Sibbalds
CHARTERED ACCOUNTANTS

PayLessTax
2025 Winter Edition

Business Selling Woes

As a result of the Autumn 2024 Budget, if say you want to retire and sell your company shares or your unincorporated business, assuming all the relevant conditions are met, the first £1 million of gain arising from the sale could be liable to capital gains tax (CGT) at 10%, if the sale took place prior to 6th April 2025, or 14% pre 6th April 2026 and then 18% for a disposal thereafter. This is often referred to as Business Asset Disposal Relief (BADR). Any excess above that threshold could be at 24%. As you can see the BADR CGT rate is increasing at an alarming rate.

Depending upon your circumstance you may want to consider the following options either pre 6th April 2025 or pre 6th April 2026 to bank either the 10% or 14% CGT rate:

- Selling your business/shares earlier than intended.

- **If you are an unincorporated business consider whether to incorporate and trigger the capital gains tax charge at that point**. This could either reduce the CGT hit upon a subsequent sale of the shares further down the line or, if there was eligible goodwill transferred across to the company, potentially allow you to draw down the monies from the business at the sought after beneficial tax rate.

- **If you are a corporate business owner you could consider selling your shares to an employee ownership trust.** If correctly implemented, the gain arising from the disposal would attract a zero CGT rate and unlike BADR there is no £1 million threshold.

- **You could appoint a liquidator to wind up your solvent company by way of a Members Voluntary Liquidation**. After all the debts and liabilities have been met the residue left within the company could be extracted at the 10% or 14% rate.

- **Another option might be for the company to buy back your shares**. Advance clearance from HMRC can be obtained to ensure that all the conditions have been met to treat the distribution out to you as a capital one, potentially opening up the opportunity for the favourable CGT rate to apply.

- **If you are intending to use the proceeds from the sale of the company for investment purposes for example, you could consider setting up a holding company above your trading company**. When the trading company shares are sold further down the line, the sale proceeds go up to the holding company potentially CGT free. Allowing that company to utilise the gross proceeds for those investment purposes. This is referred to as the Substantial Shareholdings Exemption.

Of course there may be issues surrounding any or all of those options such as:

a) You can't find a buyer in time.

b) **Your particular circumstances don't fit the legislative criteria to carry out that particular planning**.

c) **The implementation cost outweighs the benefit**.

d) You get hit for the CGT charge without the proceeds in your hands.

e) You may receive the proceeds over a period of time.

TIP...

If you are thinking of selling your business come and speak to us first, prior to doing so, to review the best options for you.

A 2025 Business Bitter Pill

Along with the increase to the national minimum wage, with its knock on impact to employer pension contributions, businesses have to factor in the rise to the employers national insurance rate from 13.8% to 15%, coupled with the lowering of the employers NI starter threshold from £9,100 to £5,000 from April 2025. This hammer blow is only offset by the increase in the Employment Allowance from £5,000 to £10,500 and the additional tax relief due to the higher costs.

First and foremost it would be wise to obtain a reasonable estimate of what the financial damage may be when comparing the 2024/25 tax year to that of 2025/26, so you know what your starting point is.

Some small businesses may be better off as a result of all of this but many others will not. If you fall within this latter category what might you consider are your options?

a) **If bonuses are to be paid, consider if it is feasible to reduce the level of bonus. Can they be brought into the 2024/25 tax year**?

b) **Would bonus waivers be acceptable to an employee**, where they agree to forego a bonus and have it invested into their pension pot instead.

c) **If the business is within, say the hospitality sector, has a tronc scheme been set up**, for dealing with tips and service charges, which is not controlled directly or indirectly by the business owners.

d) **Consider setting up a salary sacrifice scheme (SSS).** This is an arrangement where the employees 'sacrifice' a portion of their salary in exchange for non-cash benefits. The most popular being a pension SSS. If implemented correctly this will save employers NI as the salaries are reduced, whilst the employee benefits from enhancing their pension pot and, in most cases, their net take home pay is unaffected.

e) **If a corporate business, should there be a review of the remuneration planning to consider the mix of salary, dividend and pensions**.

f) Instead of incentivising employees through bonuses or benefits, which might trigger an employer's Class 1 or Class 1A NI hit, **would a tax advantaged employees share scheme be more appropriate**.

g) **Cutting back on recruitment, resulting in farming work out to contractors or overseas.** Care needs to be taken that the business does not inadvertently fall foul of an employment status or IR35 review further on down the line if HMRC decide to investigate that business relationship.

h) **Reducing future wage increases. Move towards greater automation. Increase prices or look at further cost saving exercises** like more remote working, taking on board smaller office space, cutting back on previously planned expansion or a reduction on Research & Development investment.

TIP... We would be happy to carry out a Budget Impact Review and discuss options to mitigate any negative issues arising from that review.

Furnished Holiday Lets (FHL) - Beware

Both the Spring and Autumn 2024 Budgets have blown away the tax advantages FHL owners had over their long term let counterparts.

