Company Investments

Taxation and Planning

The information that follows is based on our understanding of current taxation, legislation and HM Revenue & Customs practice all of which are liable to change without notice.

This is just for UK advisers – it's not for use with clients

Les Cameron

Head of Technical

Learning Objectives

By the end of this session, in respect of corporate investing you will be able to:

- Describe the planning considerations
- Evaluate the potential impact on IHT & CGT reliefs
- Explain the accounting treatment of corporate investments

Planning

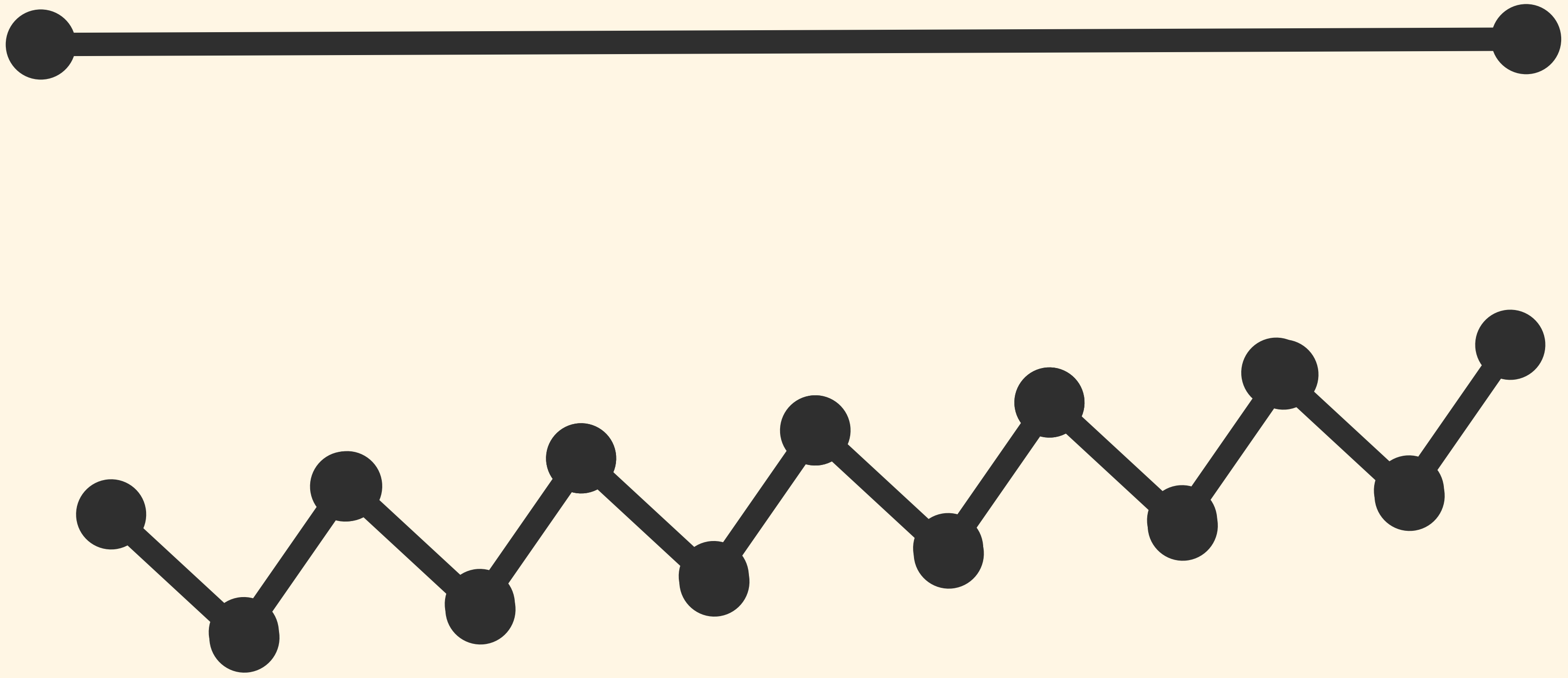
Different shapes and sizes

The background

INFLATION

