Grant Thornton
An instinct for growth™

20 topical tax tips

Overview

Every year, thousands of individuals and businesses pay more tax than they need to. At Grant Thornton we recognise that tax is a cost to you and your business.

Our specialist teams take a customised, pro-active approach to limit the cost and burden for everyone from high net worth individuals to multinational large companies; entrepreneurs growing their businesses to employers looking to offer the most tax efficient solutions to incentivise and reward their staff.

Our tax advisers have a great breadth and depth of knowledge and experience, a small sample of which is highlighted in this document.

The guide provides 20 of the most topical tax issues that our team have experienced across our client base. It seeks to highlight certain oportunities that may have application to you and your business.

We have divided the guide into four key areas with each area covering a range of tax topics:

- corporates;
- employers;
- indirect taxes; and
- private clients.

Corporates

1 Capital allowances reviews

Numerous recent changes to the capital allowance legislation have led to increased support being sought by businesses seeking to maximise their claims and resultant cash flow.

Currently, 100% capital allowances exist for several asset classes including an Annual Investment Allowance (AIA) of up to £500,000 (reducing to £25,000 from 1 January 2016) on Plant and Machinery (P&M), Business Premises Renovation Allowances ('BPRA'), energy saving P&M, environmentally beneficial P&M and low emission cars.

BPRA (which is due to expire on 31 March 2017) is broadly available on the capital costs of converting or renovating a property which has been vacant for a year or more. This is a valuable relief especially for any developers who may be considering renovating Grade B and C office stock to Grade A office facilities.

Another major change in April 2014 relates to the fixtures and fittings legislation in respect of second hand commercial buildings. This mandatory claim requirement on the vendor was introduced by the Government to protect HM Treasury from giving tax relief more than once on the same asset.

A business that buys a commercial property will need to take extra care if it still wishes to claim capital allowances on parts of its acquisition cost. A purchaser's ability to claim capital allowances will be dependent on the vendor's position and whether the vendor has made an appropriate claim.

2 Maximising R&D tax relief

R&D has many definitions, but for tax purposes it is defined as activities which seek to achieve an advance in science or technology through the resolution of scientific or technological uncertainties. This could be a newly improved product or process and is available in all business sectors; it is not limited to science and engineering businesses.

From 1 April 2013, the Government introduced the Research and Development Expenditure Credit ('RDEC') which is available to large companies and, in some instances, Small or Medium-sized Enterprises ('SMEs'). The relief can generate a repayable credit based on the R&D expenditure incurred in the period.

The credit is either set-off against the company's current year corporation tax liability or is repayable from HMRC subject to certain steps being followed.

	Extra deduction	Cash benefit
SME – enhanced relief	130%	26%
Large company – enhanced relief (to cease from 1 April 2016)	30%	6%
RDEC (mandatory from 1 April 2016 for large companies)	n/a	8.8%

3 Corporate simplification

Many groups tend to accumulate dormant companies through acquisition and the use of SPV's, often creating unwieldy and inefficient complex group structures. The current economic, environment, legislative and regulatory changes are putting corporate simplification top of many clients' agendas.

Corporate simplification is the process by which the group structure is streamlined in line with operational requirements of the business and combines an exit process to reduce the number of entities and a return of capital to release value in the balance sheet of individual companies. This is turn reduces time spent by management dealing with companies with no economic benefit and reduces recurring compliance costs.

4 Buying and selling commercial property

As the local property market shows signs of recovery there has been increased activity on the acquisition and disposal of commercial property.

The purchase of a commercial property can create a number of tax issues such as identifying the appropriate level of Stamp Duty Land Tax (SDLT) on purchases, maximising capital allowance availability, maximising tax relief for financing arrangements and creating the optimum ownership structure to maximise commercial return.

5 HMRC enquiries

In 2010, the Government launched its strategic approach to tackling tax avoidance which over recent years has led to the introduction of the General Anti-Abuse Rule (‘GAAR’), the extension of the Disclosure Of Tax Avoidance Schemes (‘DOTAS’) regime, the introduction of more targeted anti-avoidance measures within the legislation, an increase in HMRC activity to detect and counteract through enquiries and most recently the introduction of Accelerated Payment Notices (‘APN’s’) which requires taxpayers using DOTAS arrangements (or those counteracted by GAAR) to pay disputed tax upfront.

