BDO Stoy Hayward

BDO Stoy Hayward Northern Ireland
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Tax Newsletter

Exciting investment opportunity

Have you realised a significant gain on the disposal of a capital asset in the last three years – or do you anticipate such a gain within the next year?

If so, you could defer the tax due on the disposal (or obtain a repayment of tax already paid) by investing in a company which qualifies under the Enterprise Investment Scheme (EIS).

The effect of such an investment is to delay the capital gain on the disposal until the date on which you sell the shares in the EIS company (or when the company ceases to qualify as an EIS company if within three years).

If you hold the shares in the EIS company for more than three years no capital gains tax will be payable on any new gain arising on those shares, so you will only have to pay the deferred capital gains tax on your original disposal when you eventually sell the EIS shares.

When you invest in an EIS company 20% of the sum invested can be subtracted from your income in the tax year of investment – provided you have sufficient taxable income to absorb that relief. There is a limit on the amount of investment on which this income tax relief is available (currently £400,000).

It is also possible to treat up to £50,000 of the investment as relating to the tax year previous to that in which the investment is made for tax relief purposes.

There are certain criteria that an individual must meet to avail of all the tax reliefs, including, for example, UK residency, and we can advise further on these if requested. The following example illustrates the tax benefits of an investment in an EIS company.

Example

John disposes of a buy-to-let property in March 2007 and realises a chargeable gain (before taper relief) of £50,000. Assuming the property was held for less than two years and that John is a higher rate taxpayer the capital gains tax due on this disposal would be £20,000. This would be due for payment by 31 January 2008.

John invests £50,000 in a qualifying EIS company in June 2007. His income tax bill for the year ended 5 April 2008 is reduced by £10,000 (ie 20% of his investment) and his capital gains tax liability on the disposal of the buy-to-let property is deferred.

John sells the shares in the EIS company in July 2012. The company was a qualifying EIS company until after June 2010 and John was UK resident and ordinarily resident throughout.

He has no capital gains tax to pay on the disposal of the shares in the EIS company as he has held them for more than three years. The deferred capital gains tax due on the disposal of the buy-to-let property in March 2007 becomes payable on 31 January 2014.

As you can see, not only has John obtained income tax relief and a cash flow advantage in respect of the capital gain, he could also have made a return on his investment in the EIS company – although of course this cannot be guaranteed.

There are very strict rules that a company must adhere to if it wishes to qualify as an EIS company. However, if you are a certified High Net Worth Investor we can currently offer you the opportunity to invest in a new EIS company.

Consortium Construction Limited will engage in construction contracts to generate profits and is targeting returns of 12.5% per annum for Qualifying Investors.

The offer seeks to raise up to £5,000,000, which will be used to fund the construction contracts. Repayment to the Company will be from sales of the properties built.

The first project is the construction of the Laharna Buildings which consist of 52 apartments and 7 shop units on Main Street, Larne. This scheme has full planning permission and the Company is in the process of negotiating contracts for construction, the construction programme is expected to last 18 months.

The minimum period of investment is 3 years, the aggregate Minimum Subscription under the Offer will be £2,000,000, the Maximum Subscription £5,000,000.

The minimum individual subscription is £50,000 with additional increments of £50,000.

The following table shows the anticipated returns:

Investor Type	Illustrative Company Rates of Return			Net Cost of £100,000 Subscription
	4%	5%	6%	
Income Tax Relief	5%	6.25%	7.5%	80,000
Income Tax Relief and Capital Gains Tax Deferral	10%	12.5%	15%	40,000

The Offers will close on the earlier of Minimum Subscription or 29 June 2007, unless extended.

If you are interested in finding out more about this opportunity, or would like to request a prospectus, please contact Alex Ward.

Tax saving through pensions

A recent survey has revealed that the average person has no idea whatsoever about the tax reliefs that apply to pensions. Even to the average pension scheme member, the system by which the tax breaks are granted may seem complicated to the point where the real value isn't fully appreciated.

Basically if you're a basic rate taxpayer, for every £780 you pay into a pension pot, the Revenue (HMRC) add in another £220 to top it up to £1,000. If you're a higher rate tax payer, you save a further £180 tax via your annual tax assessment. Your £1,000 fund has therefore cost you £600.

On top of that, with your fund of £1,000 the rules allow you to withdraw £250 of tax-free cash at retirement (the rest of the fund pays a regular pension). So in effect you are only really committing £350 of your own money to secure an investment of £750 in your pension fund. Pensions are indeed a powerful tax tool.

With such tax breaks on offer, there are of course limits to what you can put in. This tax year (2007/08) the annual limit is £225,000 gross. You will receive full tax relief on personal contributions based on your earnings up to this figure, which for many is a very generous limit. Company contributions attract relief from corporation tax at source, and the rules are slightly different. As always, it is important to seek professional advice.

CIS – an update

Any one involved in the Construction Industry will be aware that the new scheme was introduced from 6 April 2007.

Horror stories abound regarding the inability to get through on the CIS Helpline in order to file a nil return and the failure by the Revenue to recognise agent authorisations.

One somewhat unexpected consequence of the new scheme was discovered recently when an application on behalf of a corporate client for a gross payment certificate was turned down. The reason was that one of the directors of the company had an outstanding amount on their self-assessment income tax account. The amount outstanding was 1p!

It is of course early days and, although the introduction of the scheme was delayed by a year, the fact that the Revenue seems slightly overwhelmed is perhaps unsurprising. Our advice if you are suffering these problems is to persevere – the penalties that can build up if you ignore the compliance requirements are significant.

If you have had any difficulties getting to grips with the new administrative requirements and require assistance please contact us.

Contact Details:

For further information on any of our services please contact:

Peter Burnside — peter.burnside@bdo.co.uk
Senior Tax Partner

Frank McCartan — frank.mccartan@bdo.co.uk
Tax Partner

Sean Lavery — sean.lavery@bdo.co.uk
Tax Partner

Alex Ward — alex.ward@bdo.co.uk
Wealth Management Partner

Maybeth Shaw — maybeth.shaw@bdo.co.uk
Tax Partner

Aileen Paterson — aileen.paterson@bdo.co.uk
Personal Tax Director

Clifford Rodgers — clifford.rodgers@bdo.co.uk
Corporate Tax Director

Marie Mallon — marie.mallon@bdo.co.uk
Personal Tax Director

Maurice Arthur — maurice.arthur@bdo.co.uk
Wealth Management Manager

Peter Wood — peter.wood@bdo.co.uk
VAT Manager