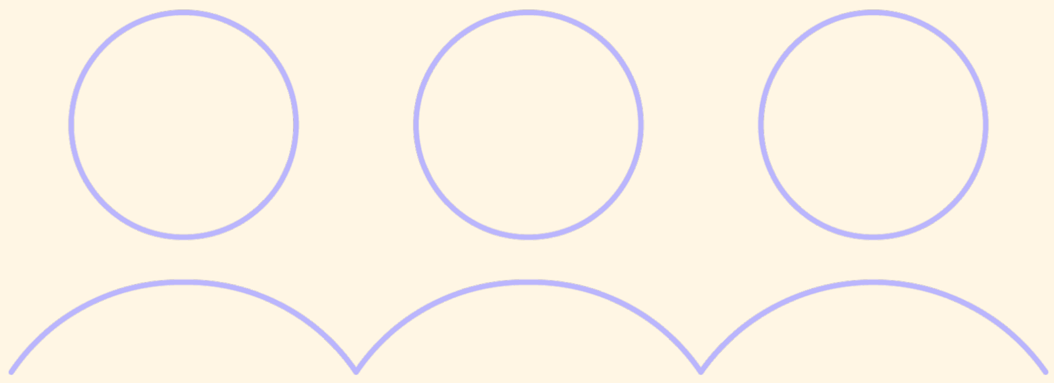
INTEREST RATES

Overarching concern



Three's a crowd?

- Company Director
- Accountant
- Financial Adviser



Potential Investments

OEIC which must distribute net income

Insurance Bond which is non income producing

Insurance!

Insurance policy designed as an investment – the directors can top it up or cash it in, fully or partially at any time.

Bond set up

- Company as owner
- Life assured – director(s)
- Directors can leave!
- Offshore - Capital Redemption?
- Contract of long-term insurance
- ~~Regular Withdrawals~~

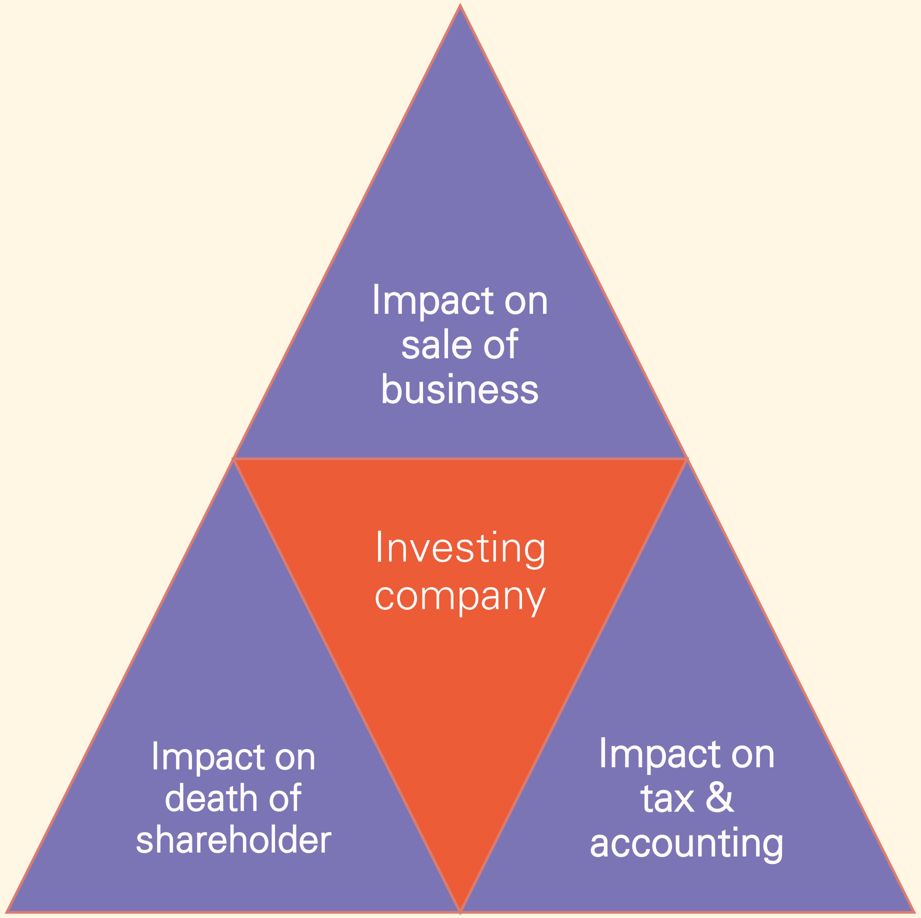
Advice issues

Attitude to Risk

Capacity for Loss

Suitable investment!