HMRC is currently advising taxpayers that they have won around 80% of avoidance cases litigated at tribunal and have indicated that they expect to raise £7billion through accelerated payment of disputed taxes from 43,000 taxpayers.

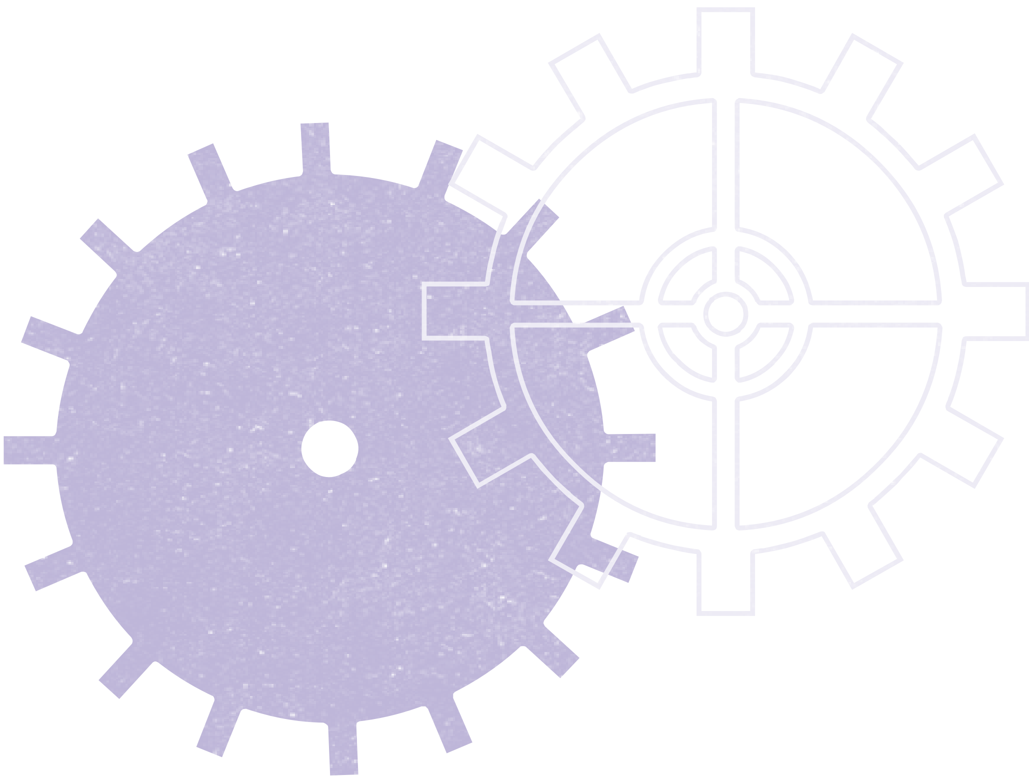
We have seen a significant increase in support required for clients seeking to understand whether they may be at risk of challenge from HMRC, responding appropriately to ongoing HMRC enquiries, seeking to obtain certainty regarding their tax affairs while mitigating disputed tax liabilities and penalties, and negotiating ‘time to pay’ arrangements where necessary.

6 Group restructuring

During the lifetime of a business there are often a number of changes, both commercial and legislative, that result in the current group structure no longer being ‘fit for purpose’. Many group structures have also simply developed over time, perhaps by virtue of acquisitions made or pursuit of non-core activities, without careful consideration being given to future objectives and tax impact.

Unscrambling a corporate structure is a great deal harder than incorporating it in the first place. However, there are many circumstances which could lead to shareholders wishing to de-merge or re-organise the company or group, including for example a potential sale of one trade and retention of others, shareholder disagreement over the future direction of the business, or perhaps the value of individual trades is greater than their collective value. From a tax perspective, there are also several reliefs that apply to trading companies or groups. These can often be unnecessarily tainted through the holding of investment assets.

Whatever the commercial reason, careful consideration should be given to structuring in a tax efficient manner, maximising potential reliefs and avoiding any unnecessary tax cost in achieving the correct structure.



