

# BARNES ROFFE LLP

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## **BUDGET SEMINAR**

**12 MARCH 2020**



# BARNES ROFFE LLP

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# BUDGET 2020

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## **The Coronavirus Budget**



# Economic Backdrop

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- World economy was slowing down but COVID19 will have a major supply-side impact and reduce consumer demand.
- Govt committed to major infrastructure expenditure, now exacerbated by COVID19.
- Borrowing & deficit projections all worsening due to increased spending and the effect of COVID19.
- OBR growth forecasts yet to be discounted for effects of COVID19.

# Economic Backdrop - Continued

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- Markets falling and BoE emergency interest rate cut to the historic low of 0.25%.
- Brexit timetable for negotiations in doubt.
- However, HMG confident that market disruption will be temporary.



## Growth Forecasts (Now / 2018 / 2017 (2))

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<b>GROWTH</b> 2019 onwards	1.4%, 1.1%, 1.8%, 1.5%, 1.3% 1.4% (2024) Figures before any impact of COVID19
<b>INFLATION</b>	2019/20 ~ 1.4%, rising to 1.8% and at target (2.0%) over remainder of parliament. Figures before any impact of COVID19

## Economic Backdrop (Now / 2018 / 2017 (2))

	Borrowing (£bn)	Net debt as % of GDP	Deficit as % of GDP
2019/20	47.4 / 31.8 / 34.7	79.5 / 82.8 / 86.1	2.1 / 1.4 / 1.6
2020/21	54.8 / 26.7 / 32.8	77.4 / 79.7 / 83.1	2.4 / 1.2 / 1.5
2021/22	66.7 / 23.8 / 30.1	75.0 / 75.7 / 79.3	2.8 / 1.0 / 1.3
2022/23	61.5 / 20.8 / 25.6	75.4 / 75.0 / 79.1	2.5 / 0.9 / 1.1
2023/24	60.2	75.6	2.4
2024/25	57.9	75.2	2.2

# KEY FEATURES

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- Coronavirus mitigation measures a-plenty.
- NHS to get whatever it wants (whether millions or billions of pounds).
- 20% of workforce likely to be sick at a time.
- SSP assistance
- New temporary Coronavirus Business Interruption loan scheme



# KEY FEATURES

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- Increased focus on time to pay arrangements – more HMRC staff to assist.
- Enhancement of R&D relief for larger businesses.
- Reduction in Entrepreneur's relief.
- Increase of £175bn (to £600bn) for infrastructure spending over this parliament.
- £2bn relief on business rates as a response to COVID19.

# KEY FEATURES

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- Doubled HMG investment into flooding & coastal defence programme.
- £12.2bn for affordable housing programme.
- Green initiatives ~ restriction on use of low duty red-diesel and more Carbon Capture facilities.
- Homeworker flat rate deduction increased from £4 pw to £6 pw from April 2020.

# KEY FEATURES

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- Top slicing relief ~ clarification for gains on/after 11/03/20 ~ personal allowance can be re-introduced into the calculation. Wait for legislation ~ this could be very beneficial, or a wet blanket!



# INCOME TAX

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- Single Person's Allowance £12,500 in 2019/20 and 2020/21.
- Higher rate threshold: £37,500 in 2019/20 and 2020/21 (in England).
- Remember that for incomes over £100,000, personal allowance reduced by £1 for each £2 income, until nil.
- Dividend taxes - £2,000 nil band, then 7.5% in basic rate band, 32.5% in higher rate band and 38.1% in additional rate band.

# Income Tax Bands ~ 2019/20 (England)

<i>Income</i>	<i>Normal Rate</i>	<i>Dividend Rate (precise)</i>
£0 - £12,500	0%	0%
£12,501 - £14,500	20%	0%
£14,501 - £50,000	20%	7.5%
£50,001 - £100,000	40%	32.5%
£100,001 - £125,000	60%	48.75%
£125,001 - £150,000	40%	32.5%
>£150,000	45%	38.1%

# Income Tax Bands ~ 2020/21 (England)

<i>Income</i>	<i>Normal Rate</i>	<i>Dividend Rate (precise)</i>
£0 - £12,500	0%	0%
£12,501 - £14,500	20%	0%
£14,501 - £50,000	20%	7.5%
£50,001 - £100,000	40%	32.5%
£100,001 - £125,000	60%	48.75%
£125,001 - £150,000	40%	32.5%
>£150,000	45%	38.1%

