5 TAX STRATEGIES THAT YOU NEED TO BE THINKING ABOUT

STRATEGIES THAT CAN ADD £000S TO YOUR POCKET NOW AND IN THE FUTURE

Tej Gill, CA CTA

NIJJER ACCOUNTANTS

Copyright © 2023 by Tej Gill

All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law. The contents of this book is not be taken as advice and acted upon. Please seek specialist advice for your specific circumstances before taking any action

Book Design by Aeyshaa

CONTENTS

INTRODUCTION 4

CHAPTER 01.
EIS and SEIS 6

CHAPTER 02.
Extracting money from your company, without extracting it 10

CHAPTER 03.
Optimise where your business operates from 14

CHAPTER 04.
Plan for the end game 18

CHAPTER 05.
Inheritance tax planning 21

INTRODUCTION

Hello, and thank you for taking the time to open my book, 5 tax strategies that you need to be thinking about.

You are probably reading this because you either run your own business or are about to embark on running your own business (in either case, good luck!). I hope you find this book useful and are able to apply at least one point that you find in these pages at some point in your business adventure.

The reason for writing this book follows from an event for business owners where I was asked to present on a topic they may find useful (very wide scope, I know). I knew a couple of the attendees, so I asked in advance what kind of topics they would like to hear about. The answer was an emphatic and obvious 'tax, tax, tax — tell us what mistakes others made by not thinking about the right tax issues".

I suppose Winston Churchill and Spanish philosopher Jorge Santayana before him were right when they said, 'Those that fail to learn from history are doomed to repeat it' (or some variation of that now well-known phrase).

So on that day, I presented these 5 tax strategies. Fast-forward to today, and I thought that this would be a useful topic for people to be able to pick up and read at their own leisure and hopefully trigger some thoughts that you can action (after seeking the right

professional advice – the content of this book is for informational purposes only!)

Oh yes, just a little bit about me — I am a father-of-three qualified accountant and chartered tax adviser married to a mother-of-three qualified accountant and chartered tax adviser (accounts and tax talk are banned at dinnertime . . . but sometimes I just can't help myself!). I qualified at KPMG, led corporate development activities at an oil company and then started running Nijjer Accountants along with my wife and father-in-law.

The firm has worked with property investors, entrepreneurs and ambitious business owners for over 25 years, supporting them through growth, recessions, pandemics and even a few business sales. If you want to know how we can help you, then please get in touch, and we can arrange a meeting over a coffee.

Thanks, and speak soon.

Tej Gill CA CTA

Director

Nijjer Accountants

STRATEGY

ONE

EIS AND SEIS

NIJJER ACCOUNTANTS

Many new businesses make the mistake of not getting advice early enough — they see it as an unnecessary cost rather than an investment. This can mean you may miss out on schemes like EIS and SEIS.

If you've attracted investors into your new business venture, wouldn't it be great to also tell them that their investment was underwritten (to an extent), and if the venture did not succeed, then they could potentially get their entire investment back? Wouldn't it also be great if you could tell them they could receive other tax deductions and deferrals along the way? Wouldn't it be even better if you could get tax deferrals investing in your own business?

Welcome to the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS).

These are HMRC-approved and administered schemes introduced to encourage investment in early-stage businesses and mitigate the associated risks by receiving tax benefits.

There are criteria that need to be satisfied by both your business and the investor to ensure all the benefits are available (being connected to the company can restrict some reliefs). Going through all of the criteria is beyond the scope of this book, but we have focussed on some key points:

What are the benefits?

- Under the SEIS, a qualifying investor can get 50% of the investment (up to £100,000) as a tax deduction in the year of investment. So if you have excess funds and can
- If the company fails, then the remaining 50% of the investment is treated as an income tax loss rather than capital loss, so it can be offset against income in the year.
- If the shares are held for at least 3 years, then there is no capital gains tax to be paid if they are subsequently sold for a gain.
- The investor can also defer capital gains made on other assets by investing in SEIS shares.
- EIS shares investment reliefs are slightly less generous, with 30% of initial investment set against income tax as EIS companies are considered lower risk than SEIS (given the criteria to qualify for either), but the other reliefs apply in the same way.