Tax concerns



Capital Gains Tax

£1,000,000 @ 10%


"Personal" company test
Officer or employee test
Trading company test
Relief available

…Most companies and groups will have some activities that are not trading activities. The legislation provides that such companies and groups still count as trading if their activities "… do not include to a substantial extent activities other than trading activities"…

….. The question to ask is how should a company's non-trading activities be measured to assess whether they are substantial? ……

HMRC Capital Gains Manual: CG64090

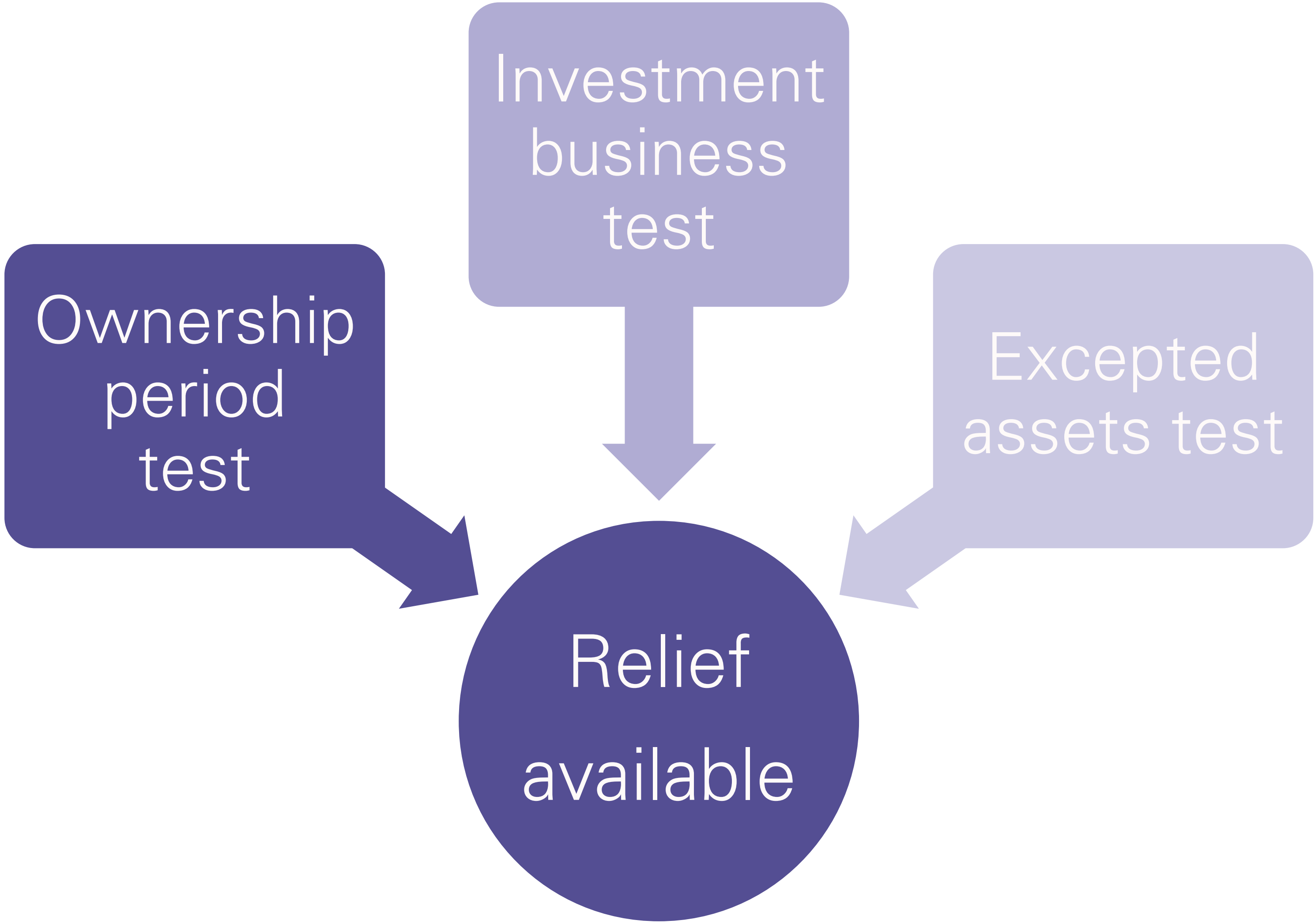
The 20% rule

- Investment Income
- Time and expenses on investment activities
- Value of investments
- Company history

Shares disposed after **5 April 2020**, must satisfy the conditions for **2 years** prior to disposal

"in the round"

Business Relief



Inheritance Tax

The “wholly or mainly rule”

The company will be trading unless its business consists wholly or mainly of holding investments.

