

With the regular changes in corporation tax rates and national insurance rates it is important to review whether shareholders should be paid in dividends or salary.

Dividends do not incur national insurance but are paid out of the company's "after tax" profits. Salary is subject to national insurance, but receives tax relief as a company cost. Although there are many issues to consider, it is often beneficial to pay dividends rather than additional salary, when paying bonuses.

In summary, it is worth reviewing the above and other issues, preferably prior to a company year end. If this is of interest please contact us.



Jonathan Poulter  
Manager, Winchester

## TAX TIPS FOR CHRISTMAS

### from Santa

#### Christmas Gifts to Staff

Small gifts such as a turkey, a bottle of wine or a box of chocolates can be given tax free to employees, but not lavish ones.

#### Christmas Party

Not only is the cost of the party deductible against the company's profits, there is an exemption from tax and NICs on the benefit provided, as long as the party or function:

- is an annual event;
- is open to all of your employees (even if you are the only one); and
- costs no more than £150 (inclusive of VAT) per head.

If partners or spouses attend then they also have a £150 allowance. The allowance covers all costs including accommodation and transport.

This is an annual allowance, per person, to cover all staff events. If the company spends even £1 more than the £150 per head allowance then the whole amount will be taxable, though this could be avoided if your employee pays the excess. The company can also recover the VAT on the element relating

to you as an employee, but not the element relating to your spouse.

#### Long Service Award

Non-cash awards of £50 for each year worked can be given tax free to anyone who has worked at the company for over 20 years, provided no award has been made in the previous 10 years.

#### Gifts to Customers or Suppliers

Tax relief is available on gifts costing £50 or less provided they include a conspicuous advertisement such as a logo and are not food, alcohol, tobacco or vouchers.

#### Gifts to Charity

Your company's gift is tax deductible provided it is given without conditions or material benefit. The self-employed can claim higher rate tax relief on charitable gifts on their tax returns.

#### Charitable E-cards

Instead of the usual gifts or greeting cards for clients, staff and customers, why not buy a charitable gift and then design and send an e-card to let them know about it. It saves on postage and stationery and is tax deductible like any other charitable donation.

### from Scrooge

#### Christmas Bonus for Staff

This will count as ordinary earnings and be subject to tax and NI as if it were additional salary. Vouchers will also be caught.

#### Client entertaining

Hospitality of any kind is never an allowable deduction and VAT cannot be recovered on it, (except VAT incurred in entertaining foreign customers in some circumstances, following a recent court ruling).



Sue Sullivan Partner,  
Salisbury

## GOVERNMENT LAUNCHES BUSINESS FUND



Encouraging the growth and development of enterprising businesses is a key part of the Government's plans for re-balancing the economy and spurring recovery.

To help improve business access to the sort of finance needed to get new products and services off the ground, the Government has launched its new Business Growth Fund (BGF). The fund has been set up to help SMEs with an annual turnover of between £10 million and £100 million. It has available funds of up to £2.5 billion, and is backed by a number of leading banks.

The BGF will invest approximately between £2 million and £10 million per business in return for a minimum 10 per cent equity stake and a seat on the board for a BGF

director. It is designed to offer long-term equity investment for growing enterprises which are struggling to secure access to sources of capital.

Business Secretary, Vince Cable, said: "The Business Growth Fund is ready to make substantial equity investments into ambitious mid-cap British companies who are set to create the business success stories of the coming years."

More details on the BGF can be found at <http://www.businessgrowthfund.co.uk/>

Has your business come up with a great new idea but is struggling to raise the funds to finance it? Please contact us if you need assistance in sourcing the right backing.





## ARE YOUR SAVINGS SAFE?

October saw 12 banks and building societies have their credit rating reduced, including Lloyds, Santander, RBS, the Co-operative Bank, prompting many to question the safety of their savings.

The Financial Services Compensation Scheme (FSCS) is the UK's compensation fund of last resort for customers of authorised financial services firms. It covers private individuals and some eligible smaller businesses against losses if a financial institution defaults. There are limits to this cover.

### What does the FSCS cover?

For savings deposits held in a bank or building society account, the FSCS will cover £85,000 per person per financial institution.

### What classifies as a financial institution?

A financial institution is not necessarily a bank or building society on its own. Since the financial crisis began, a number of

banks and building societies have merged, meaning that two may only class as one financial institution for FSCS purposes.

Essentially, a financial institution is separately authorised by the Financial Services Authority (FSA).

### For example:

Halifax, Bank of Scotland and Birmingham Midshires are all part of the HBOS Group, and authorised by the FSA as HBOS Group, meaning that the protection limit is combined and you would only get £85,000 for all together.

Visit [www.fscs.org.uk](http://www.fscs.org.uk) for more information.

### What else does the FSCS cover?

As well as deposits, the FSCS also covers individuals and eligible small businesses (from 1 January 2010) for:

- **Insurance policies** - 90% of the claim with no upper limit. Compulsory

insurance is protected in full.

- **Insurance broking** - 90% of the claim with no upper limit. Compulsory insurance is protected in full.
- **Investment business** - 100% of the first £50,000 per person per firm.
- **Home finance** - £50,000 per person per firm.



