

## Topical tax issues

### Is there a less taxing alternative to salary?

**With increasing income tax and NIC rates, salary is becoming a less and less attractive way to extract income from your company.**

If you are a shareholder, dividends may be a better solution for you.

It used to be the case that dividends were tax efficient for some, but not for others, because of differential corporate tax rates at different profit levels.

With corporate tax rates reducing over the next few years, it is now more tax efficient at any profit level for a shareholder to receive a dividend rather than a salary. Those benefits will increase over the next few years as the gap between corporate and personal tax rates continues to widen.

Clearly there are other considerations to be taken into account, such as different percentage shareholdings, or perhaps policies such as permanent health insurance, which have been set up to pay out on a multiple of salary. There may also be legal matters with the national minimum wage or existing employment contracts.

At PM+M we have extensive experience of steering our clients through these issues in order to achieve the most tax efficient income extraction strategy.

### Annual Investment Allowance

It was widely thought in the lead up to the emergency budget that there would be a move to simplify the existing capital allowances regime and significantly reduce the existing rates of relief available to businesses investing in capital assets.

As it happened, the key changes were less severe than perhaps thought, with perhaps the exception of the Annual Investment Allowance ('AIA') which is to

be cut from £100,000 to £25,000 from April 2012.

The intention of the AIA was to provide a simpler form of tax relief for capital expenditure to a vast majority of businesses in the UK. It allows a full tax deduction in the year of expenditure up to the AIA limit, rather than spreading over several years under the capital allowances regime.

The cut in the rate will now make claiming capital allowances far more complicated for those businesses who were expecting the AIA to cover their total annual investment in plant and machinery. A more detailed review will have to be completed for any expenditure over £25,000 to correctly identify which of the various rates of relief will be applicable.

The transitional arrangements for the reduction in AIA have yet to be

announced, but it is expected that it will be time apportioned as with previous increases.

Businesses should therefore consider the timing of any substantial planned capital expenditure to ensure that as much as possible falls into the periods when the higher rates of AIA can be claimed. This will help to ensure that tax relief is obtained as soon as possible.

### Entrepreneurs' Relief

Whilst the general rate of capital gains tax increased in the recent Budget from 18% to 28%, there was some good news for entrepreneurs

The lifetime limit for Entrepreneurs' Relief was increased from £2m to £5m with immediate effect.

Business owners and company shareholders who meet the qualifying conditions can now expect to pay a lower



rate of 10% tax on gains arising on the sale of their business or shares of up to £5m per person.

Given the general increase in capital gains tax for non-business assets, it is now even more important to ensure that companies continue to meet the qualifying conditions for this relief wherever possible. Companies that have significant non-business assets, for example cash or other investments, could jeopardise their status and prejudice their shareholders' entitlement to this relief.

There are company and individual conditions and limitations to this relief and businesses should review their status regularly to ensure that these conditions are not breached, resulting in the loss of relief.

Family business owners may also want to think about utilising the entrepreneurs' relief entitlement of other family members by making sure that all family shareholders meet all the conditions for relief.

**For further advice on these or any other tax matters, please contact Jane Parry or Julie Walsh on 01254 679131.**



## Tax planning opportunities after the second Budget

The first budget of the coalition government brought many changes – but what opportunities do these changes bring to your tax planning? We've set out some important points to consider below;

- The first point to note is the eye watering scale of the numbers – a budget deficit of £149bn in 2010/11. The Chancellor aims to reduce this deficit to £20bn by 2015/16 when debt interest payments are projected to be £250bn. 77% of the reduction in the deficit is planned to come from the public sector and much of that is yet to be announced, 23% from increases in taxation. The North West has 663,000 employees in the public sector (less than some areas) and 2.53million in the private sector so perhaps this effect will be less traumatic than elsewhere but

not good if you are one of those directly affected.

- There will be a number of measures to help business and the North West – research and development tax relief, commitment to transport projects, special regional growth fund, lower rates of corporation tax – so it's not all bad news!
- Tax –the main measures are probably well known to you by now – VAT will be increased to 20% next year, the previously announced increase in National Insurance will stand and the top rate of income tax is 50%. Capital gains tax increases from 18% to 28% although there are still preferential rules for those with investments in their own business. Despite these increases there is still plenty of planning you can

do to reduce the amount of tax you have to pay and our tax experts can guide you through the maze.