A generous test as “mainly” simply means more than 50%. HMRC will look at the main activities, assets, income and gains.

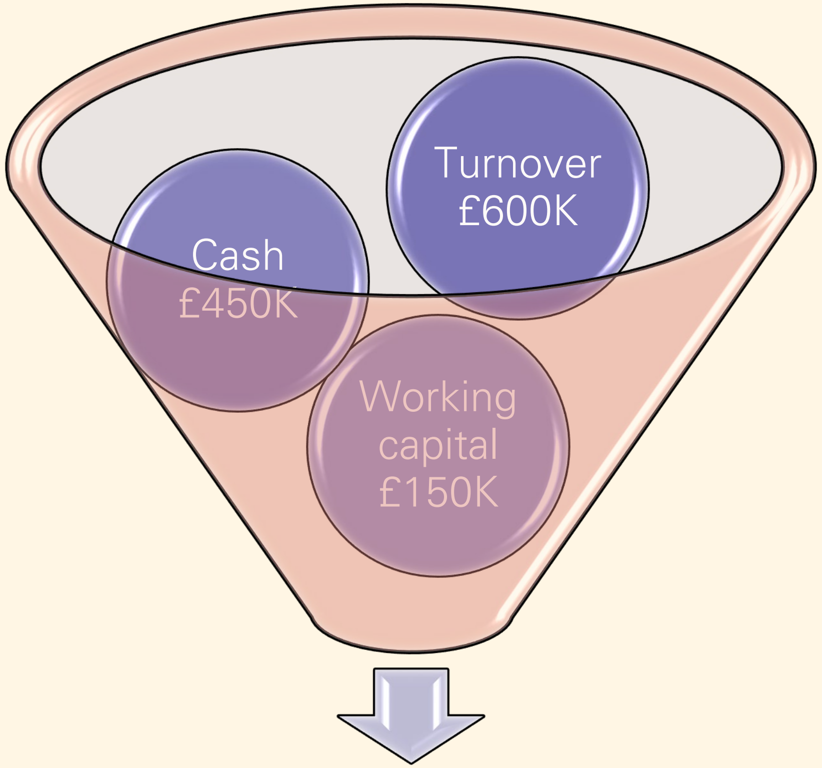
50% test

Good

Story continues…

Excepted Assets

Mrs Wilkins



Surplus £300K

Barclays Trust Company

versus

HMRC

Special Commissioner

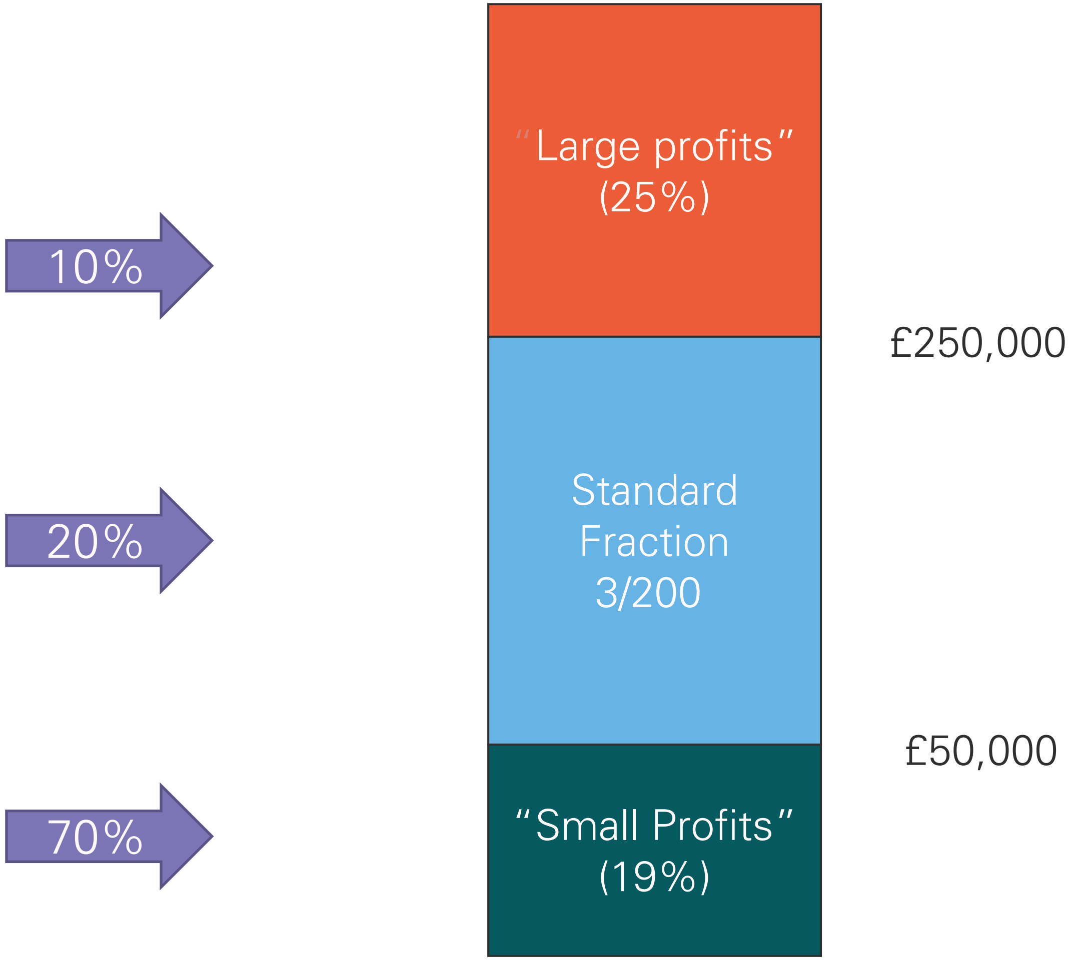
“Was the £300,000 cash held by the company required for future use for the purposes of the business?”

“This is a question of fact and on the evidence before me I cannot find that it was so required.

In my opinion ‘required’ implies some imperative that the money will fall to be used upon a given project or for some palpable business purpose.”