7 Avoiding an adverse tax impact on restructuring corporate debt

With the purchase of the NAMA loan book by Cerberus and banks engaged on managing their current loan book, we have seen a number of businesses, especially those who have been involved in property in the past, taking the opportunity to refinance.

Debt restructuring can create complex tax issues and if not undertaken correctly may cause substantial tax liabilities, which is not the situation a business wanting to reposition themselves wants to get into.

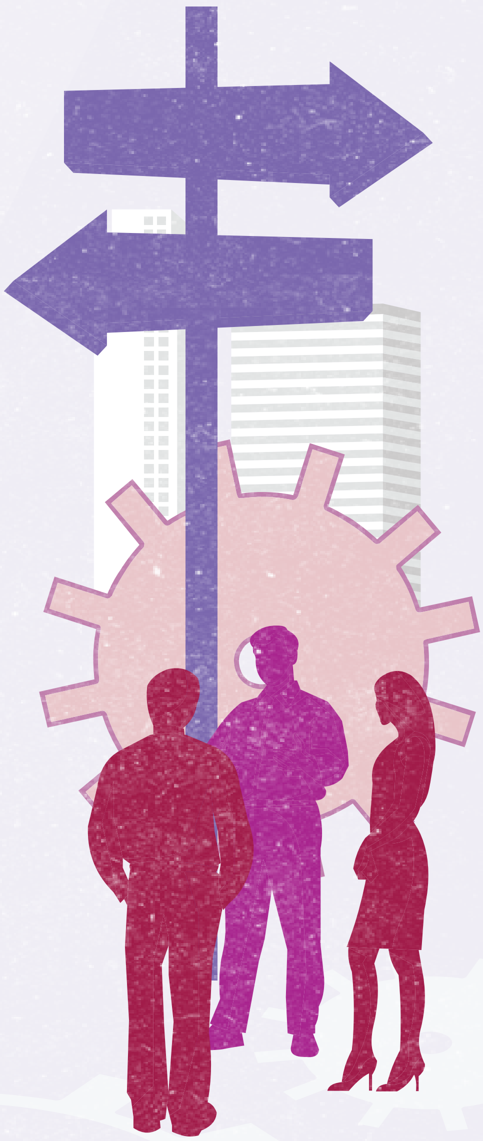
8 Maximising the benefit of a UK holding company

The UK has historically been a popular holding company location as a commercial gateway to Europe and has the most attractive corporate tax regime in the G20.

Over recent years, the Government has embarked on a series of changes to the UK tax system to make it an even more attractive place to locate a holding company.
The recent reform of the Controlled Foreign Companies (CFC) regime contains a partial exemption from UK corporation tax on the profits of a foreign finance company, which is a subsidiary of the UK. This results in a 5% effective rate from 1 April 2015.

Including a finance company in your group not only facilitates cash circulation but could also improve the group’s tax position and assist in funding business growth overseas.

Employers



9 Introduction of a share scheme

Businesses are continuing to review both their reward structure and current incentivisation schemes for tax efficiencies. There are many reasons why a company may decide to implement an employment related share scheme, such as to remunerate employees in a tax-efficient way, to improve performance, to attract, retain and motivate staff, and to let employees participate in the ownership of the company. There are a number of HMRC approved share option plans which offer favourable tax breaks, but may be less flexible than other non-tax advantaged arrangements.

10 Non-share tax efficient incentivisation

Businesses recognise the importance of retaining and incentivising key members of staff in driving growth. Companies have previously paid out discretionary bonuses, however there is often no formal incentivisation structure in place. We also often find that many family-owned businesses are reluctant to offer shares, by way of incentivisation, outside the family bloodline or do not wish to dilute current shareholdings. Accordingly, we have designed an incentive plan which links reward to the performance of the business that employs them. It is extremely tax efficient and avoids the requirement to issue shares.

11 Employment tax healthchecks

HMRC has increased compliance reviews on employers over the last few years, and with a punitive penalty regime it is imperative businesses have their compliance requirements in order. Recently we have assisted clients with on-going employment tax compliance requirements and carried out risk reviews to reduce the risk of non-compliance and identify cost saving opportunities. We have also advised employers on arranging PAYE Settlement Agreements ('PSA'), preparation and submission of Forms 42/P11D and establishing or updating Dispensations which can provide administrative savings and clarity around reporting.

