
The impact of spinning out on tax: overcoming the obstacles

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Agenda

- ⦿ **Is tax a bad thing?**
- ⦿ **How will my enterprise be taxed?**
- ⦿ **Business taxes**
 - Overview
 - Legal forms
 - Status – CIC/ charity
- ⦿ **Employee taxes**
- ⦿ **VAT**
- ⦿ **Incentives to invest?**

Is tax a bad thing?

How will my enterprise be taxed?

⊙ **Business profits/ salary drawn**

- Income tax
- National Insurance Contributions
- Corporation tax

⊙ **Return on investment/ realisation/ succession**

- Income Tax
- Corporation Tax
- Capital Gains Tax
- Inheritance Tax

⊙ **Consumption**

- VAT

Legal forms

- ⊙ **Wide variety of unincorporated and incorporated forms available but:**
- ⊙ **Assuming “mutual” describes an employee owned/ controlled corporate entity**
- ⊙ **OR multi stakeholder co-operative/ not for profit**

Tax status of incorporated entities

⦿ Companies

- Pay corporation tax on profits and capital gains
- Limited carry back of losses
- May have charitable status

⦿ IPS'

- Societies for the Benefit of the Community are often exempt charities
- Co-ops may take advantage of mutual trading exemptions where applicable

LLP – an attractive model?

- ⊙ **Pros**
 - ⊙ Self employed tax status
 - ⊙ Flexible constitution
 - ⊙ Limited liability and legal personality
- ⊙ **BUT**
 - ⊙ CIC status unavailable
 - ⊙ Profits taxed as earned, not as paid out
 - ⊙ Many investor side tax schemes are for companies only

Community Interest Companies and tax

Social enterprise and charity

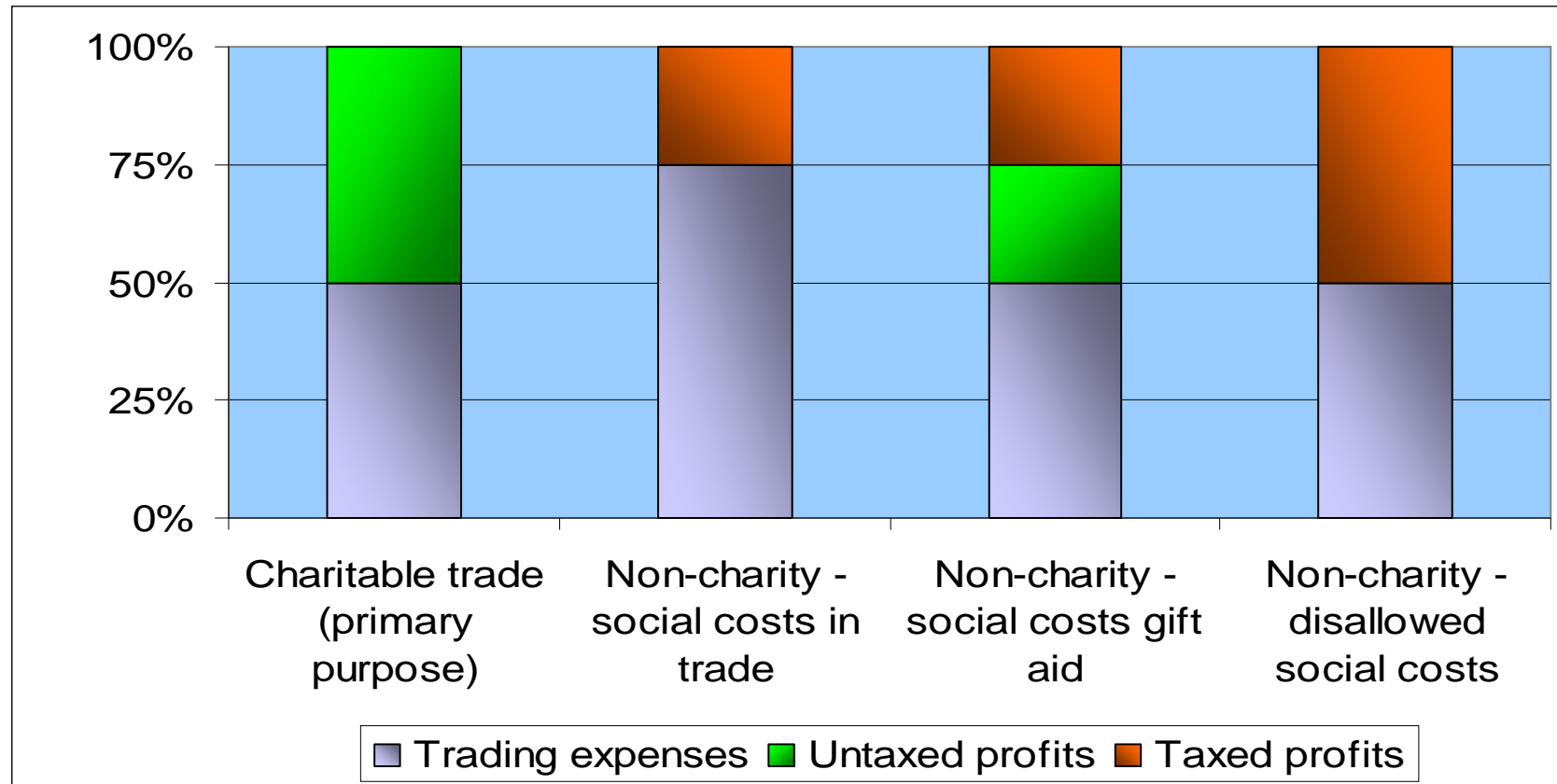
⦿ Advantages of charity status

- (Primary purpose) trading tax free
- Capital gains tax exempt
- Stamp Duty Land Tax relief
- Business rates relief
- Gift Aid recovery
- Brand
- Grant eligibility