Corporation Tax

Corporation Tax changes



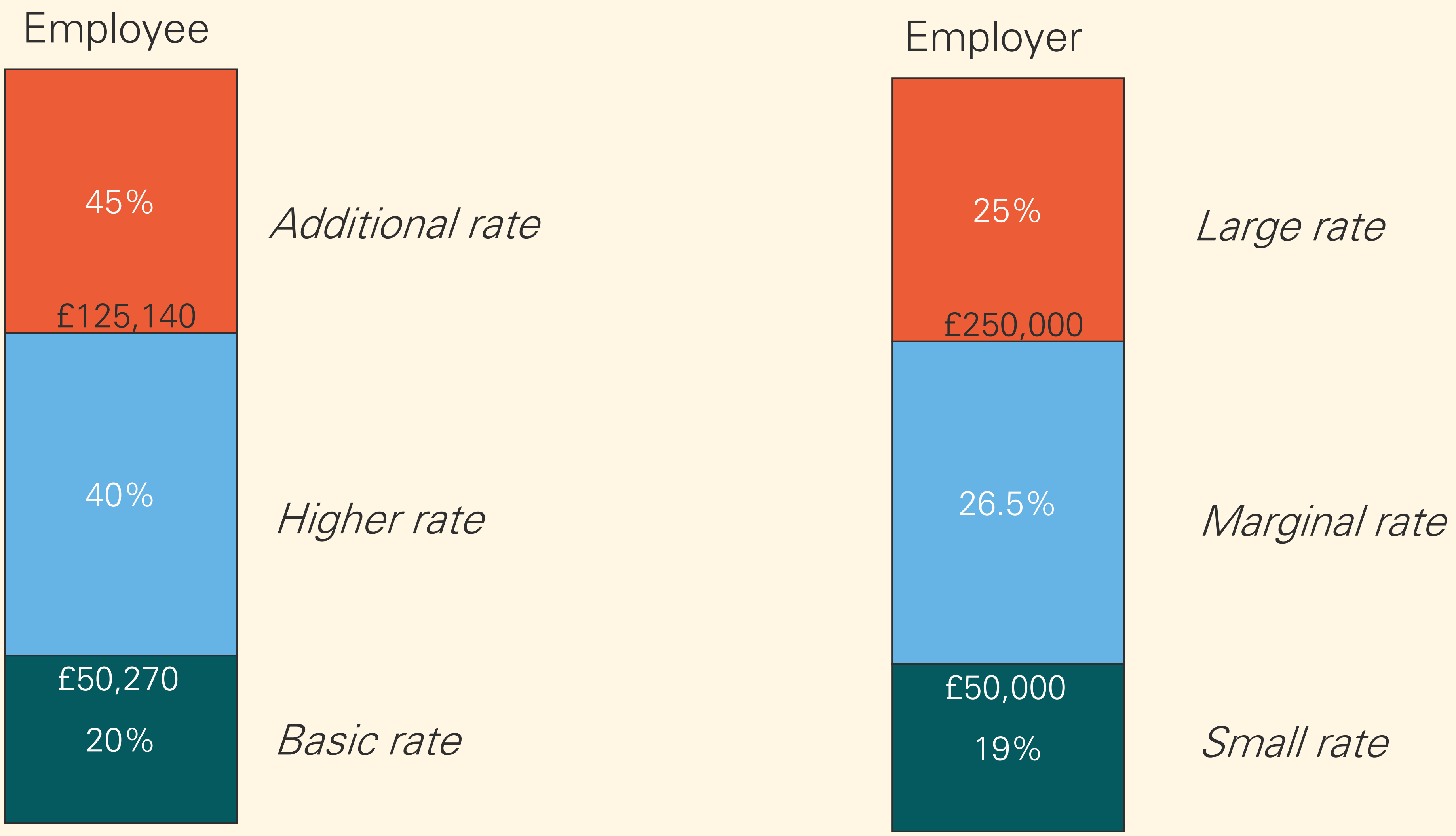
1 April 2023

Onshore Bond Tax Credit 20%

Calculating corporation tax

Profit		£130,000
Corp Tax	25%	£32,500
Marginal relief	£250,000	
	<u>£130,000</u>	
3/200 (1.5%)	£120,000	£1,800
	Tax due	£30,700
	Effective Rate	23.62% (£30,700/£130,000

Corporate Tax “Bands”



