

Tax Case studies



Mike Cooper
Partner
M: 07976 709 910
E: mcooper@cvsdfk.com



Steven Levine
Partner
M: 07837 397033
E: slevine@cvsdfk.com



Mark Baycroft
Manager
M: 07985 338 262
E: mbaycroft@cvsdfk.com

The following case studies set out examples of previous work by the Tax team and the benefits to our clients.

Restructuring 1

Protecting key CGT and IHT reliefs that otherwise would be jeopardised

Our client is a family owned construction group, specialising in reinforced concrete structures. The group consisted of subsidiary companies engaged in the construction industry and a parent company which included a portfolio of investment properties.

The majority shareholder wished to pass his shareholding onto his sons.

How we helped

There was a concern that the portfolio of investment properties in the parent company could have significant commercial and taxation impacts. In particular they were concerned about claims against the group and the qualification for inheritance tax (IHT) and capital gains tax (CGT) reliefs for "business" assets.

We advised the group on the tax deductible cost of the investment properties and the options for extracting them to a separate company. We also advised on how the funding could be provided from existing resources but at the same time mitigate the potential IHT and CGT issues.

Subsequent to the succession, one of the sons passed away. We advised the shareholders on a tax efficient structure to acquire the shares from the estate, again using existing funding resources.

Benefits

- The IHT and CGT exposure on the shares in both the existing group and the new investment property company was mitigated.
- The funding for the transactions came from internal resources.
- The commercial risks to the investment property portfolio have been reduced.

Restructuring 2

Reducing commercial risk but retaining important Corporate Tax reliefs

Our client is a group of companies supplying aggregates and related materials, including ready mixed concrete, to the construction industry in the South East region. It has expanded rapidly and has incorporated a shipping company as part of its vertical integration.

How we helped

The group of companies originally comprised a number of companies under common ownership but not comprising a group for accounting or taxation purposes. This afforded limited commercial protection but had significant cash flow implications as profit and loss streams could not be offset for tax purposes. In addition, assets frequently ended up in the wrong company leading to potential tax inefficiencies.

We obtained clearance from HM Revenue & Customs to form a group with a new holding company. The new group included all companies except those owning property assets that were considered independent of the main trade.

The group was then structured into three companies:

1. A trading company. This owns the assets on which tax allowances against trading income can be claimed.
2. A property holding company. This owns the groups freehold property.
3. A shipping company.

Benefits

- The ability to offset loss streams against profit streams and claim group relief for tax losses.
- A simplified structure for the allocation of assets.
- A reduced number of trading companies with a reduction in compliance costs.

Incorporation of Partnerships

Creates Income Tax and NIC holiday and protects business with limited liability.

Our client was a partnership providing Care Home accommodation and associated services in the South East region. They sought to appoint new advisers who could assist them with the incorporation of the business and we tendered successfully for this work, in addition to taking over the existing accounting, client monies audit and taxation work.

How we helped

We assisted the client with planning for the transfer of the business from the partnership to a new limited company, Ashcroft Care Services Limited. During the planning stage the partnership became a sole trade as a result of partners leaving the partnership.

During the planning and subsequent implementation we assisted with the following:

- Computing the amounts that the remaining partner had paid for goodwill on previous partnership changes and that could be deducted when computing his capital gains tax (CGT) liability.
- Creation of a loan account for the shareholder to draw on over a number of years.
- Advising on the benefits of leaving the property assets outside the company.
- The transfer of the employees from the old PAYE scheme to the new one.

Benefits

- A substantial loan account for the shareholder to draw on free from income tax for a number of years in return for a one off CGT charge at a lower tax rate.
- Property assets are outside the company and are only subject to one layer of tax; CGT in the hands of the shareholder.
- The trading activity has limited liability.
- The employees were able to transfer to a new PAYE scheme without the administrative burden of completing a P45 for each transferring employee.



Entrepreneurs Relief

A key relief that reduces the rate of tax from 28% to 10% on asset disposals

Our client consists of two associated companies in the construction industry, one carries out civil engineering work in providing infrastructure works on house-building sites and the other is a property developer carrying out house-building projects.

How we helped

The minority shareholders have recently carried out a management buy-out whereby they have bought out the majority shareholder, albeit that the purchase price is payable over several years. The shareholders have a need for a particular level of income after tax.

We have advised them on a remuneration strategy that involves their wives holding some of their shares so that both husbands and wives can be paid dividends, uses the wives income tax basic rate band and their personal allowances, reduces national insurance for the company and the individuals and reduces the amount of income to be taken at top rates of tax.

We also advised on the capital gains tax advantages that could accrue to the wives under the Entrepreneurs Relief rules as this could represent further substantial tax savings when the companies are sold in the future. Having been given shares, if the wives became directors of the companies the shares would qualify for the relief and tax will be reduced to an effective rate of ten per cent.

Benefits

- By looking at the shareholders' family units and the capacity to receive income that is taxed at lower rates of tax, the amount needed to be paid to achieve the net income requirement is considerably reduced.
- By reducing the amount to be paid to the shareholders, the companies have more cash available to fund the repayment of the loan due to the former majority shareholder.
- Looking forward, there could be substantial capital gains tax savings through the simple changes made.

EMI share option schemes

Allows key employees to participate in the future growth of a company at CGT rates of tax (10%-28%) instead of Income Tax and NIC (42%-52%)

Our client is a software house specialising in Client Relationship Management (CRM) software that they have designed. The software includes mobile computing and integrates with popular accounting software packages. The company was formed in 1994 and is owned by a father and son.

How we helped

The company has grown in recent years and now appears to be reaching a critical mass that will enable it to grow more rapidly and profitably. To get the increased growth over the next few years which will get them to a size where they can sell the company to a trade buyer, they need to incentivise their key staff.

We have advised them on share schemes that we felt could generate the level of commitment necessary to achieve this objective. One of their key staff had already been promised shares, but other staff could be incentivised by shares linked to the company's performance. It was decided that the best solution would be to use the Enterprise Management Incentives (EMI) scheme with several layers of shares vesting upon performance targets being reached. Because EMI options are individual agreements with employees, the fact that one employee had been promised shares with no performance targets was easily dealt with by almost immediate vesting of his option.

We also advised on the capital gains tax advantages that could accrue to the wives under the Entrepreneur Relief rules as this could represent further substantial tax savings when the company's are sold in the future.



Having been given shares, if the wives became directors of the company the shares will qualify for the relief and tax will be reduced to an effective rate of 10 per cent.

Benefits

- Giving away a small part of the company through EMI options should generate even greater value for the principal shareholders.
- The movement of shares to spouses and the utilisation of Entrepreneurs Relief should produce substantial savings when a sale is achieved.
- Different employee requirements could be covered through changes to some terms of the option agreement.

Who to contact

London

Mike Cooper
020 7509 9000
mcooper@cvsdfk.com

Colchester

Dawn Lay-Flurrie
01206 549303
dlay-flurrie@cvsdfk.com

Northampton

Debbie Ince
01604 639257
dince@cvsdfk.com

Birmingham

Suk Aulak
0121 454 4141
saulak@cvsdfk.com

Croydon

Richard Willis
020 8633 9378
rwillis@cvsdfk.com

Reading

Ian B Johnson
0118 952 4700
ibjohnson@cvsdfk.com

Brighton & Hove

Ken Touhey
01273 421200
ktouhey@cvsdfk.com

Leicester

Elliot Harris
0116 247 1393
eharris@cvsdfk.com

Stevenage

Mark Stevens
01438 741147
mstevens@cvsdfk.com