From April 2025 FHLs will follow the same tax rules which long term lets presently endure. The change is likely to have a significant impact on an owner's tax and net rent position.

What will change in April 2025?

a) Presently, if you have a loan, the interest attracts tax relief at your highest rate of tax, potentially as high as 60%.

b) **From April 2025 you will only obtain a 20% tax credit in respect of any loan interest suffered**. The tax liability is likely to rise and the net rent in your pocket fall. Depending upon your circumstances this could result in a high income child benefit charge, reduce or wipe out your tax free personal allowances and even create a pension tax charge issue if your income is exceptionally high.

For example:

- Mary has earned income of £95,000 and FHL income of £25,000. She has suffered loan interest of £10,000.

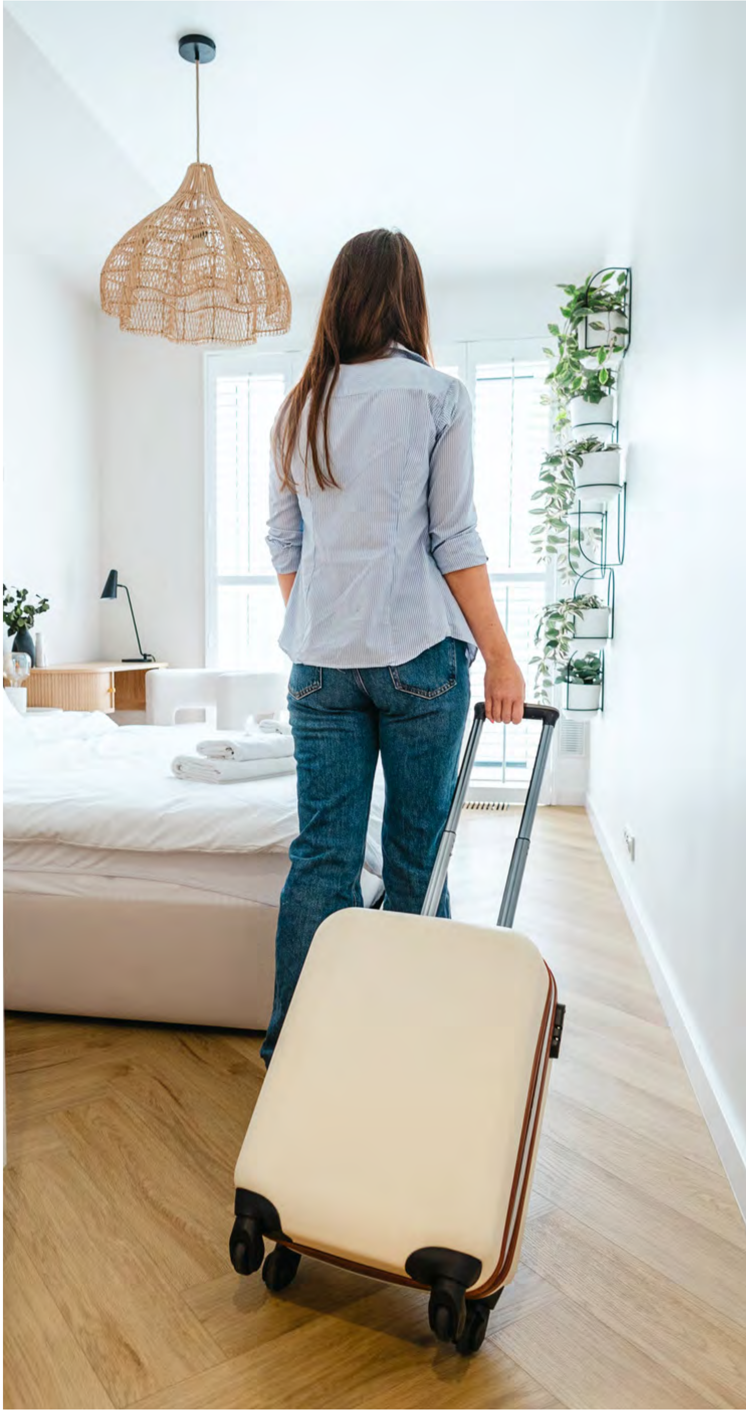
- In 2024/25 tax year the tax element relating to the FHL would effectively be £8,000. The net rent in her pocket would be £7,000.

- In 2025/26, her rental tax bill would rise to £12,000 with net rent of £3,000.

c) **As a FHL owner you have been able to claim for capital allowances** for plant and machinery such as furniture, furnishings, fixtures and fittings and items used for the business outside the property such as vans and tools. **From April 2025, the rules will switch to the more restrictive renewals basis**, effectively only being able to claim for the replacement of certain domestic items. You may want to consider maximizing your capital allowances position prior to switchover.

d) Pre April 2025, a married couple or civil partnership can allocate their FHL income in whatever proportion the two owners decide. **Post April 2025 the rental income will be deemed to be split 50:50 for income tax purposes unless the property is owned in different ratios and a form 17 election has been made** to treat that income to be assessed in line with their actual ownership ratio.

e) **If you sold your FHL business prior to 6th April 2025 you may attract only a 10% capital gains tax rate on any gain made as opposed to a rate as high as 24% post that date**.



