

# Solutions

## Welcome...

...to Solutions from Sagars - our first for 2011.

In this issue we are pleased to introduce you to Anne Morrison and Alison Hirst, both private client professionals, they are the first of seven new team members who will join the Sagars team this year. Corporate tax partner, Kate Naylor, provides a comprehensive pension update and we include an overview of proposed legislative changes from HM Revenue & Customs (HMRC) amongst other articles that we hope you find to be of interest.

If you would prefer to receive a paper copy of Solutions or you want to share any feedback with us, please get in touch with **Victoria Goff** by calling **0113 297 6767** or email **v.goff@sagars.co.uk**

## Gresham, growth and 2011

**When we moved into Gresham House almost a year ago, we planned enough spare desks and lockers to accommodate a growing team and we're pleased to announce that seven new team members will be helping us to fill the extra space over the next few months, starting with Anne Morrison and Alison Hirst who join us at the end of February.**

Anne and Alison each began their careers with the then Inland Revenue and they've both worked in tax ever since, latterly at KPMG, Baker Tilly and Grant Thornton.

Anne is a member of the Institute of Taxation (CTA), The Society of Trusts & Estate Practitioners (STEP) and the Personal Finance Society. Throughout her career she has specialised in providing personal tax advice to wealthy individuals and their families, business owners and trustees, focusing on wealth preservation and managing the main taxes. A tax partner at Baker Tilly for seven years, Anne went on to head up private client services for the firm and moved to a similar role at Grant Thornton in Leeds. She joins our team as a senior tax specialist to advise on personal tax and estate matters.

Alison too is experienced in providing personal tax advice. A member of the Association of Taxation Technicians (ATT), she deals with personal tax

compliance work for wealthy individuals and their families, together with advising small to medium sized businesses.

Welcoming Anne and Alison to the Sagars team, managing partner Chris Jones commented: "To enable us to continue providing the very best technical advice and service to our clients, it's critical that we find the right people to add to our team. Anne and Alison are both well qualified with a wealth of relevant experience and we're delighted that they are joining us."



**Alison Hirst and Anne Morrison who we will welcome to our private client team on 28 February**

# Pension update

We had a complex regime of many different pension rules pre 2006. Generally, contributions of between 17.5% to 40% of salary/earnings were permissible. Then, along came "A Day" which was widely heralded as a great change for the better for most people who were able to put more tax relieved income into their pensions. For business owner managers, A Day meant that large company pension contributions could be made whilst the owner took dividends instead of salary.

For a while, concerns were that the rules were "too good to be true" and in April 2009 the rules were suddenly changed. At that time, for anyone earning in excess of £150k per annum (later £130k) in 2009/10 or the two previous tax years, the ability to make generous pension contributions was suddenly limited. For most people earning at this level, only £20k or £30k could be contributed into a pension scheme with full tax relief. The current situation is that if your earnings have consistently been under £130k for this and the two previous tax years, you may still be able to make contributions of up to £255k or 100% of earnings. However, before considering this you must ensure that you are not already caught by the post 5 April 2011 regime. The original proposals for 2011 onwards were highly complex, however a change in Government and a consultation have led to new rules that will apply from 6 April 2011 onwards.

## In brief - from 6 April onwards

- Each year you can contribute up to £50k into a pension and get full tax relief.
- The £50k total includes company/employer contributions as well as personal contributions.
- If you are party to a defined benefits scheme, there are new rules governing what your deemed employer contribution is.
- The £50k limit is per "Pension Input Period" which may not be the same as the tax year. If you are a member of more than one scheme you may have different pension input periods and will need to discuss this with your pensions advisor.
- If your pension input period ends after 5 April 2011, you could already be affected by the new rules. If this is the case, you should take specific advice before making any contributions because the tax relief rules and pension rules do not necessarily work in the same ways.
- There is a three year carry forward available for unused contributions. This means that if you contributed less than £50k to a scheme in 2008/09, 2009/10 and 2010/11, you could be able to contribute more than £50k in 2011/12 with full tax relief.  
**For example:** If you contributed gross £20k a year in those three years, you could contribute £140k in 2011/12 and get full tax relief (the £140k is made up of three lots of £30k that were unused for three years plus £50k).
- For business owners who may be able to manage their income levels in a given year, it may be worth accumulating some previous years' available contributions to make a larger contribution in a year when you are a 50% tax payer.
- The intention is to reduce the lifetime allowance from £1.8m to £1.5m by 2012, details will be announced on the transitional provisions in due course.