# Corporation Tax

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- Main Rate no longer falls from to 17% on 1.4.2020
- Loans to participators charged at 32.5%
- Capital losses for corporates to be limited to 50% relief of b/f losses > £5m from 1<sup>st</sup> April 2020



# IR35

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- 2018 ~ Public sector ~ onus on engager to make deductions
- 2020 ~ Mirrored in private sector, but small business will not need to make deductions.
- “Small” is as defined in CA06 (2 of Employees  $\leq 50$ , turnover  $\leq \pounds 10.2\text{m}$ , BST  $\leq \pounds 5.1\text{m}$ )
- Not small 2 years to be caught
- Complex interactions and definitions



# Research & Development

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## *SME Scheme*

- R & D payable tax credit for loss making company (14.5%)
- Restricted to 3 x PAYE bill (tax, EENIC and ERNIC)
- Deferred to accounting periods commencing on or after 1<sup>st</sup> April 2021 (was 1 April 2020).

# Research & Development

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- Large Company scheme credit increased from 12% to 13%.
- Large Company -  $\geq 500$  employees and either Turnover  $> 100$ m Euros or Gross Assets  $> 86$ m Euros

# Dividends & Extraction

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# Dividends

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- £2,000 dividend NRB for all (DTA)
- Dividend tax rates
  - Basic rate ~ 7.5%
  - Higher rate ~ 32.5%
  - Additional rate ~ 38.1%
  - Marginal rate ~ 48.75%



## Tax Efficiency 2019/20 & 2020/21 (per £1,000)

Corporation Tax Rate		17%
Higher Rate Tax Payer	Salary (42% + ERNIC)	£509.67
	Dividend (32.5% + CT)	£560.25
	Self-employed (42%)	£580.00 Hmm!
Lower Rate Tax Payer	Salary (32% + ERNIC)	£597.54
	Dividend (7.5% + CT)	£767.75
	Self-employed (29%)	£710.00

## Tax Efficiency 2019/20 & 2020/21 (per £1,000)

Corporation Tax Rate		17%
Additional Rate Tax Payer	Salary (47% + ERNIC)	£465.73
	Dividend (38.1% + CT)	£513.77
	Self-employed (47%)	£530.00 Hmm!
Marginal Rate Tax Payer	Salary (62% + ERNIC)	£333.92
	Dividend (48.75% + CT)	£425.38
	Self-employed (62%)	£380.00

# NATIONAL INSURANCE (EMPLOYEES)

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- 2020/21

- 1st £183 per week 0%
- next £779 per week 12%
- thereafter 2%

- 2019/20

- 1st £166 per week 0%
- next £796 per week 12%
- thereafter 2%

# NATIONAL INSURANCE (EMPLOYERS) (CONT)

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2020/21

- charged at 13.8% on “earnings” above £169 per week and nearly all taxable benefits

2019/20

- charged at 13.8% on “earnings” above £166 per week and on nearly all taxable benefits





## National Insurances - Planning

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	2020/21	2019/20
Lower Earnings Limit	£120 pw	£118 pw
Contributions threshold	£183 pw	£166 pw
<i>Significance: Remuneration confers entitlement to state pension for zero NIC cost!!</i>		

# National Insurance

## Other Classes

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	2020/21	2019/20
Class 2	£3.05 pw	£3.00 pw
<i>Class 2 small profits threshold</i>	£6,475 pa	£6,365 pa
Class 3	£15.30 pw	£15.00 pw
Class 4	9% (50,000 – 9,500) 2% x Excess	9% (50,000-8,632) 2% x Excess

# Mr Average ~ Employee

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	<i>2020/21</i>	<i>2019/20</i>
Gross	£50,000	£50,000
Tax	(£7,500)	(£7,500)
NIC (EE's)	(£4,858)	(£4,964)
Net	£37,642	£37,536 Better off by £106

# Mr Average ~ Self Employed

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	<i>2020/21</i>	<i>2017/18</i>
Gross	£50,000	£50,000
Tax	(£7,500)	(£7,500)
Class 2 NIC	(£159)	(£156)
Class 4 NIC	(£3,645)	(£3,723)
Net	£38,696	£38,621 Better off by £75

# FUEL BIKs

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- The bandings in 2020/21 and beyond up to 95g are complex & influenced by “zero emission miles”.
- For diesel cars not meeting “Real Driving Emissions Step 2 (RDE2)” standard, add 4%.
- VEDs for diesels not meeting RDE2 charged a supplement equivalent to moving up one VED band.