How do you get EIS/ SEIS status?

Get ‘advanced assurance’ from HMRC.

Not all accountants can apply for EIS/SEIS clearance. We have experience in successfully obtaining EIS/SEIS status. Obtaining EIS/SEIS status can really help a new venture get ahead, so it is worth putting it in place if your business qualifies.

What does this all mean as a tax strategy?

Glad you asked.

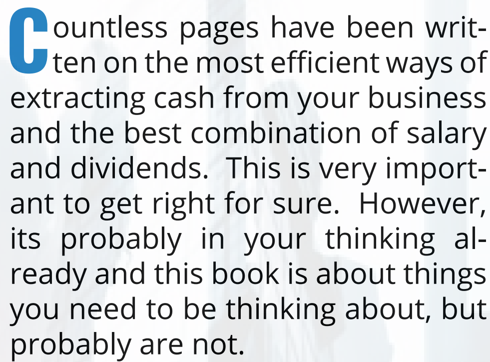
If you own less than 30% of a business that has obtained SEIS/EIS status and you invest money into it, you can get the income tax reliefs mentioned above. A £10,000 investment in an SEIS company will reduce your tax liability by £5,000. That’s not the end of it - if you have generated a capital gain on the sale of any other asset (e.g a rental property) and you invest the amount of the gain into your business then you can defer the capital gain until you sell the shares of your company.

If you own more than 30% of the business, you will not get the income tax reliefs, but you can still defer the capital gain.

As you can see, these schemes can provide a huge benefit and boost not only to your business but also to your tax position and need to feature in your thinking.

STRATEGY TWO

EXTRACTING MONEY FROM YOUR COMPANY, WITHOUT EXTRACTING IT



Countless pages have been written on the most efficient ways of extracting cash from your business and the best combination of salary and dividends. This is very important to get right for sure. However, its probably in your thinking already and this book is about things you need to be thinking about, but probably are not.

So I will avoid the temptation to hit my word-count target by talking about the right salary and dividend combination (if you want to know this, drop me an email at tej@nijjeraccountants.co.uk) and instead talk about a few other strategies that have the same effect.

1. **Company cars**

   Your company can pay for the vehicle outright or on a lease arrangement; the costs of are deductible against the income of the company, reducing the amount of corporation tax.

   If you use the car personally, then you will have received a benefit in kind (BIK) in the eyes of HMRC and will have to pay tax personally on this.

   The type of car will massively effect the BIK charge. We won't go into a full calculation of BIK charges for different types vehicles (I've done a podcast on this already); but the top tip is that fully fossil-fuel cars are to be avoided.

   Personally, I'm not sold on the full electric cars just yet (I have had one for 3 years and its had charger issues!) but there are a new breed of hybrids that can have a very low BIK charge. For example, the new Range Rover meets the criteria to have only a 5% BIK charge…this means you could get a £100,000 car with only £5,000 added to your taxable income; if you are a 20% tax-payer, this would mean you pay just £1,000 of tax and your company has reduced its corporation tax bill by paying for the car.

   Compare this to, at best, paying dividend tax at 8.75% to extract cash from your company to buy the £100,000 car – that's 8.75% and there is no deductible expenses in your company. There really is only one way to fund your car if you have your own business…

2. **Training costs**

   As entrepreneurs and business owners we need to be investing in ourselves constantly and developing what we know. As Jim Rohn said *"Work hard at your job and you can make a living. Work hard on yourself and you can make a fortune"*.

What does Jim's wise words have to do with extracting money from your business? The costs of attending webinars, seminars and training courses to improve and expand your knowledge is fully deductible in your company.

You improve, your business develops and you reduce your taxes. What more could you want?