## So, how does this affect you?

If your total pension contributions (employer and personal) are always under £50k a year, you will not be affected by these rules.

Anyone who is interested in making the maximum tax relieved pension contributions may have scope to make additional contributions in their pension input period ending after 5 April 2011.

Anyone making contributions in excess of £50k now must ensure they are not already in the new regime by virtue of their pension input period.

Pension schemes will be obliged to provide information to beneficiaries if the amount of pension savings exceeds £50k. However, each person has an overriding requirement under Self Assessment to ensure they pay the

right amount of tax.

If you are an employer and you have employees in receipt of large company contributions, you should consider what action you need to take to ensure that your employees are aware of these new rules. Some employees who have not completed tax returns previously may need to do so in future while employees in salary sacrifice schemes may need an opportunity to review their current packages in light of the new rules.

If you have any queries, please get in touch with your usual Sagars contact or Kate Naylor on 0113 297 6825 or [k.naylor@sagars.co.uk](mailto:k.naylor@sagars.co.uk)



## Q: When is a mobile phone not a mobile phone?

### A: When it's a Blackberry, iphone or "similar" of course!

Due to the range of functions that blackberries, iphones and "similar" devices offer, HM Revenue & Customs (HMRC) doesn't consider them primarily as mobile phones for tax purposes.

As a result of this, if an employer provides an employee with a blackberry or iphone for work use and any private use is minor, the employee may escape the benefit in kind charge. However, if a company offers an employee such a device which is not used for work to any great extent, there is a theoretical tax charge on the P11d of the employee. We say "theoretical" because although this is the official HMRC stance, no one has challenged the revenue on this as yet.

It's unclear why HMRC take this view and this is a grey area but generally, if you are an employer providing your employees with blackberries, iphones or "similar", be aware that unless there is extensive business use, a P11d could be required and there will be tax and NIC implications.

Please get in touch with your usual Sagars contact if you have any queries as a result of reading this article.

## iXBRL for companies

There are significant changes to the way in which companies have to file their corporation tax computations and accompanying accounts from 1 April 2011.

The most fundamental change is that accounts and tax computations have to be "tagged" so that HM Revenue and Customs can receive the data in an intelligent computerised format called iXBRL. In addition, all corporation tax will have to be paid electronically from 1 April 2011. We are currently working with our software providers to ensure iXBRL compliance but if you require more information on this please contact **Richard Stewart** on **0113 297 6820** or email [r.stewart@sagars.co.uk](mailto:r.stewart@sagars.co.uk)

## HMRC kick start review into footballers' image rights and directors' loans

Recent press coverage has highlighted a review by HM Revenue & Customs (HMRC) of the loophole which has allowed professional footballers to pay tax at just 28% on the earnings from image rights and 2% on loans from their own companies.

The review is aimed at footballers who launched their own companies to take image rights payments after the 50% income tax rate was introduced. In brief, players sign two contracts with their clubs; a players contract and another for merchandising and image rights royalties. The latter is paid into a separate company which only attracts corporation tax at 28%. Players are also able to take directors loans from their companies, paying only 2% tax on the loan sums which are regarded as a benefit in kind and are particularly tax efficient.

The way that this has been represented in the press is quite misleading, reports certainly don't explore all of the tax ramifications related to using this tax structure.

Indeed, a lot of people use companies as a legitimate means of tax mitigation but the fact that image rights structures can be beneficially taxed in comparison with normal salary payments makes them more susceptible to attack than other commercial arrangements and at a time when HMRC are seeking to maximise tax revenue.

Where someone has diverted significant earnings into a company for tax mitigation purposes, there is a substantial risk that HMRC will be successful in challenging the structure.

If you have any concerns about your structure and circumstances, get in touch with your usual Sagars contact.

