

# Hawsons Wealth Management



## Getting returns without destroying relief...



**If you have surplus cash within your business that is just sat in the bank, the rates of return available to you at the present time will be disappointing to say the least.**

Currently, based on market research, a well-known building society will give you 0.75% for a 12 month fixed term business savings account. When inflation is at 3.1% (November 2017) that gives you a real rate of return of -2.35%. In addition to this the Bank of England's base rate remains at 0.5% - it is clear that low interest rates will continue.

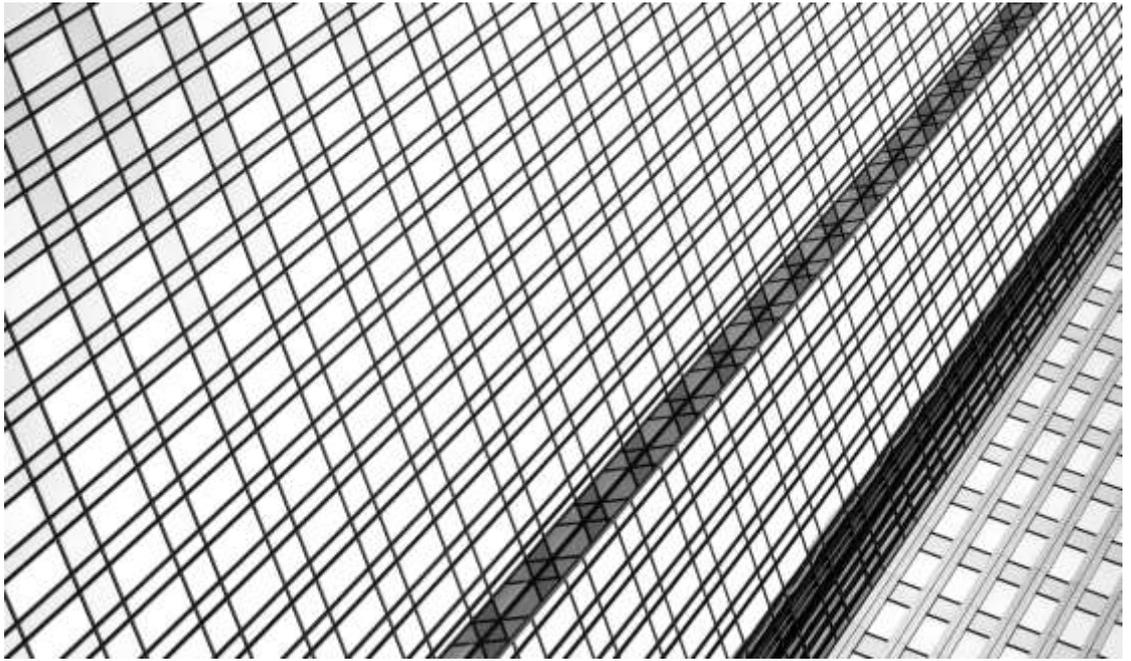
As an individual, if you have surplus savings, you can enjoy investing in alternative areas. Dependent upon your attitude to risk this could be a mix of stocks and shares, Bonds & Gilts (fixed interest), commodities, alternatives. This gives you the potential for a greater return than standard deposits. Businesses can also do this!

As always, there are rules, especially if you wish to retain that all important 'entrepreneurs relief'.

### So what is entrepreneur's relief?

To qualify for entrepreneur's relief, the shareholder must have at least 5% interest in a trading company or the holding company of a trading group. The holding must be at least 5% of the ordinary shares and give entitlement to at least 5% of the votes. The individual must also be a director or employee of a group company. The conditions must be met for at least 12 months leading up to the sale.

To be a trading company a company must carry on trading activities and must not carry on non-trading activities to a substantial extent (which HMRC consider to be more than 20%) and there are 4 main indicators that should be considered in the round;



**1. Income** – what is the percentage of income from non-trading activities, such as the investment, when compared to the total income of the company?

**2. Asset base** – what percentage of the company's asset base is represented by non-trading assets?

**3. Management** – the time spent and expenses incurred on managing non-trading activities.

**4. Company history** – does the company have a history of being a trading company?

HMRC provides additional guidance on entrepreneur's relief this on the following page; <http://www.hmrc.gov.uk/manuals/cgmanual/cg64090.htm>

#### Another consideration is inheritance tax

Trading status is important for inheritance tax and currently shares in unquoted companies receive 100% relief from inheritance tax unless the company is wholly or mainly an investment company. Investments, including surplus cash may be considered 'excepted assets' and not eligible for the relief.

Your financial adviser & accountant will be able to assist you in finding the right place for your company's surplus cash, without putting valuable tax reliefs at risk, so it is essential that you take advice before making any investment. Please remember, past performance is no guide to the future, investments can go down as well as up!