# COMPANY CARS

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- Fuel benefit based on £24,500 (up £400) for 2020/21
- 45% taxpayer, highest emission dirty vehicle £4,079.25 tax cost per annum
- Compare with the cost of the fuel!!

# COMPANY VEHICLES

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- FYA @ 100% until March 2025 for zero emission vehicles
- From April 2021 cars with emissions exceeding 50g/km become special rate pool cars

# COMPANY VANS

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- No charge if insignificant private use.
- If private use is unrestricted, for 2020/21 benefit charge is £3,490 (£3,430) with extra £666 (£655) for fuel if appropriate;
- Double cab pick-up is still a van.



# FUEL RATES

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- AMAP rate for tax stays at 45p/mile for first 10,000 miles, 25p thereafter (always 45p for NIC)
- AMAP for tax & NIC 24p Motor-cycles & 20p for cycles
- Assumed unchanged



# Fuel Rates – Company Cars – 1.03.2020

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<b>Engine Size</b>	<b>Petrol</b>	<b>LPG</b>	<b>Diesel</b>
$\leq$ 1400cc (1600 cc for diesel)	12p	8p	9p
To 2000cc	15 14p	10p	11p
$>$ 2000 cc	20p	14p	13p

*Can pay more if justified by cost, unlike AMAP*

# VALUE ADDED TAX

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	<u>NEW</u>	<u>OLD</u>
• Smoking cessation products (OTC)	5%	5%
• Contraceptives	5%	5%
• Advice on welfare of the young, elderly or disabled	5%	5%
• Reduced rate(dom. fuel)	5%	5%
• Energy saving materials	5%	5%
• Feminine Hygiene products	0%	5%
• Child car seats	5%	5%
• Urban regeneration	0/5%	0/5%
• Standard rate	20%	20%
• Registration limit	£85,000	£85,000
• Deregistration limit	£83,000	£83,000

# VALUE ADDED TAX

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- Registration threshold remains at £85,000
- De-registration remains at £83,000
- e-publications to be zero-rated w.e.f. 1/12/2020

# VAT & CIS

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- From 1.10.2020 (was 1.10.2019) reverse charging applies to supplies of construction services (as per CIS) to construction businesses.
- Aim: prevent missing trader fraud.

# Business Tax Measures – Business Rates

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- Retailers, including shops, cafes and restaurants with rateable value less than £51,000 ~ relief of 50% for one year from April 2020 (was 30%) but this now to be 100% for one year in response to COVID19 and expanded to included cinemas and music venues.

# Business Tax Measures – Business Rates

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- Pubs with rateable value less than £100,000 were due one-year £1,000 reduction ~ now increased to £5,000 in response to COVID19.
- 100% business rate relief for standalone public lavatories from April 2020.

# Business Tax Measures – Business Rates

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- For all businesses currently eligible for small business rates relief, a £3,000 cash grant per business.
- Autumn budget fundamental review of business rates.



# Business Tax Measures – Loan Charge

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## *Post Autumn 2019 review:-*

- Only applies to loans made between 9/12/2010 and 5/4/2019
- N/A to loans made pre 2016/17 where proper disclosure
- 3 years to pay

# Business Tax Measures – Loan Charge

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- HMRC will repay certain voluntary restitution payments if agreed after 16<sup>th</sup> March 2016 if in respect of unprotected years pre 9/12/2010 or disclosed usage up to 5/4/2016 where HMRC failed to take action in time.
- Complex – if you think it applies to you, contact us.

# Business Tax Measures – Miscellaneous

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- Employment allowance increased from £3,000 to £4,000 from April 2020.
- EMI Share Schemes review.
- Digital Services Tax ~ 2% on turnover/revenue derived from provision of social media, search engines, online market places for UK users from 1<sup>st</sup> April 2020. Reduced by up to 50% if user is in a country also with a DST.