12 Pension salary sacrifice

Salary sacrifice arrangements have become increasingly common in recent years as they offer clear advantages for employers and some benefit to employees too. As the name suggests, a pension salary sacrifice involves an employee giving up part of their taxable salary in return for an equivalent employer's contribution. The main benefit is in the saving the employer achieves in National Insurance Contributions (NICs). The employer pays NICs on the employees' salaries but not on pension contributions. Reducing the employees' salaries would therefore allow the employer to pay less in NICs. Collectively, across a large workforce, an employer can achieve a substantial saving in NICs.

13 Executive payroll services

Salaries can be a sensitive issue and confidentiality is key. This is accentuated further when considering payroll for the board of directors and potentially other senior employees. The outsourcing of executive payrolls have become increasingly common as businesses ensure that their executive team's salary and reward structures are professionally managed and remain private and confidential. For many businesses a separate outsourced payroll system to discreetly manage executive, spousal and shareholder remuneration is an attractive option.

Our client payroll team are highly experienced and qualified payroll professionals that deliver a timely and accurate payroll service to a wide range of clients nationwide.

14 Payroll compliance

With the introduction of Real Time Information (RTI), employers face even more of an administrative burden when it comes to payroll. With HMRC reporting becoming a regular task rather than an annual one, the workload of running a payroll increases and HMRC compliance is more important than ever.

HMRC can charge penalties for payroll errors such as inaccurate tax documents and returns. These penalties are often much more expensive than the cost of running a payroll. Outsourcing payroll compliance can alleviate the time and risks associated with running your weekly, fortnightly or monthly payroll, allowing finance teams to focus more time on the business.

Due to recent changes in RTI and pension auto-enrolment businesses need to ensure they have made the most appropriate decisions for their business.

Indirect taxes

15 ExcaVATe and VAT process review

As HMRC has increased its activity ensuring businesses are compliant with their tax affairs and imposing penalties on non-compliance, we have been assisting clients with reviewing their controls and procedures. ExcaVATe is a process which combines specialist mining software with the experience and insight of our advisers to deliver a review of the AP and AR built around your specific requirements to identify cash savings as well as highlighting process and control weaknesses. A number of these tests are similar to the ones HMRC would carry out as part of a VAT audit and should errors be discovered enables the business to voluntarily disclose these to HMRC which assists in mitigating any potential penalties.

A review of the VAT return processes and procedures can be conducted with a view to identifying any potential weaknesses and to enable these procedures to be improved and documented where required. This provides a central record of the VAT return processes and procedures and ensures the VAT knowledge within the business is documented and available to all relevant current and future staff.

The documentation of these processes also demonstrates to HMRC that the business takes it VAT responsibilities seriously.

16 VAT healthcheck

Alternatively, we have undertaken a number of VAT healthchecks which consist of a high level review of the VAT position of the business with a view to identifying any areas of potential risks or opportunities and ensuring full compliance in case of any future HMRC check.

17 International supply chain review/Authorised Economic Operator (AEO)

The cross border movement of goods requires compliance with a number of tax rules and procedures. Where a business has significant levels of import and/or exports it should undertake regular reviews of its international supply chain procedures to manage risk and identify opportunities.