If you have any queries relating to this article, please call John Beevers on 0113 297 6813 or send an email to [j.beevers@sagars.co.uk](mailto:j.beevers@sagars.co.uk)



# HMRC announce a raft of potential new legislation

In recent weeks HMRC have announced a number of potential legislative changes. These are the key points that may be of interest to you:

## Disguised remuneration schemes - EBTs and EFRBS - new tax charge where funds are earmarked or loaned out

New legislation is being introduced to stop businesses routing funds to offshore trusts and then allowing individuals to access the funds without suffering a tax charge. The main rules take effect from 6 April 2011 but transitional rules are already applicable. If you have funds in an offshore trust (such as an EBT, ERT or EFRBS) and you would like to understand more about the new rules in relation to your own circumstances, please get in touch with your usual Sagars contact.

## Furnished Holiday Lets (FHLs) - changes as previously announced

The conditions your property letting needs to satisfy to continue to be treated as a furnished holiday let are being extended, from 6 April 2012 (for individuals, 1 April 2012 for companies). To qualify as an FHL, your property must be available to let for 210 days (currently 140 days) and actually let for 105 days a year. At the moment, FHLs attract certain more favourable tax reliefs compared with 'normal' rental properties, such as the ability to offset losses against other income. Alongside these changes making the rules harder to comply with, the loss relief position is expected to become less favourable with losses in future being ring-fenced for use against similar income.

## Childcare vouchers

Existing levels of tax relief for childcare vouchers (CCV) will continue to apply for both current participating employees and those who join before 6 April 2011. If you want to implement a scheme, you should do so before that date and make sure that anyone who wants to join does so before 6 April 2011. After that, new joiners and

new schemes will only attract basic rate tax relief.

## Rules preventing abuse of charity tax reliefs

There have been number of schemes which have exploited gift aid tax relief. In future, donors will lose relief for gifts to charities if they make a 'tainted' charity donation. This relates to instances where donors enter into arrangements to obtain an advantage from a charity in return for their donation.

## Corporation tax changes

A number of potential changes to the corporation tax regime have been published. Many are intended to be simplifications and much is subject to further consultation but the key proposals include:

Changes to the **associated company rules** – the changes may relieve certain companies that are currently treated as associated because shareholders are related. In future, 'commercial interdependence' rather than shareholder relationships will be key in establishing associated companies.

Changes to the **'controlled foreign company' regime**, and a potential new regime to exempt from UK tax profits in a UK company arising from a foreign permanent establishment. If you think these could affect you we can provide more details.

A new 10% corporation tax rate for **'patent box' income** from 2013, more details will be provided in due course by HMRC.

**Corporation tax in groups** – a number of changes to value shifting, depreciating transactions, group capital losses and de-grouping charges are proposed.

**Of course, if you have a query about anything specific, we'll be happy to talk to you and provide further information - just get in touch with your usual Sagars team member.**

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# Invitation

## Meet the new Leeds Local Enterprise Partnership (LEP) Chairman Tuesday 29th March 2011

We are supporting a special event after work on 29th March 2011 to enable you to question the new Leeds LEP Chairman.

The event will be 'Question Time' style format, giving you and your colleagues in the local business community the opportunity to find out about the new Leeds Local Enterprise Partnership (LEP), one of the 19 UK organisations granted LEP status by the Government.

The Leeds LEP is a voice for local businesses and will help direct strategy, funding, investment, planning and commissioning of economic development and regeneration activities in the region.

It will have a fully operational board by April 2011 and has already appointed the respected lawyer, Neil McLean as its chair. We are delighted that both Mr McLean and Councillor Keith Wakefield, Leader of Leeds City Council will be members of this 'Question Time' panel.

The new LEP is an important economic body and has already been actively meeting local businesses. Our event will ensure that experiences, ideas and opinions of private sector businesses at the heart of the Yorkshire economy are heard loud and clear.

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**DATE:** 29 March 2011

**TIME:** 5pm until 6.30pm

**VENUE:** Thorpe Park Hotel, 1150 Century Way, Thorpe Park, Leeds, Yorkshire LS15 8ZB

Refreshments will be served.

Places are limited and will be allocated on a first come first served basis.

**RSVP** v.goff@sagars.co.uk

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