# Anti-Avoidance

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- More information-powers to HMRC against POTAS.
- Penalties fast-tracked at 100% of POTAS fees.
- Prevention of “Spurious legal challenges disrupting the process of scrutinising promoters”.
- From April 2011 ~ Large business (T/O > £200M) required to notify HMRC when they “take a position that HMRC is likely to challenge”.

# BARNES ROFFE LLP

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**Partner**



# CAPITAL GAINS TAX

<i>Regime From 6.4.20</i>	
Annual Exemption Allowance	£12,300 (£12,000)
Rate for Gains for Basic Rate Payers	Res Prop / carried interest ~ 18% Other ~ 10%
Rate for Higher Rate Payers (and for Trustee/PR's)	Res Prop / carried interest ~ 28% Other ~ 20%
Entrepreneurs Relief on certain Business Gains	10% rate applies on £1m (£10m) (can combine with Investors Relief)
Investors Relief on certain long term unlisted share gains	10% rate applies on £10m (can combine with Entrepreneurs Relief)

# CAPITAL GAINS TAX

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## *Entrepreneurs Relief*

- Reduction of rate of tax to 10% for gains on
  - shares (5% interest) in trading company
  - sale of business or part of a business
  - sale of asset used in a business or personal company
- Lifetime Allowance reduced to £1m (£10m) from 11 March 2020.

# CAPITAL GAINS TAX- Continued

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## *Entrepreneurs Relief*

- For disposal after 5 April 2019- qualifying period is two years
- After 5<sup>th</sup> April 2019, where external investment dilutes shareholder below 5%:-
  - Can elect to be treated as having disposed of and reacquired asset at OMV
  - Can defer payment until actual disposal



# CAPITAL GAINS TAX- Continued

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## *Entrepreneurs Relief*

- Not applicable to trustee disposals, nor associated disposals
- Key issue: What will be basis of valuation?



# CGT – PRIVATE RESIDENCE RELIEF

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- Property owned – has been main residence – let
- Letting relief – lower of
  - main residence relief; or
  - £40,000
- From April 2020 – letting relief applies only for periods when owner occupies with tenant.
- Final period exemption – reduced from 18 months to 9 months from April 2020.

# Inheritance Tax

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- Nil rate band – frozen until 2021 @ £325,000
- Business property relief – no changes – still 100% relief



# Inheritance Tax

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- From April 2017 – new allowance when residence is passed on to direct descendants
  - 2017/18 - £100,000
  - 2018/19 - £125,000
  - 2019/20 - £150,000
  - 2020/21 - £175,000
- Tapered withdrawal for estates above £2m
- New allowance is transferable
- Downsizing - assets of equivalent value are passed to direct descendants

# SDLT ~ (ENGLAND)

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# SDLT ~ Commercial Freehold

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	<i>Slice</i>
0%	To £150,000
2%	Next £100,000
5%	Excess



# SDLT ~ Commercial Leasehold

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	<i>Slice (NPV of Rents)</i>
0%	To £150,000
1%	Next £4,850,000
2%	Excess

# SDLT ~ Banded (Residential Freehold)

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0%	Up to £125,000.
2%	£125,001 - £250,000.
5%	£250,001 - £925,000.
10%	£925,001 - £1,500,000.
12%	> £1,500,000
<b>+2% if non-resident</b>	



# SDLT ~ reclaim

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- Reclaiming higher rate stamp duty on additional dwellings later of:
  - 12 months from selling old house (was 3 months)
  - 12 months from filing date of SDLT return for new home (was 3 months)
- From 2020 SDLT returns to be submitted within 14 days (currently 30 days)

# SDLT ~ Banded (2<sup>nd</sup> Residence)

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3%	£40,000 - £125,000 (on all if >£40,000)
5%	£125,001 - £250,000.
8%	£250,001 - £925,000.
13%	£925,001 - £1,500,000.
15%	> £1,500,000
<b>+2% if non-resident</b>	

# ATED from 1<sup>st</sup> April 2020

<b>Value</b>	<b>Annual Charge 2019/20</b>	<b>Annual Charge 2020/21</b>
£500k - £1m	£3,650	£3,700
£1m - £2m	£7,400	£7,500
£2m - £5m	£24,800	£25,200
£5m - £10m	£57,900	£58,850
£10m - £20m	£116,100	£118,050
> £20m	£232,350	£236,250

# UK Property income of non-resident companies

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- From 2020 – chargeable to corporation tax
- Non resident companies will have to file CT600 online
- IXBRL – does this mean full company accounts to be prepared? – Not necessarily.