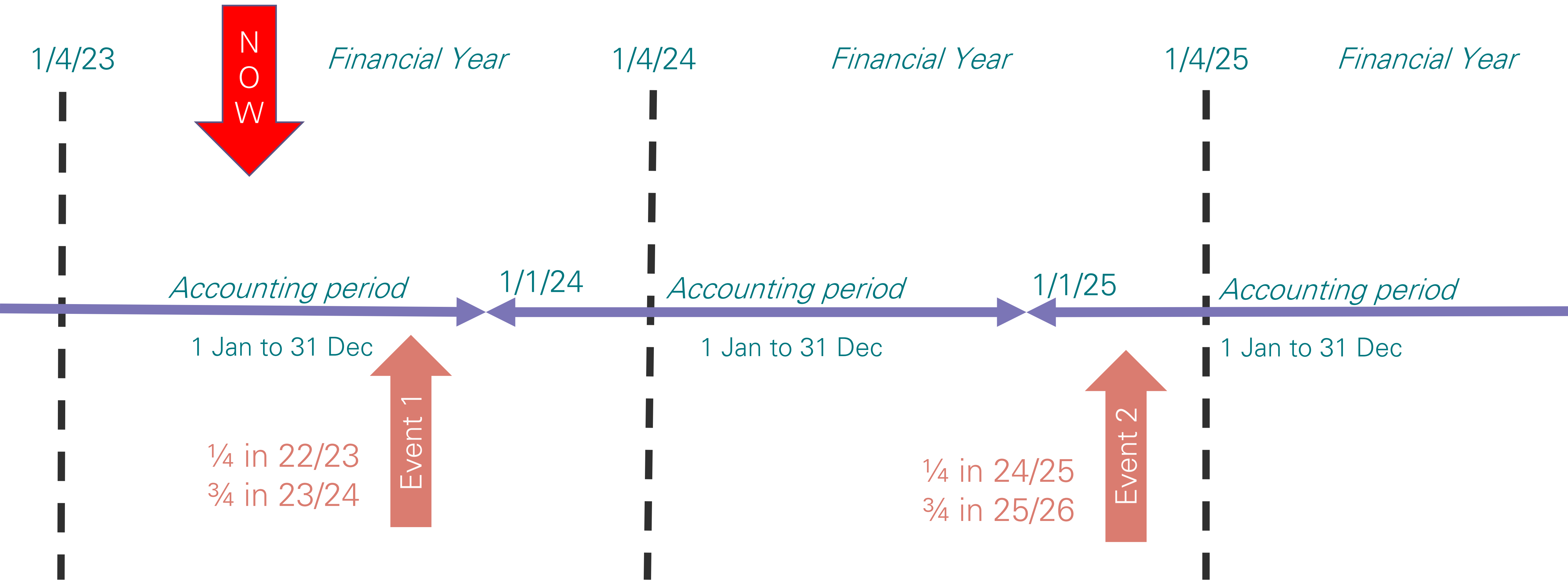
Effective rates

Profit	19%			26.5%			Total Tax	Effective Rate
£10,000	£10,000	19%	£1,900	£0	26.5%	£0	£1,900	19.00%
£20,000	£20,000	19%	£3,800	£0	26.5%	£0	£3,800	19.00%
£30,000	£30,000	19%	£5,700	£0	26.5%	£0	£5,700	19.00%
£40,000	£40,000	19%	£7,600	£0	26.5%	£0	£7,600	19.00%
£50,000	£50,000	19%	£9,500	£0	26.5%	£0	£9,500	19.00%
£60,000	£50,000	19%	£9,500	£10,000	26.5%	£2,650	£12,150	20.25%
£70,000	£50,000	19%	£9,500	£20,000	26.5%	£5,300	£14,800	21.14%
£80,000	£50,000	19%	£9,500	£30,000	26.5%	£7,950	£17,450	21.81%
£90,000	£50,000	19%	£9,500	£40,000	26.5%	£10,600	£20,100	22.33%
£100,000	£50,000	19%	£9,500	£50,000	26.5%	£13,250	£22,750	22.75%
£110,000	£50,000	19%	£9,500	£60,000	26.5%	£15,900	£25,400	23.09%
£120,000	£50,000	19%	£9,500	£70,000	26.5%	£18,550	£28,050	23.38%
£130,000	£50,000	19%	£9,500	£80,000	26.5%	£21,200	£30,700	23.62%
£140,000	£50,000	19%	£9,500	£90,000	26.5%	£23,850	£33,350	23.82%
£150,000	£50,000	19%	£9,500	£100,000	26.5%	£26,500	£36,000	24.00%
£160,000	£50,000	19%	£9,500	£110,000	26.5%	£29,150	£38,650	24.16%
£170,000	£50,000	19%	£9,500	£120,000	26.5%	£31,800	£41,300	24.29%
£180,000	£50,000	19%	£9,500	£130,000	26.5%	£34,450	£43,950	24.42%
£190,000	£50,000	19%	£9,500	£140,000	26.5%	£37,100	£46,600	24.53%
