

**10%**  
 "a **10%** tax rate should be achievable but there are a number of possible pitfalls"

## Will I pay 10% tax on a sale of my business?

From 23 June 2010 the capital gains tax rate on large gains has been increased to 28%. On some business sales a 10% tax rate is still possible where entrepreneurs' relief applies. The relief can apply up to an individual lifetime limit of £5million.

For most of our business clients, a 10% tax rate should be achievable but there are a number of possible pitfalls of which the most common are as follows.

**1. Whole or part of business** – the relief is only available on the sale of the whole or part of the business and so is not available for mere asset disposals. It is easy for this to be overlooked, for instance on the sale of some farmland it is likely that the 10% tax rate is not possible.

**2. Shareholder conditions** – for the 12 months prior to the sale an individual must hold at least 5% of the ordinary shares and have at least 5% of the voting rights as well as being an officer or employee of the company. Many family shareholders may have less than the 5% level or may not be an employee, director or company secretary.

### 12 months conditions must be met in the 12 months prior to sale

Care is also required over director resignations in advance of a share sale as the conditions must be met in the 12 months prior to sale. This is an issue on shareholder "bust-ups" or on divorce.

**3. Property outside of the company/partnership** – where a property is owned outside of a company or a partnership and is occupied in return for the payment of a full commercial rent then entrepreneurs' relief is not available. Where the rent is below a full market level then some relief may be available. Rent charged prior to 6 April 2008 is ignored.

**4. Trusts** – it is common for company shares to be held by discretionary trusts but such shareholdings will not qualify for entrepreneurs' relief on a sale. It may be possible to restructure such a trust arrangement.

If you believe that any of these issues may apply to you then you should contact us for advice. Planning action may well need to be taken some years in advance of a sale.

For more information, please contact

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lemming mentality  
a 'lemming mentality' with valuers  
'following the market'

## Price Earnings Ratios – a lemmings charter?

We do not know what reaction you had to the Guardian's headline "Mergers and acquisitions mania disrupts bankers' summer breaks" – but ours was one of 'joy'.

Not due to the thought of the poor bankers having to clean off their bucket and spades and return to their city offices but because it reinforced the message that we were getting from our client base, that corporate deals are back on the agenda. In this context we thought it opportune to comment briefly on 'business valuation'. Seen by some as a 'dark art' and by some others as '3 x EBITDA' we outline below five key items that can often be overlooked in business valuation.

**1. Price is not the same as value.** 'The value of an asset (e.g. a business) is the cash flow it generates' is a useful mantra to have in mind and this should not be confused with the price that could be realised for that asset. In fact, a purchaser should always look to price an asset at less than the value he expects to derive from owning the asset; otherwise he should question what he is getting from the transaction. Conversely, the seller should always benchmark the 'price offered' against the value they can derive from continued ownership. Implicit in the above statements is a recognition that different parties (e.g. vendor and

purchaser or even different purchasers) can reasonably, and logically, arrive at different values for the same business based on the cash flows they can derive from that business.

**2. PER = Lemmings charter?** The danger with business valuations based solely on comparability methods (e.g. Price Earnings Ratio or PER) is that they can foster a 'lemming mentality' with valuers 'following the market' and ignoring a rational consideration of the underlying valuation fundamentals. To compute value, one has to understand the cash flows of the business and the time value of those cash flows. This involves estimation of 'risk', 'growth rates' and the 'reinvestment rate'. These same value drivers are implicit in the comparability methodologies but are not transparent.

**3. Business valuation is subjective – fact!** Whilst over simplification can be problematic, conversely there is not a linear relationship between the complexity of a valuation technique and the 'accuracy' of a valuation. The key is to use a method or methods that:

- are appropriate to the situation
- where the key value drivers can be separately identified and subjected to credibility checks
- and, above all, a method that the valuer can explain to all interested parties.

**4. Net Present Value = ok but also need to consider liquidity.** It is one thing to value a business on the basis of future cash flows but you should also consider the 'cash burn' in the short term – this is the money being spent in order to try and grow the business. It could be argued this is what some analysts largely missed in the 'dot.com boom' transactions.

**5. The business 'price' is arrived at by negotiation so be prepared...**

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relentless tide

"it finally looks as if the **relentless tide** against pensions may be turning"

## Are Pensions Coming Back into Fashion?

In recent years the easiest way to aggravate most clients has been to suggest that they make a pension contribution. It was not always this way and not so long ago advising on pension contributions was a major part of our work.

