Target
Chartered Accountants

Article topic: Business Tax Planning

April 2011

Opportunity knocks for entrepreneurs

Following the Coalition's second Budget, entrepreneurs can secure substantial tax savings with some forward planning.

Paul Morris
Director of Tax Planning

The Coalition Government's second Budget on 23 March was billed as a 'Budget for growth', with a firm emphasis on encouraging investment in UK plc. Whilst we know that the 50% tax rate will be around for a while longer, it is clear that significant tax opportunities exist for business owners prepared to consider some additional planning.

Our top five tips:

- **Incorporate businesses** – corporate tax rates were reduced unexpectedly by 2% and we know that the top rate will fall further to 23%. This compares favourably with the top rate of income tax of 50% and will reinforce corporate ownership as the 'vehicle of choice' for businesses. Furthermore, if you incorporate an existing business you can extract any future profits with only 10% tax up to a value of £10m by taking loan account withdrawals rather than salary or dividends.

- **Consider employee shareholdings** - the Chancellor's commitment to maintain the 10% CGT rate for entrepreneurs has been sweetened by the increase in the lifetime Entrepreneurs' Relief limit to £10m of business gains. However, no concessions were made for EMI optionholders who may still pay tax at the 28% rate. However, this does not have to be the case and with some careful planning it is possible to secure 10% tax for optionholders and employees with minority stakes.

- **Maximise tax relievable pensions** – the headline news is that the maximum level of tax relievable contribution for an individual has been reduced from £255,000 to £50,000, although pensions are 'sweetened' in retirement with no obligation to annuitize at 75. However, all is not lost as it is possible to top up the £50,000 by making additional contributions in respect of prior years using new generous 'carry-forward' rules. This may allow a payment of up to £200,000 to be made for an individual in any given tax year with full tax relief available.

- **Side-step the National Insurance rise –** NIC rates rose by 1% on 6 April for employees and employers alike. Tax efficient benefits such as pension salary sacrifice should be considered, not least as a means to secure a 13.8% saving for employers against their salary bill. This saving can of course be passed on to employees.

- **Make use of Venture Capital incentives** – to encourage innovation, R&D tax credits have been revised to give companies tax relief on 'double' their R&D spend. Further incentives are given to investors in companies by giving them a massive 30% tax reduction against the cost of their investment. Businesses looking to raise finance or undertake development activities should consider using these valuable reliefs.

For more information on these opportunities, please contact a member of the Tax Planning team.

Your contacts	Bath	London	Midlands	Reading
	Paul Morris	**Gavin Lenthall**	**Mark Tuckwell**	**Kevin Voller**
	01225 486 300	020 7919 9100	01788 539 000	0118 958 1331