£200,000	£50,000	19%	£9,500	£150,000	26.5%	£39,750	£49,250	24.63%
£210,000	£50,000	19%	£9,500	£160,000	26.5%	£42,400	£51,900	24.71%
£220,000	£50,000	19%	£9,500	£170,000	26.5%	£45,050	£54,550	24.80%
£230,000	£50,000	19%	£9,500	£180,000	26.5%	£47,700	£57,200	24.87%
£240,000	£50,000	19%	£9,500	£190,000	26.5%	£50,350	£59,850	24.94%
£250,000	£50,000	19%	£9,500	£200,000	26.5%	£53,000	£62,500	25.00%

Calculating corporation tax

	Profit	Tax
Small Rate 19%	£50,000	£9,500
Marginal Rate 26.5%	£80,000	£21,200
Main Rate 25%	£0	£0
	£130,000	£30,700
	Effective Rate	23.62% (£30,700/£130,000

The "years"



1/4/23
NOW
Financial Year
1/4/24
Financial Year
1/4/25
Financial Year
Accounting period
1/1/24
Accounting period
1/1/25
Accounting period
1 Jan to 31 Dec
1 Jan to 31 Dec
1 Jan to 31 Dec
Event 1
¼ in 22/23
¾ in 23/24
Event 2
¼ in 24/25
¾ in 25/26

Insurance Bonds

Company held bonds

… where a company… is a party to an 'invest[illegible]nsurance contract', this is treated as a loan relationship of th[illegible] it is taxed as a creditor relationship under the loan r[illegible] rules … rather than under the chargeable event [illegible] with any profits or losses arising treated as non-trading credits or d[illegible] of the company.