# Pensions Relief

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*Unused £40K c/f for 3 years:~*

- 2016/17 (£40K) |
- 2017/18 (£40K) | ↓
- 2018/19 (£40K)
- 2019/20 (£40K) b/f: + (3 x £40K)
- = £160K (up to 05/04/2020)
- 2020/21 (£40K)

# Pensions and Savings

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## Pensions – taper relief

- Additional rate taxpayers (over £150,000) (£240,000 April 2020)
  - From April 2020 Annual Allowance tapered to a minimum of £4,000 (£10,000) when income £312,000 (£210,000)
- Lifetime Allowance increased to £1,073,100 from April 2020
- Protection for pension rights > £1m
- Lump sum paid from pensions if individual dies over age 75 – 45% charge reduced to marginal rate
- **Use available reliefs now if possible!!**

# Pension Planning

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## *Pension Protection – 2 protections*

- **Fixed Protection 2016** (no end date)
  - Fixes your lifetime limit at £1.25m
  - No further contributions
- **Individual Protection 2016** (no end date)
  - Lower of value of pension at 5<sup>th</sup> April 2016 or £1.25m
  - Can make further contributions – but taxed when take pension

# Minimum Wage / Living Wage

<b>Minimum Wage</b>	<b>From 01.04.19</b>	<b>From 01.04.20</b>
>25 (Living wage)	£8.21 / hr	£8.72 / hr
≥ 21	£7.70 / hr	£8.20 / hr
18-20	£6.15 / hr	£6.45 / hr
School to 18	£4.35 / hr	£4.55 / hr
Apprentices < 19 or in first year	£3.9 / hr	£4.15 / hr



# Air Passenger Duty (England)

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- From 1<sup>st</sup> April 2020
- < 2,000 miles, £13 (lower), £26 (standard), £78 (higher).
- >2,000 miles, £80 (lower), £176 (standard), £528 (higher).
- From 1<sup>st</sup> April 2019
- < 2,000 miles, £13 (lower), £26 (standard), £78 (higher)
- >2,000 miles, £78 (lower), £172 (standard), £515 (higher).

# MISCELLANEOUS - LANDFILL TAXES

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- Standard Rate rises from £91.35 per tonne to £94.15 per tonne from 01.04.20 & £96.70 in 2021.
- Inactive waste rate rises from £2.90 per tonne to £3.00 per tonne from 01.04.20 & £3.10 in 2021.
- New Plastic packaging tax of £200 per tonne with effect from April 2022, where packaging contains less than 30% recycled plastic.

# OTHER DUTIES

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- Fuel, wine, beer & spirits ~ duties frozen
- Tobacco: RPI + 2%. (RPI + 6% for hand-rolling tobacco).

# Enterprise Management Incentive Scheme (EMI)

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- Employee share scheme
- Up to £250,000 of options to eligible employees.
- Qualify for Entrepreneurs Relief
  - Qualifying period from date option granted
- 2020 Budget
  - Review to be carried out
  - Provides support for high growth companies
  - Should more companies be able to access the scheme?

# Structures and Buildings Allowance

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- Annual allowance increased from 2% to 3%
- Buildings newly constructed or renovated after 29 October 2018.
- Non residential buildings only.



# Coronavirus

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- Statutory Sick Pay
- Payable from first day of sickness or told to self-isolate.
- Self-isolation notification via NHS111
- Self employed
  - not entitled to SSP
  - new style Employment and Support allowance payable from first day sickness (or isolation)

# Coronavirus

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- Universal Credit – advances to be paid without attending a job centre.
- Government will refund 100% of Coronavirus related SSP paid by SME's (<250 employees 28/02/20)



# Coronavirus

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- Coronavirus Business Interruption Loan Scheme
- Temporary loan scheme – British Business Bank
- For SME's
- Government guarantee 80% of loan
- No charge for the guarantee
- Loans up to £1.2m



# Coronavirus

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- HMRC time to pay
- COVID-19 time to pay helpline
- Bespoke arrangements if difficulty due to COVID-19.



