Sibbalds
CHARTERED ACCOUNTANTS

**PayLessTax**
**2025 Autumn Edition**

# Zero Capital Gains Tax

**Business owners of trading companies have been able to use Employee Ownership Trusts (EOTs) since 2014 as a mechanism to exit their business. In fact, to date there have been in excess of 150,000 EOTs set up. Interest has heightened in EOTs even more since the October 2024 Budget.**

## What are the upsides of EOTs?

- **Any gain you make on the disposal of shares into an EOT, if correctly executed, will be capital gains tax (CGT) free,** irrespective of the size of such a gain. Normally if you dispose of your shares in the business to a third party the first £1 million of the gain would attract a CGT rate of 14% in the 2025/26 tax year or 18% thereafter. Any gain in excess of that threshold would be liable to CGT at 24%.

- **It brings about employee (indirect) ownership.** The team who helped to build up the business are now well placed to move it forward, protecting the company's values and culture which might have come under threat from a third party buyer.

- **There is the facility to pay eligible employees a tax free (but not national insurance free) bonus of up to £3,600 per year.**

- The overall costs of implementing an EOT are likely to be less than those relating to a sale to a Third Party with a greater likelihood of it going through more smoothly as it is effectively an internal sale.


## What are the downsides of EOTs?

- **The proceeds from the sale of the shares may be drip fed out to the vendor over a number of years** as the consideration may be paid out of a combination of excess cash on the company's balance sheet, vendor loan notes paid out from future profits realised by the business and/or third party debt.

- **Care needs to be taken the EOT only pays the true market value for the shares, otherwise the tax breaks surrounding this exit strategy could unravel.**

- **If a disqualifying event (DQ) happens within 4 years following the end of the tax year the sale is made, the zero CGT rate would no longer apply. If a DQ occurs after that point then the EOT could find itself with a CGT liability based upon the market value of the shares at the time of the DQ.** A DQ example - for a time pre and post the sale of shares to the Trust, the number of individuals, including those connected to them, who are both participators in the company and employees, must not exceed 40% of the total number of individuals within the company. Participators are those people who hold, or who are entitled to acquire, 5% or more of any class of shares in the company and who would be entitled to 5% or more of the assets on winding up. Failure to adhere to that would be a DQ.

- **If the EOT later decides to sell the company, it could incur CGT on the gain at a rate of 24%.** Distributions out to the employees at that point would also be liable to income tax.

**TIP...** If you are contemplating exiting your business within the next 5 years or so please contact us to look at the options.

# Pre-Budget Considerations

As always, once the Budget date has been announced, speculation as to what might happen is rife. **The Budget this year is on Wednesday, 26th November. By all accounts, it is likely to be an ‘interesting’ one, with tax raising legislation at the forefront.**

Rumours are just exactly that. Some will bear fruit and others will fall by the wayside, perhaps never to be mentioned again or they do the rounds yet again the following year. When those tax measures get announced, some will take effect from 26th November  whilst others may be deferred to a later date.

**It does no harm to at least consider what might happen, talk with trusted relevant experts and consider whether to take action now pre Budget day or to keep your powder dry.**

**What are some of the rumours being bandied about?**

a) Pension tax relief to be restricted to only 20%.

b) Pension allowance to be reduced back down to £40,000.

c) The 25% tax free lump sum on pensions to be capped based upon a maximum pension value.

d) National insurance to be placed on rental income.

e) A one-off wealth tax.

f) The abolition of stamp duty land tax in England and Northern Ireland to be replaced by an additional annual charge on properties purchased for £500K or more.

g) No uplift to the probate value on death for capital gains tax (CGT) purposes on future sales.

h) Aligning the CGT rates to those of income tax.

i) A cap on private residence relief, so that people may have to pay CGT when they sell an expensive home.

j) Extending the period before a lifetime gift drops out of a person’s estate for inheritance tax (IHT) purposes from 7 years to 10 years. On top of that introducing a cap on the amount of lifetime gifts which can be made and not be caught by IHT.

k) Removing certain IHT generous reliefs e.g. gifts made out of surplus income.