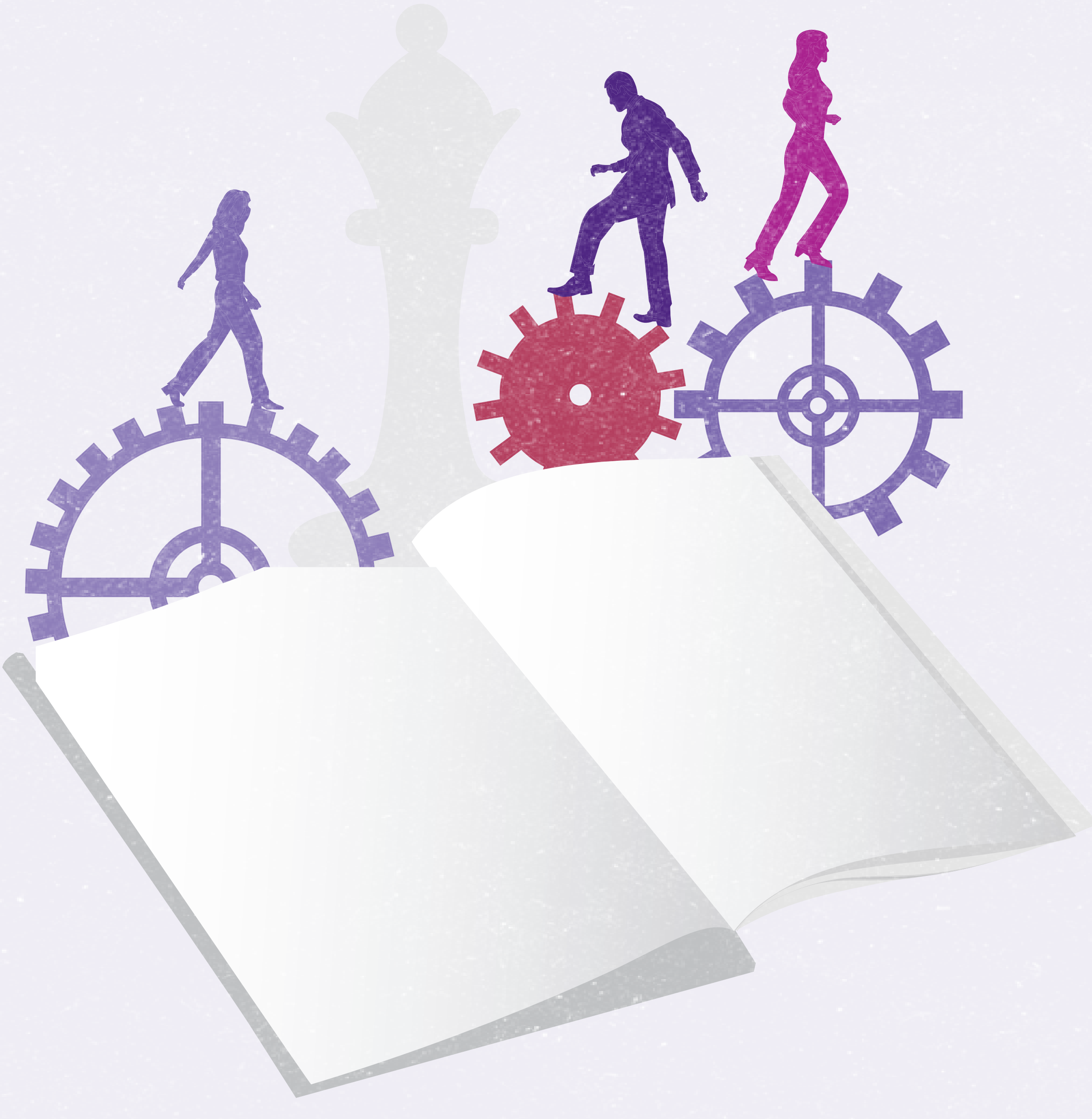
Any errors can be costly as the overpayment of duty is detrimental to cashflow/profits and the under payment of duty can incur penalties, interest and potential seizure of goods, the overpayment or underpayment of VAT and the delayed clearance of goods at borders.

Grant Thornton has developed a One-Stop Shop review of all VAT and Customs Duty issues arising from the cross-border movement of goods which examines all customs, excise and VAT aspects of the international supply chain to identify strengths, weaknesses and risks as well as cash saving and cash flow opportunities.

The importance of the security of international supply chains is further highlighted by the new Union Customs Code (UCC) whose changes will become effective in 2016.
The most fundamental change is the introduction of mandatory guarantees for customs procedures. The only way to enable the waiver of the guarantee is to obtain Authorised Economic Operator (AEO) status. Businesses with AEO status have been certified by HMRC as having robust processes and procedures in place and are considered trustworthy.

Businesses involved in importing and exporting goods need to now start considering their international supply chain to determine what steps they need to take ahead of 2016 and a supply chain review will assist in any decision making.