Martin Osborne **Partner,**  
**Segensworth & Portsmouth North**

## ROTHMANS NEWS

### HSBC & ROTHMANS HOLD JOINT ECONOMIC SEMINAR



Business owners in the South had a rare opportunity to hear one of the UK's leading commentators talk about how the current economic situation impacts on the outlook for their business.

HSBC South Hampshire Commercial Centre and Rothmans held a joint seminar and networking event at the Solent Holiday Inn, Fareham where Dennis Turner, Chief Economist for HSBC, delivered a presentation entitled 'Light At the End of the Tunnel?'

Dennis heads a team advising the financial community on economic trends and is an influential advisor within UK government. "The seminar we held last year was very well attended and we were delighted to be able to offer this service again," says Rothmans partner, Richard Hutchinson.

"Giving business owners an impartial assessment of the issues that most concern them in the current business environment will help inform their decision-making processes going forward."

Simon Smith, Area Commercial Director for HSBC in Solent says, "With significant uncertainty in the markets at the moment and an eagerly awaited solution to the eurozone problems, the timing of this event could not have been better.

"Dennis, as always, put things into perspective and delivered a very entertaining and informative presentation."

## HMRC REMINDER ON NEW TAX RETURN PENALTIES

HMRC are reminding individuals and businesses about new Self Assessment penalties for late returns and late payments, which come into effect this year.

The changes will apply to Self Assessment returns for 2010/11 which must be submitted by 31 January 2012. As stated on the HMRC website:

The new penalties for late Self Assessment returns are:

- an initial £100 fixed penalty, which will now apply even if there is no tax to pay, or if the tax due is paid on time;
- after 3 months, additional daily penalties of £10 per day, up to a maximum of £900;
- after 6 months, a further penalty of 5%

of the tax due or £300, whichever is greater; and

- after 12 months, another 5% or £300 charge, whichever is greater. In serious cases, the penalty after 12 months can be up to 100% of the tax due.

If you would like help or advice on your Self Assessment return please do contact us.

## ROTHMANS SUPPORTS COLDEN COMMON YOUTH FOOTBALL

Rothmans is again this year sponsoring the Colden Common under 8 Rovers team. Last season they provided a set of rain jackets and have now gone one step further by sponsoring new home and away kits for the team's 2011/12 campaign. Simon Elliott, senior partner at the Southampton office, himself a keen footballer in his distant past, commented, "CCYFC is an extremely well organised club committed to encouraging and developing team spirit, discipline and sportsmanship in their young members. We are delighted to have the opportunity to help them towards achieving these objectives and wish the boys even more success this season."



Manager Greg Cassar with the under 8 Rovers in their new away kit sponsored by Rothmans Southampton

## NEW DIRECTOR APPOINTED



Andrew Spencer has been appointed as a director at the firm's Havant office. Andrew, who lives in Portsmouth, joined Rothmans in 2009 as a Senior Manager. He has worked in the profession for 25 years, initially with a local firm and then subsequently with a national

accountancy firm where he undertook a number of different roles, including working as Acting Finance Director for a client.

During his time working in this role for a small company with a £2.5 million turnover, Andrew helped to turn the business around within one year from a £250k loss to a £100k profit.

"At Rothmans I work with business owners in the SME marketplace to help them make improvements to their business results," Andrew says. "Having an insight into the pressures of the FD role has been extremely useful when advising clients, as I have experienced dealing with the problems they

face and have succeeded in changing things for the better."

One of Andrew's clients is Portsmouth-based Astute Technical Recruitment Ltd, whose Managing Director, Terry Buckel, comments: "Andrew's genuine interest and drive to help us succeed has made a huge difference to our organisation. "He works in partnership with us rather than merely regarding us as a client, assuming the role of financial director for our company when negotiating commercial arrangements with banks and other institutions. The service he has provided has been excellent and he has been a pleasure to work with."

## STOP PRESS!

Rothmans London office now open at 232-233 Temple Chambers, 3-7 Temple Avenue, London EC4Y 0HP. Telephone 020 7871 9711 email London@rothmansllp.com

### Rothmans Chandlers Ford

T +44 (0) 23 8026 5550

### Rothmans Eastleigh

T +44 (0) 23 8061 4555

### Rothmans Fareham

T +44 (0) 1329 280221

### Rothmans Havant

T +44 (0) 23 9248 2683

### Rothmans London

T +44 (0) 20 7871 9711

### Rothmans Portsmouth North

T +44 (0) 23 9238 3207

### Rothmans Portsmouth South

T +44 (0) 23 9282 3777

### Rothmans Ringwood

T +44 (0) 1425 479977

### Rothmans Salisbury

T +44 (0) 1722 413413

### Rothmans Segensworth

T +44 (0) 1489 575428

### Rothmans Southampton

T +44 (0) 23 8021 1088

### Rothmans Sutton

T +44 (0) 20 8642 1048

### Rothmans Winchester

T +44 (0) 1962 842345

[www.rothmansllp.com](http://www.rothmansllp.com)