**This is already on top of the IHT announcements in the 2024 Autumn Budget regarding the restrictions on agricultural property relief and business property relief from April 2026 and the bringing into the IHT net the vast majority of pension pots from April 2027.**

**TIP...** We would be happy to set up a Pre-Budget review meeting with you to consider the potential implications as they may affect you as regards these rumours so that you can make an informed decision on whether to take action or not before the Budget.

## Amnesty - No Questions Asked

**During Covid, the Government rolled out a number of business support schemes with the aim to keep them going through very difficult, challenging times**.

The well documented schemes were:

- The Business Loan Guarantee Schemes such as the £50,000 Bounce Back loan.
- Coronavirus Job Retention Scheme (CJRS).
- The Self Employed Income Support scheme (SEIS).
- The Cultural Recovery Fund.
- Eat Out To Help Out.

There were many others, both from the UK government and the devolved parliaments.

**It is well documented that not everybody who claimed under these schemes did so legitimately**. It is estimated that around £10 billion of fraudulent claims were made.

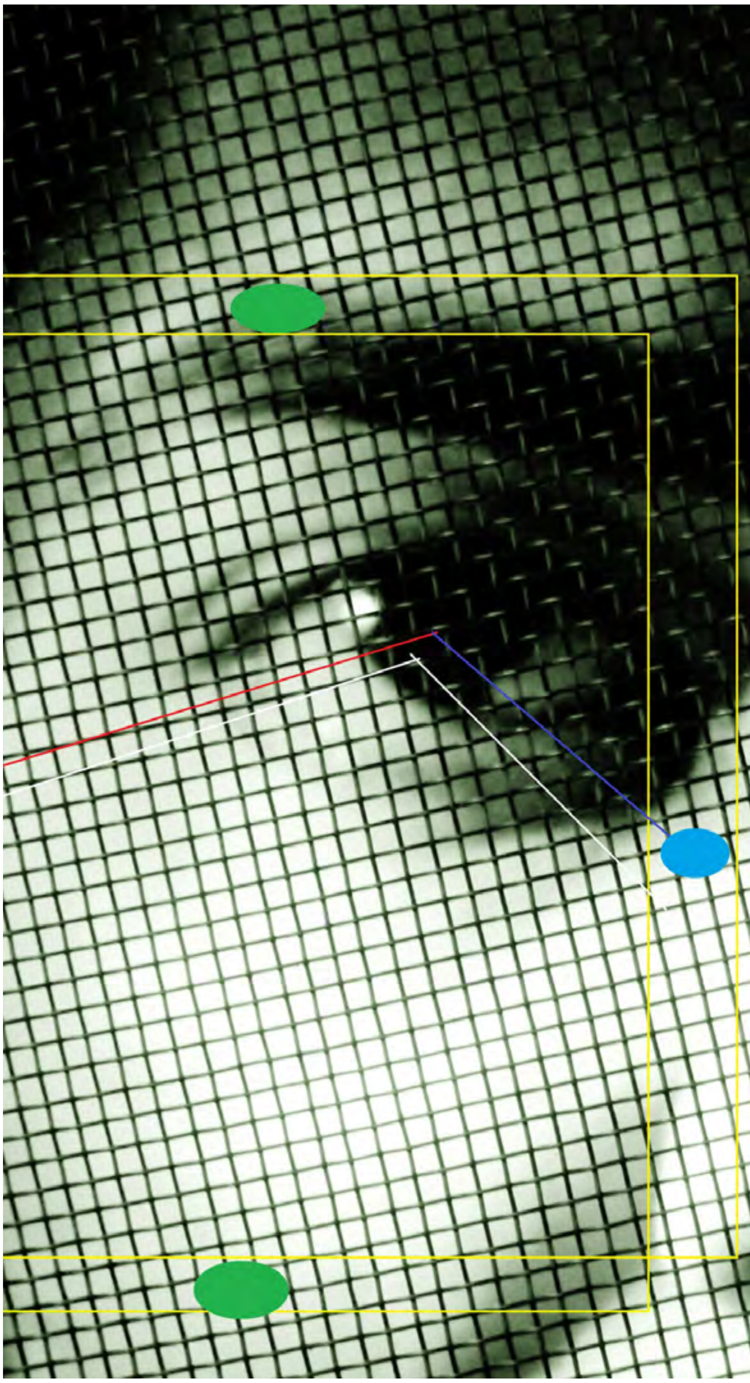
These arrangements were rolled out quickly and in some cases, like CJRS and SEIS, the rules surrounding them were regularly amended. It was hard for HMRC to keep up with all the rules and changes involved let alone for the businesses attempting to decipher the them. **So there are, without doubt, some businesses who innocently may have claimed under these support schemes but who may now have subsequently become aware that, perhaps, they should not have made that claim.**