Private clients



18 Succession planning and asset protection on death

The importance of appropriate succession planning cannot be under-estimated as 'ducking the issue' will often not be in the best long term interests of the business and in many cases can lead to its ultimate demise.

Empirical evidence shows that the chances of the family business surviving beyond the first generation are not great.
The probability of a first generation family-owned business successfully passing to the second generation is 30% and the odds of the second generation passing to the third are as little as 10%. Succession planning is a prudent and considered strategy to help protect the business. Having a proper strategy in place for succession will help to maintain and build the value of the business and allow the owners to put in place a mechanism for passing-over the management and ownership over a period of time.

We have vast experience in providing clients with advice on how they should structure their tax affairs so as to minimise their UK inheritance exposure, and also how their assets are appropriately protected upon death through effective will structuring and the use of trusts.

19 Statutory residence and domicile

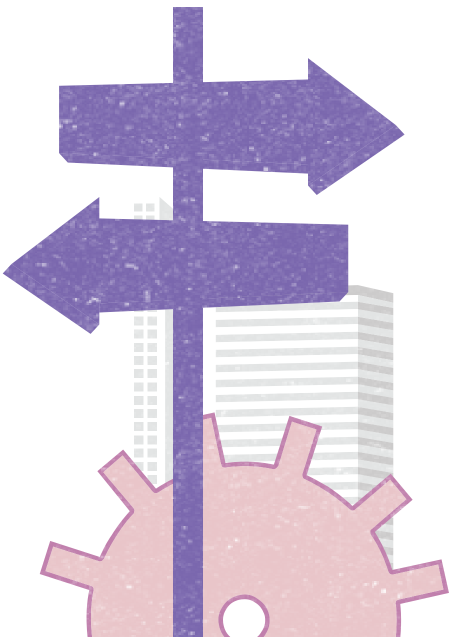
From 6 April 2013, UK residence is determined using the Statutory Residence Test ('SRT'). Under the SRT it is more difficult to lose the UK residence status if you maintain family and business interests in the UK. This may impact individuals who had previously been considered non-resident for UK tax purposes and benefited from certain tax reliefs in the UK.

20 Acquisition and disposal of businesses

In 2014, Northern Ireland saw an 11% increase in corporation transactions on the prior year and with the market poised to see further significant increases in 2015 the importance of tax in the equation should not be under-estimated.

Currently, entrepreneurs' relief provides a 10% rate of tax on the first £10 million (lifetime allowance) of gains arising on 'qualifying business disposals' – equivalent to a tax benefit of £1.8 million for each individual. There are several conditions attaching, therefore it is important to keep under review to avoid 'falling foul'.

In grooming the business for sale, it is also important to ensure that the business is fully compliant and up to date with all of its tax affairs. The identification of any tax issues arising on a due diligence can lead to delays and often a reduced offer or funds withheld in escrow. As corporate share transactions are often complex both from a legal and tax perspective, it is important to seek advice early to ensure that the transaction is structured as tax efficiently as possible and avoiding any unnecessary delays.



Meet the team

Our team comprises tax professionals who have extensive transaction experience across a large range of sectors and clients.

Peter Legge
Partner, Tax
T +44 (0)28 9587 1081
E peter.legge@ie.gt.com

Francis Shields
Associate Director, Tax
T +44 (0)28 9587 1116
E francis.shields@ie.gt.com

Aidan Lyons
Associate Director, Tax
T +44 (0)28 9587 1112
E aidan.lyons@ie.gt.com

Kelly Moorcroft
Manager, Tax
T +44 (0)28 9587 1120
E kelly.moorcroft@ie.gt.com

Mark Bradley
Associate Director, Tax
T +44 (0)28 9587 1122
E mark.bradley@ie.gt.com

Sam Beattie
Manager, Payroll
T +44 (0)28 9587 1124
E sam.beattie@ie.gt.com

10th Floor Clarence West Building, 2 Clarence Street West, Belfast, Northern Ireland, BT2 7GP

@GrantThorntonNI

GrantThornton (NI) LLP

www.grantthornton.ie

Offices also in Dublin, Cork, Galway, Kildare, Limerick and Longford.

Grant Thornton
An instinct for growth™