3. Small gifts

HMRC have a trivial benefits scheme that allows your company to give small gifts to directors and staff and receive a tax deduction for it. Its not big, only 6x £50 gifts are allowed in a year per person, but if you stack these with the other options here it all adds up.

4. Health-checks

Your company can pay for an annual health check for directors to ensure they are in top condition to run the business. There is no benefit in kind charge and the cost is deductible in the company.

5. Relevant life assurance

Relevant Life Assurance is a tax-efficient life insurance policy designed for small businesses. It provides a death-in-service benefit for employees, with premiums being tax deductible for the company. This means the company can offer valuable coverage while reducing its taxable profits, a win-win for both business and employees.

These are just a snapshot of some of the ways of extracting money from your company without actually extracting it. There are more besides these, but the key takeaway is that you don't have to extract money from your company to pay for all of your life expenses. Its important to think about what the company can legitimately cover for you.

STRATEGY

THREE

OPTIMISE WHERE YOUR BUSINESS OPERATES FROM

When it comes to owning or acquiring commercial property, especially trading premises, a valuable strategy to explore is holding the property through a Small Self-Administered Scheme (SSAS) or a Self-Invested Personal Pension (SIPP).

The route of keeping property within a trading company comes with its pitfalls. From a tax perspective, the company incurs corporation tax on any capital gains made on sale. Shareholders also find themselves paying income tax on dividends extracted from the company's property sale.

Corporate protection also becomes a concern. Valuable assets owned by the company are exposed to the whims of business fate, leaving them susceptible to adverse trading circumstances.

Finally, if you were to sell the business in the future and the property is held in the trading company, you either have to sell the property with the business or undertake a tax-planning exercise to get the property out before selling. The former means you lose a valuable asset and potential pension pot. The latter means fees (good for me, no-bueno for you).

Considering these factors, it's advisable to structure property assets outside the main trading company whenever feasible. If you own property personally, you might be renting it to your company, thereby subjecting your rental income to taxation. Although personal ownership sidesteps the corporate protection issue, it can be tax-inefficient due to higher income tax rates on rental earnings.

But there's a better option – holding your commercial property through your personal pension. This is where the SSAS or SIPP steps in.

SIPPs and SSASs have their pros and cons and detailed analysis of this is outside the scope of this book. But broadly:

SIPP:

+ Offers investment flexibility
+ Lower running costs
+ Lower set up costs
- Drawback lies in the need for an independent trustee to oversee transactions, adding complexity and

SSAS:

+ Particularly tailored for private company owners
+ Independent trustee is not required so you can retain full control over the scheme's assets and investments
+ Can add up to 11 members (can include family)
- Costlier than a SIPP

The company can contribute cash to the SSAS, enjoying corporation tax relief within the annual pension allowance of £60,000 per working director. If any unused allowances from the past three years exist, a potential £180,000 lump sum contribution per director is achievable, leading to significant corporation tax savings.

In the SSAS scenario, a lease agreement is established between the SSAS and the trading company, allowing the property to be rented back to the company at market rates. Rents paid into the SSAS are tax-free, and if the property is sold, any accrued capital gains on its value increase are also exempt from tax. The SSAS assets are also outside of your estate for inheritance tax, unlike personally or company-held property.

Should a property currently reside within a trading company and directors seek to transfer it into a pension scheme, a highly tax-efficient route emerges. For instance, transferring a £200,000 property to a SSAS would lead to a corporation tax saving of £38,000. This avenue holds the potential to save thousands in corporation and future income taxes.

To summarise, if you own or are eyeing commercial property, the SSAS emerges as a tax-efficient vessel to safeguard and manage your assets. It offers a strategic path to navigate the complexities of property ownership, while simultaneously optimising tax savings and financial flexibility.

STRATEGY FOUR

PLAN FOR THE END GAME

Jeff Bezos said that he considers decisions as one-way and two-way doors.