# Stamp Duty (SD)

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- Transfer of shares to Connected person
- SD charge now based on higher of consideration received or market value of shares transferred

# Stamp Duty (SD)

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- Example

Set up company (1) with 99,999 shares of £0.001 nominal value.

Cost of shares £99.99.

Transfer shares in company (2) worth £1m in exchange for 1 share in company (1).

Previously SD based on  $1/100,000 \times £1m$

Now SD based on £1m

# CGT on Residential Property

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- Return to be made to HMRC and payment of tax 30 days after completion.
- No penalties if reasonable estimates used.
- Final reporting in annual tax return.



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## TOP 10 TAX TIPS – POST BUDGET

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# Top Ten Tips 2020

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# (10) Commercial Property to LLP

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- Trading company (or even *investment company*) transfers property to LLP (or cash for property investment) which has company & its shareholders as members to secure future capital growth taxed at 20%
- If left, combined tax is **up to 49.81%**.
- Suits properties liable to increase in value sharply!
- Only for property that will be sold!

# (9) Trade Incorporations

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- Gift business to a company
- Sell the goodwill
- 20% CGT if proceeds left on loan account
- 10% CGT on non- goodwill assets like real property (subject to ER Entitlement)
- Draw loan over time at no further tax



# (8) EIS /SEIS Planning

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- Withdraw company profits via dividend (additional rate tax at 38.1% in 2017/18, higher rate 32.5%).
- Invest in EIS, with 30% income tax relief.
- Hold for three years.
- Disposal after that time is CGT free.
- Income tax charged on profit extraction is effectively eliminated, subject to performance of investment.
- 50% of a capital gain can be washed out via an SEIS investment in the year of gain or the following year so that, at 86.5% relief, this scheme is attractive and set to be so for the foreseeable future.
- *(Max holding 30% in a Co., £100K PA, Co. size limit £200K)*

# (7) Timing of Capital Additions

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- AIA reduces from £1m to £200,000 on 1.01.2021
- Periods straddling this date will have a composite allowance
- E.G. ~y/e 30<sup>th</sup> September ~ AIA limit in y/e 30/09/2021 will be 25% of £1,000,000 plus 75% of £200,000 ~ i.e £500,000.
- A £500,000 purchase on 1<sup>st</sup> January 2021 will attract AIA only up to £200,000.
- A £500,000 purchase on 31<sup>st</sup> December 2020 will attract AIA on whole amount
- Consider accelerating additions.

# (6) Property Business & Incorporation

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- Consider paying down residential based debt / diversification
- Incorporating a property business in exchange for shares so that a deemed gain becomes rolled up in the shares whilst company has property at market value base cost.
- SDLT mitigation possible in most cases.
- Disposal at this level by the company will avoid corporation tax on capital gains.
- NB ~ must be a property business, not a mere property.

# (5) Dividend Planning

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- **A non equity share to child of majority to fund university fees?**
- Exclude self/spouse from benefit to avoid being taxed on distributions under settlements legislation. Do not stand as overdraft / rent guarantor.
- **A non equity share to grandchildren's trust?**
- Utilises grandchildren's own personal allowances and dividend tax allowances.

# (4) Research and Development Expenditure

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- Relief is very generous ~ SME 230% and larger companies 130%, with 14.5% “above the line” credit available for smaller companies.
- Eligible expenditure ~ staff costs and computer software or consumable items, plus pro-rated associated and support costs.
- Related to a trade carried on or from which a trade will be derived.
- HMRC seem keen to agree claims, but not mad keen!!

## (3) EMI or CSOP Schemes

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- CSOP Scheme has most benefits of EMI on lower holdings (£30,000) but with no bad trades.
- For EMIs Under entrepreneurs relief the 5% holding and one year ownership requirements made the scheme useless for small-scale sale-only triggered options.
- With both conditions now relaxed for EMI's (no % limit and time running from grant), and with options up to £250,000 valued permitted, for eligible trading companies this is the way of giving tax efficient incentives.