Sometime ago HMRC set up specialist units to investigate if any businesses fall within the categories stated above. This review has and will take them several years to complete.

**The Government, as part of this process, has just announced a one off 'no questions asked' amnesty for those individuals and businesses who were not entitled to or did not need the support to repay outstanding money. This voluntary repayment scheme runs until December 2025.**

Along with the carrot comes the stick as failure to take up the amnesty offer is likely to result in prosecutions following subsequent HMRC enquiries post the deadline date.

**At the same time as rolling out this amnesty, HMRC have set up a Covid fraud reporting website encouraging the public to report their concerns.**



**TIP...** If you have any doubts as to the validity of Covid Support claims you may have made please do not hesitate to contact us to carry out an initial review.

# Furnished Holiday Lets - The Clock is Ticking

As a result of action by both the present and previous government, furnished holiday let (FHL) owners have found the tax rug pulled from underneath them since April 2025.

**Those who still rent out FHLs can no longer delve into the raft of tax breaks afforded to them in the past which long term property owners have never had.**

**Such as:**

- A potential low capital gains tax rate upon the disposal of a FHL.
- To be able to gift the FHL away without triggering a dry capital gains tax charge.
- Making pension contributions based upon the level of FHL income.
- Loan interest attracting tax relief at the person's highest tax rate.

This latter point, plus the inability to be able to claim capital allowances (CA) relating to the FHL for expenditure incurred from April 2025 onwards, is likely to see the owners tax bill increase significantly over the next few years in comparison to the 2024/25 tax year and earlier.

**However, ask yourself have you truly maximised your CA claim for expenditure incurred in the period up to April 2025?**

**If additional CA can be claimed for the 2024/25 tax year, it could result not only in mitigating or wiping out the tax liability relating to the FHL for that tax year, but if it creates a loss position for that year, the taxpayer will be able to carry it forward to set against rental profits arising in the 2025/26 tax year and possibly onwards.**

**TIP...** If you have any doubt then please contact us as we can call upon a capital allowance specialist (RICS qualified) who will only charge based upon additional allowances found and agreed with HMRC.

**For example:**

- John acquired a FHL for £400,000. He is a 45% taxpayer.
- His net rental income (pre CA) for 2024/25 tax year was £20,000 and for 2025/26 £25,000 and 2026/27 £28,000.
- He brings in the specialist who agrees CA with HMRC of £80,000.
- As a result of this, John has saved tax of £32,850 (Scottish taxpayer - £35,040) across the 3 years and still has capital losses of £7,000 remaining to carry forward to the 2027/28 tax year.

If the John has both a FHL and a long term let property, post April 2025, he can use any FHL CA loss brought forward from the 2024/25 tax year and set it against the future profits of both properties. Pre April 2025 John could only have set the loss against FHL profits.

**Time is running out but CA can still be claimed for the 2024/25 tax year, if the property qualified as a FHL, for expenditure such as for power sockets, general lighting, heating systems, sanitary ware, bathroom and kitchens (units as well as white goods), carpets and furnishings and even for ironmongery such as door handles.**

If an extension or refurbishment was carried out pre April 2025 then it is likely that a breakdown of those costs will be reflected on the invoices which should help with a CA claim. It is harder to do so where the taxpayer has simply purchased the property outright as they may only have the purchase contract and completion statement. This is where a RICS surveyor in conjunction with a tax specialist can strip out the qualifying expenditure in agreement with HMRC.

## We are here to help

We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.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