!!!Forget chargeable events!!!

HMRC Insurance Policyholder Taxation Manual: IPTM3900

Accounting Standards

New UK GAAP

FRS 105

FRS102

Micro entities

Historic Cost

Other private companies

Fair Value

Micro Entities

Turnover	Employees	Balance Sheet
£632,000	10	£316,000

Two out of three must apply

Micro Entities

Historic cost = No annual adjustment = Tax deferred

Fair Value

Fair Value = Annual adjustment = Annual growth taxed

Onshore bond

20%
TAX
CREDIT

Disposals
(i.e. a 'related transaction')

Annual increases

UK Bond

Purchase	EOY 1	EOY 2	Year 3
Invests	Value	Value	Encash
£200,000	£210,000	£230,000	£230,000

Micro Company Ltd (Historic Cost)		
EOY 1	Value £200,000	No tax
EOY 2	Value £200,000	No tax
YEAR 3	Encashed £230,000	NTC* (grossed up) £37,500
£37,500 profit taxed @ 26.5% **£9,937.50**		
Tax treated as paid and available for CY offset (£7,500)		
Tax payable **£2,437.50**		

Large Company Ltd (Fair Value)		
EOY 1	Value £210,000	NTC £10,000@26.5% £2,650
EOY 2	Value £230,000	NTC £20,000@26.5% £5,300
YEAR 3	Encashed £230,000	Profit (grossed up) £37,500 - £30,000
£7,500 profit taxed @ 26.5% **£1,987.50**		
Available for CY offset (£7,500 -£1,987.50) **(£5,512.50)**		

*non trading credit

Non UK Bond

Purchase	EOY 1	EOY 2	YEAR 3
Invests	Value	Value	Encash
£200,000	£210,000	£230,000	£240,000

Micro Company Ltd (Historic Cost)		
EOY 1	Value £200,000 (historic cost)	No tax
EOY 2	Value £200,000 (historic cost)	No tax
YEAR 3	Encashed £240,000	NTC* £40,000
£40,000 profit taxed @ 26.5% **£10,600**		
No CY offset		

Large Company Ltd (Fair Value)		
EOY 1	Value £210,000	NTC £10,000@26.5% £2,650
EOY 2	Value £230,000	NTC £20,000@26.5% £5,300
YEAR 3	Encashed £240,000	Profit £40,000 - £30,000
£10,000 profit taxed @ 26.5% **£2,650**		
No CY offset		

*Non trading credit

Case study – historic cost

XYZ ltd prepares accounts on a historic cost basis, the company year matches the financial year. What would the tax be on a £100,000 bond gain falling wholly in the marginal rate.

	Onshore	Offshore
Bond gain	£100,000	£100,000
Grossed up	£125,000	N/A
Corporation tax	26.5%*	26.5%*
CY due	£33,125	£26,500
Tax credit	£25,000**	£0
CY	£8,125	£26,500

*wholly in marginal rate
** credit only triggered on disposal

Case study – fair value

XYZ ltd prepares accounts on a fair value basis, the company year matches the financial year. What would the tax be on a £100,000 bond gain falling wholly in the marginal rate. £80,000 of the gain has already been taxed.

	Onshore	Offshore
Bond gain	£100,000	£100,000
Untaxed amount	£20,000	£20,000
Grossed up	£25,000	N/A
Corporation tax	26.5%*	26.5%*
CY due	£6,625	£5,300
Tax credit	£25,000**	£0
CY	(£18,375) Available for offset	£5,300

*wholly in marginal rate
** credit only triggered on disposal

Can a bond be assigned out the company?

OEICs

OEICs – tax treatment

	Interest	Dividends
Historic Cost		
Debt Fund	Taxed	N/A
Equity Fund	Taxed	Exempt
Fair Value		
Debt Fund	Taxed	N/A
Equity Fund	Taxed	Exempt

The $64,000 questions!

OEIC v BOND

ONSHORE v OFFSHORE

COMPANY v PERSONAL

Questions?

Learning Objectives

By the end of this session, in respect of corporate investing you will be able to:

- Describe the planning considerations
- Evaluate the potential impact on IHT & CGT reliefs
- Explain the accounting treatment of corporate investments

Support

Articles

Videos

Tools & Calculators

Ask the Techs
LinkedIn
MyView

Thanks for your time