But in the last decade or so a lethal cocktail of tax changes, poor investment performance and distrust of financial institutions has made pension contributions extremely unattractive for the self-employed.

**"The current economic climate means that now is probably a good time to invest for the long term."**

The final straw was the April 2009 Budget which proposed to stop high earning self-employed individuals from having tax favoured pension rights from April next year and this was seen as only the thin edge of the wedge. Now, it finally looks as if the relentless tide against pensions may be turning.

In part this change in the pension climate is due to the new coalition government. The pension approach of the last government was to prevent high earning self-employed individuals from being allowed tax relief on pension contributions whilst permitting high earning employees (such as civil servants) to still have tax subsidised

generous pension schemes. What is now proposed is a level playing field.

Currently it is possible to make very large annual pension contributions (either personally or through a company) subject to some interim restrictions for high earners. Going forward there is likely to be a lower annual maximum limit which means that it will be more important to make pension contributions annually rather than relying on catch-ups. Further, recent increases in tax rates mean that the tax benefits have actually increased. Finally, the current economic climate means that now is probably a good time to invest for the long term.

**"There are some very specific tax planning opportunities between now and 5 April 2011"**

However, it is not just supposition about future pension rules that you should be aware of. There are some very specific tax planning opportunities between now and 5 April 2011.

- Business owners whose earnings have been below £130,000 for the last three years can still get tax relief on a large pension contribution. This could be a company contribution.
- Self-employed individuals earning over £150,000 may be able to get 50% tax relief on pension contributions up to a maximum of £30,000.
- Contributions do not have to be in cash so that those without ready funds could make in-specie transfers to a scheme. A good example would be to transfer Venture Capital Trust holdings that have been held for the necessary three or five year period.

In the next few months many of our clients will be returning to the pension fold. Please do not hesitate to contact us to discuss your own position.

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# Your Flexible Friend?

The recent banking crisis has had a varying impact on businesses and individuals. Unless you are one of the fortunate few with a variable lifetime tracker mortgage, it is unlikely to have been a positive impact!

As a firm one of the issues we have been conscious of is the rising costs of banking. Whilst bank base rates have remained at historically low levels, the margins charged by banks have increased, partly due to their cost of funds being higher. This has negated the benefit from reduced base rates for many people.

**"We surveyed twenty of our business clients who take payment by card on a daily basis."**

We have also been aware that businesses are seeing overall increases in credit card

charges. This is a service often provided in tandem with banking facilities, however it is something that businesses can shop around for and receive from a third party provider.

We surveyed twenty of our business clients who take payment by card on a daily basis. Many were unaware that there had been a change in their costs, but on closer inspection there had been. Some were for valid reasons such as increasing credit card sales and some have seen a decrease but others seem to have experienced cost rises for no apparent reason.

**"Many were unaware that there had been a change in their costs, but on closer inspection there had been."**

If you would like to review the costs of your banking or compare how your facilities compare with similar businesses and our experiences please contact us.

**For more information, please contact**

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## Redundant Buildings

There are a number of tax benefits available to subsidise the cost of doing up a redundant commercial building in Cornwall.

Cornwall qualifies as a disadvantaged area which means that it is possible to offset refurbishment and rebuilding costs against tax where the qualifying conditions are met. This is possible until April 2012 under the Business Premises Renovation Allowance.

In addition there are a number of VAT reliefs that could apply to reduce the rebuild cost and make a project more viable.

If this is of interest to you please contact us.

**For more information please contact**

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## On Your Bike

**For some time it has been apparent that H M Revenue & Customs (HMRC) are unhappy with what they see as abuses of the salary sacrifice Cycle to Work scheme. We have certainly seen the scheme being targeted during pay as you earn inspections.**



The problems tend to arise from over-selling by the scheme providers who want to encourage as much take up as possible. The conditions of the scheme are very tight and must be complied with if the tax benefits are to be obtained.

The typical scheme works by the employee agreeing a salary sacrifice for the employer to then provide them with a bicycle for a year. At the end of the year the employee usually purchases the bicycle from the employer and their salary reverts back to its previous level. The tax exemption, the VAT recovery by the employer and the depreciation in the value of the bicycle makes the arrangement very tax efficient.

One issue is the value at which the bicycle is purchased from the employer at the end of the scheme. We are aware that unrealistically low values have been used and HMRC have had enough of this. They have therefore published a simplified valuation table for use by employers. This is available at [www.hmrc.gov.uk/manuals/eimanual/EIM21667a.htm](http://www.hmrc.gov.uk/manuals/eimanual/EIM21667a.htm).

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