- One-way-door-decisions are irreversible (once you pass through you can't come back), and they need serious deliberation before a decision is made. An example would be buying a property or selling your business.
- Two-way-door-decisions can be made after some deliberation on the balance of information available because you can come back through the door to try again. An example would be your business strategy (a big decision but not irreversible — or you can 'pivot' if you want to use the buzzwords).

So if selling your business is a one-way-door-decision, then you must get input from your advisers on how to best structure the sale.

We've had times when clients suddenly decide to sell their business and then want it done as soon as possible. This often leaves money on the table. Speaking to your trusted adviser early enough will give you the time to undertake some planning to ensure that more of the sales price remains in your pocket.

This conversation with your advisers should also cover not just the sale but what you want to do with the money after the sale. Let them know as early as possible that you are thinking of selling and what your future plans are so things can be structured in the best way early on. The more we know, the more we can help.

As an example, at the time of writing, we have a client selling their business that they have built up over many years. It is a trading company (held under a holding company) and would attract entrepreneurs relief as a certainty. The client was not interested in having an engorged personal bank balance. When I asked what he would want to do afterwards with the money, he said he wanted to buy property. (This would be most efficient in a limited company).

Furthermore, the client also wanted to pass some of the value of the sale on to his children, but not yet.

With some initial share restructuring and planning, the client will be able to sell the trading company, put shares away for their children and start investing in properties with no tax leakage.

This was possible only because we encourage our clients to speak to us early about their plans, and our premium service package includes unlimited phone and email access for exactly this reason.

So, keep the one-way and two-way doors in mind when you are making a decision and think about whether additional consideration and planning could help make the most of the opportunity in front of you.

This may seem a long way off in the future, but the future has a habit of happening…

STRATEGY FIVE

INHERITANCE TAX PLANNING

In the realm of financial considerations, one tax often left uncharted is inheritance tax. Death and taxes – not the most uplifting duo, but an unavoidable reality nonetheless.

Imagine inheritance tax as the uninvited guest at your financial party, arriving unannounced and demanding a substantial slice of your estate. The exempt allowance, known as the "nil rate band," presently stands at £325,000 per individual in the UK. This means you can shield this amount from taxation, while any excess above it faces a 40% inheritance tax rate. But in the face of soaring property values, this threshold often falls short, leaving many vulnerable.

For couples, there's a silver lining (more like brushed-chrome rather than silver): a combined allowance of £650,000 (which can increase to £1,000,000 depending on the total value of the estate). Yet, even this sum can feel like an umbrella in a monsoon when the value of homes enters the equation.

So, what should you be thinking about?

Well, you could decide to gift away your assets while you can. But relinquishing control can be unsettling, and the uncertainty can be too much for some people to give complete control away.

In this case a discretionary trust can be an option, a strategy to safeguard your assets while retaining influence over their fate. Think of it as entrusting your assets to a loyal guardian, ensuring they benefit your loved ones even in your absence. You can put away £325,000 as an individual in this way without triggering any immediate IHT charges.

After seven years, you can do it again.

Combining discretionary trusts with the power of growth and freezer shares can add an another layer of planning that protects your estate from future value growth (inflation!). These growth shares work by allocating all value generated in a company above a hurdle to the holders of the growth shares. For example, in simple terms if the hurdle was set at £1,000,000 and the company became worth £1,500,000 – that £500,000 of value over the hurdle is not in your estate.

Of course, moderation is key. Placing every asset in the trust might not be wise, as you'll want to secure your own financial circumstances for the years to come.

Remember, early preparation holds the key to maximise the use of those seven-year refreshes and the benefit of growth and freezer shares.

Thank you for reading. I hope you found one or two useful tips in there that helps you on your business journey.

If you would like go through any of the points in more detail, then click the “book a call” button below. I’d be delighted to meet and talk through your aspirations and how we could help you get there.

I look forward to hearing from you.

Tej Gill

CA CTA

www.nijjeraccountants.co.uk
info@nijjeraccountants.co.uk

BOOK A CALL