## (2) CGT & Entrepreneurs Relief

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- Now lifetime limit is £1m per individual
- Consider utilising lifetime limit of spouse/other family members.

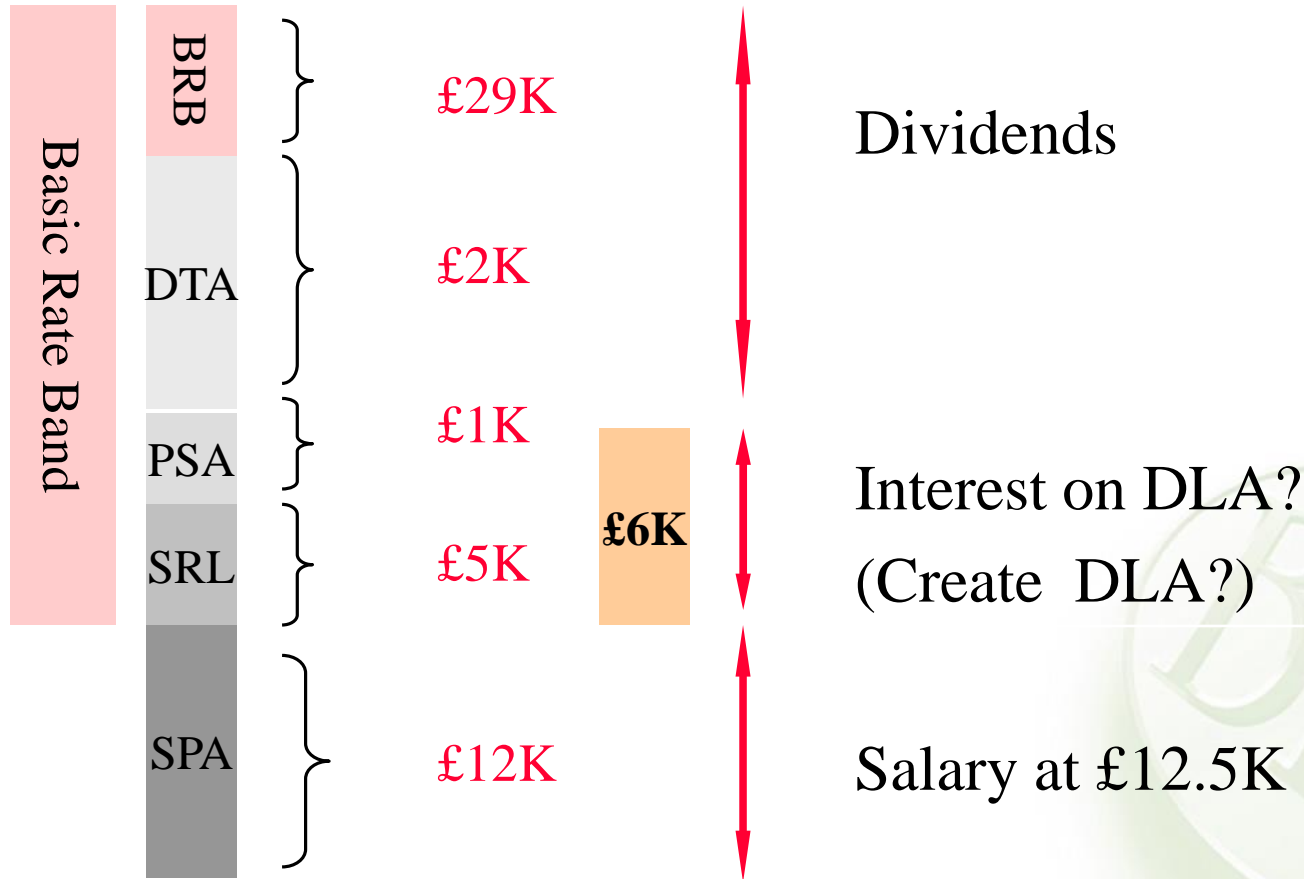
# (1) Maximise Use of Basic Tax Allowances

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- Basic rate band for income tax;
- Spouse's basic rate band for income tax (See also dividends);
- Use CGT annual exemptions – annually!
- Use ISA limits – annually!
- Review available pension contributions.



# (1) Optimise Personal Allowances



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## BUDGET SEMINAR

**12 MARCH 2020**