- Finally there are plans to simplify the pension rules for high earners and it has been announced that compulsory annuity purchase for 75 year olds will be reviewed. This is a complicated area and our wealth management team have extensive experience to help you plan effectively and make sure your fund is invested correctly – this is an area many people overlook and if you make the wrong call it can be very expensive!

**For more information or to talk to someone in more detail about your tax planning, call Tony Brierley on 01254 679131.**

# Ownership succession in a family business

## The story so far.....

You have spent a great deal of your life building up your family business. It is successful and you enjoy a good standard of living. Two of your three children, Bill and Ted, work in the business with you and keeping the business in the family seems like a real possibility. Time to think about retirement?

“Hang on a minute though. I depend on the business for my income. It is my pension fund. I would also like a lump sum so I can enjoy my retirement. And another thing. What about Sarah? She is still my daughter even though she doesn't work in the business. How do I treat her fairly? This is harder than working. Maybe I will just stay on another few years.....”

Not an uncommon scenario. Succession from one generation to the next can be difficult.

## Questions to ask yourself.....

It is important not to avoid the issues and to begin working towards a solution well in advance. Most of the questions to be answered do not concern commercial, business issues. They are the hard to deal with, personal family issues which have to be dealt with openly and with trust (and they can take a long time to resolve!).

- “...Who should own the business in the future....?”
- “...Should all my children own the business equally, whether they are working or not....?”
- “...How will my financial needs be met....?”
- “...Are there grandchildren to consider....?”
- “...Are my children up to the job....?”
- “...Do my children really want to own this business....?”

## We can help

Virtually all our corporate clients at PM+M are family businesses and we have huge experience of solving succession issues in family businesses. Being corporate members of the International Centre for Families in Business gives us access to the latest thinking in the field. If you want help planning how to transfer ownership of your family business to the next generation then contact Tony Tinker on 01254 679131.



## Skydiving accountants!

On August 22nd 2010, 10 members of the PM+M team will be completing a 14,500ft tandem skydive in aid of both the East Lancashire Hospice and RNIB.

For many reasons, these charities are both close to our team's hearts and they felt that this would be an excellent opportunity to raise money for both charities and the work they do.

**If you would like support our team and to donate to these worthy causes, please call Claire Jewsbury 01254 679131. or visit our just giving sites:**  
[www.justgiving.com/pmm](http://www.justgiving.com/pmm) - East Lancs Hospice  
[www.justgiving.com/pmmrnib](http://www.justgiving.com/pmmrnib) - RNIB

# Meet the Team: Payroll

**The Team:** Julie Mason, Janet Moorhouse, Christine Fairclough. Each member of the team has between 10 and 20 years experience working in a payroll environment, including bureau, industry and HMRC experience.

**What does a typical day in the department involve?:** As well as day-to-day payroll processing, which will typically include; processing companies' salary details, chasing client information and transmitting payments, we are often kept busy with client queries regarding HR matters and payroll legislation.

**What is your favourite part of the job?:** Dealing with client's 'people' issues with payroll, such as sick pay advice, holiday entitlements and redundancy pay means we build strong relationships with our clients and have more of an involvement with different companies and industries. This service offering is obviously much better for the client than simply processing payroll.

**What makes you different?:** Our service structure is completely tailored to each company. Our clients range from sole traders to large companies employing 200+ and their needs differ greatly. Most clients choose us because of the added

service they receive. As well as feeling confident that their staff will get paid accurately and on-time, those that do not have internal HR support also feel able to pick up the telephone and ask our advice on difficult payroll and HR issues.



## PM+M News

### We're Moving!

We are delighted to announce that our Blackburn office will be moving premises this Autumn.

As our existing clients already know, we have been based at Oakmount for over 30 years. Whilst Oakmount has a great deal of character and we will be sad to leave, we have decided it is time to move on to larger modern offices that will

greatly enhance our internal communications and give us the room to continue to grow.

Our new offices are on Challenge Way and are easily accessible from the M65 and the town centre. We will let you know our exact moving date nearer to the time and will send you full address details. You can rest assured that there will be a smooth transition, with no interruption to

our services and our telephone and fax numbers will remain the same.

We are really excited about the new offices and look forward to welcoming you to them soon.



### contact information

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