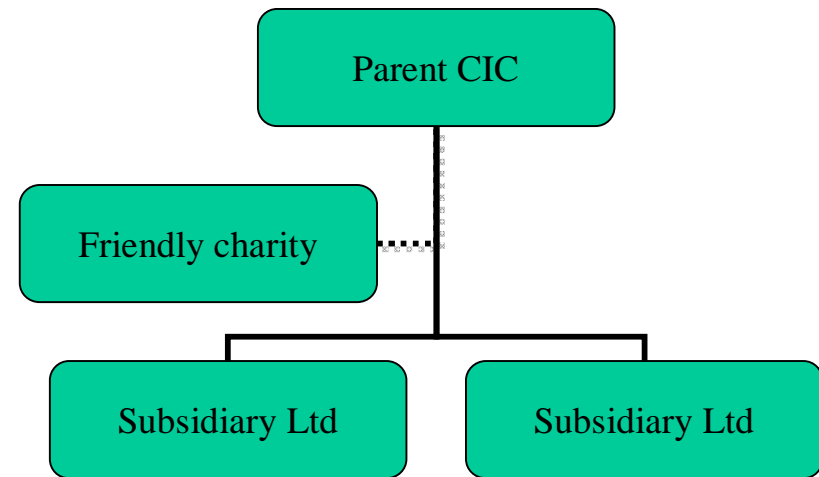
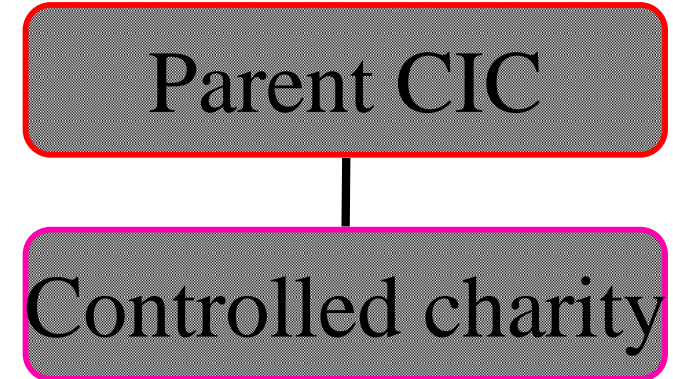
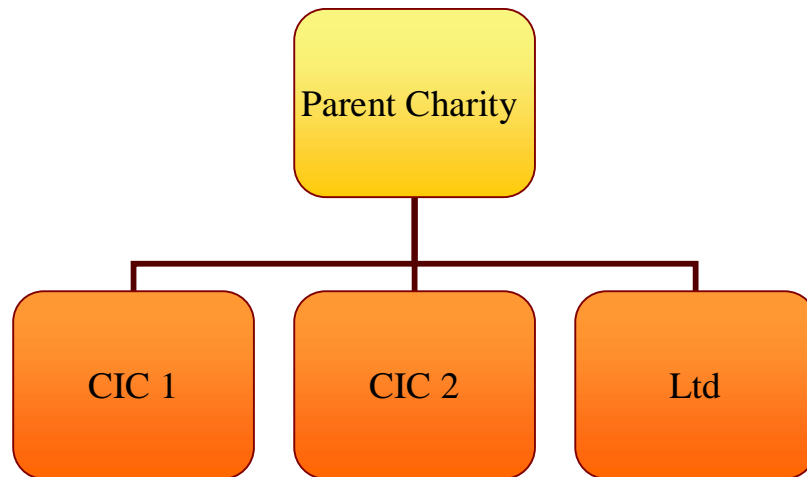
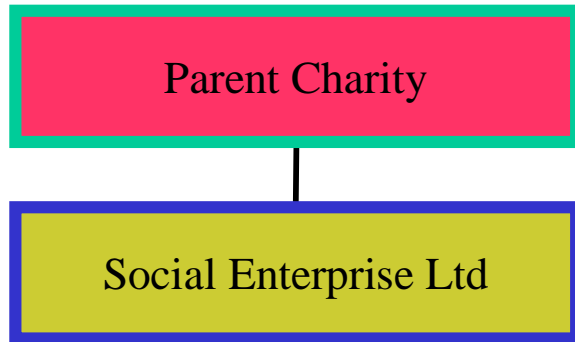
⦿ Disadvantages

- “Owners” sacrifice control
- Tightly constrained activities
- Onerous compliance
- Recruiting effective trustees
- Risk aversion
- Brand

How profits become taxable



Flexible group structures



Investor incentives

⦿ Enterprise Management Incentives (EMI)

- Options over shares
- Trading companies <£30m assets
- Principally a CGT benefit

⦿ Enterprise Investment Scheme/ Venture Capital Trust Scheme

- Unlisted trading companies <£8m assets (<£15m from 6/4/2011 per FA 2011)
- Income tax deduction and CGT relief
- Subject to limits

⦿ Community Investment Tax Relief

- Via CDFI
- Tax relief of 5% of investment

Employee taxes

- ⦿ **New registration at HMRC**
- ⦿ **P11D/ dispensations for expenses**
- ⦿ **Tax status of benefit packages**
 - Child care
 - Flexible holiday
 - Pension arrangements

VAT

- ⦿ **A whole day in itself!**
- ⦿ **Based on transactions (supplies) but can be affected by:**
 - Legal form/ status
 - “Business” objectives/ profit destination
 - Who controls a service – registration etc
- ⦿ **May vary between contracts**
- ⦿ **Commissioners and HMRC usually as confused as delivering organisation**

Conclusion