TIP... It would be wise to carry out a FHL review prior to 6th April 2025 as there may be planning opportunities to mitigate the negative impact arising from the legislative changes. Please contact us if you would like us to carry out such a review.

Tax Year Considerations

Are you a sole trader or a property landlord? Is your turnover for this present tax year likely to be in excess of £50,000? If so you will need to register for Making Tax Digital for Income Tax (MTD) and be MTD compliant from April 2026. Please don't leave it too late to act.

Each relevant tax year which counts towards your state pension is annually worth £342 (2025/26 tax year figures). **At present you can fill in missing state pension years as far back as April 2006. This offer is only available until 5th April 2025, so time is fast running out.** After that you can only go back 6 tax years to top up your state pension credit.

If you have separated or divorced during this tax year, you should not only review your will but also revisit your pension situation. You need to consider whether or not to complete a new expression of wishes (or nomination) form to remove your ex-partner or spouse from receiving pension benefits upon your death.

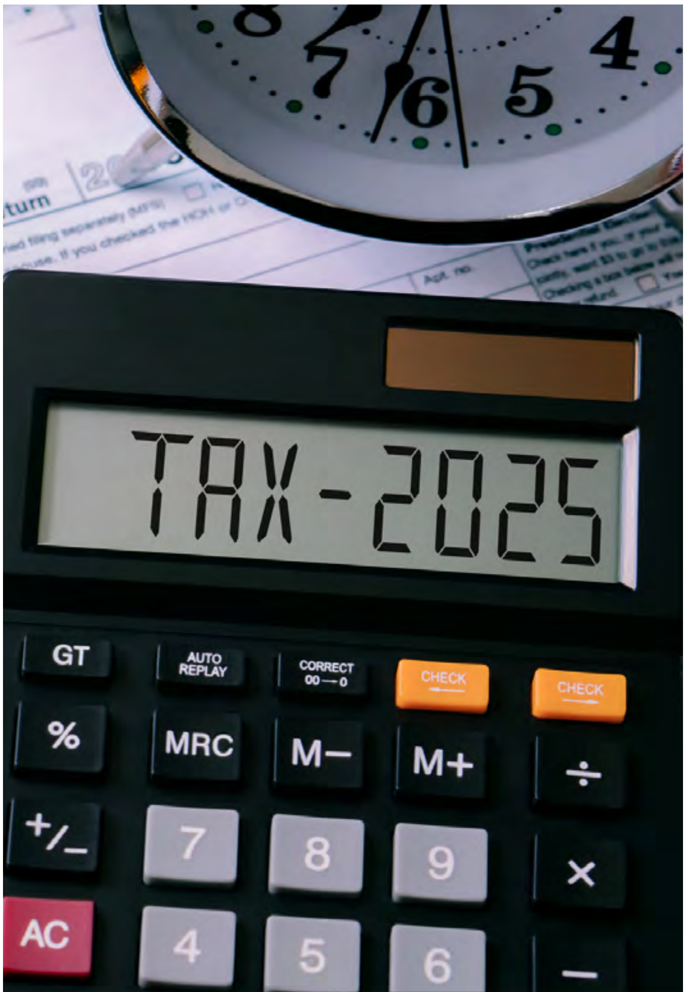
Conversely, have you married or entered into a civil partnership during this tax year? Did you have a will in place prior to that wonderful event? With the exception of Scotland, unless that will is written specifically in contemplation of the marriage/civil partnership, that will is automatically revoked and the intestacy rules relevant to that particular UK country come into play. To protect yourselves there is a need to draw up new wills.

Are you married or in a civil partnership where one of you is a basic rate taxpayer and the other is not fully utilising their personal allowances. Don't forget you can elect to transfer up to £1260 in allowances to your basic rate partner. A tax saving of £252 or £265 if you reside in Scotland. You can look back over the previous 4 years and see if a claim can be made for them as well.

Are you a taxpayer who historically pays your taxes late? Please be aware that from beginning of April 2025 the late payment interest rate charged on unpaid tax liabilities will rise from 2.5% to 4% above the Bank of England base rate. So paying late will become even more expensive.

Will you be in receipt of no earned income this tax year? Remember you can still make an annual net pension contribution of up to £2,880 which the government will top up to £3,600. You could also use such a vehicle for your kids or grandkids by providing a pension provision for them.

If you are an employer, don't forget the national minimum wage rates go up from 6th April 2025.



TIP...

Whether you are an individual or a business we are happy to carry out a year-end review for you.

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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