The owner-managed business

Large Corporate OMB Tax voice

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The current environment for owner-managed businesses is getting more and more uncertain. Old certainties, such as a company is more tax efficient than a partnership, are being eroded. Worse than this, things that we used to consider as sensible tax planning and completely inoffensive are now being referred to by HMRC and the public at large as being aggressive tax avoidance, incorporation of a business to take advantage of a favourable tax regime, being the simplest example.

So what are the drivers behind this? Fundamentally, of course, the answer is money. The root of the problem is that we have been through one of the worst recessions in living memory and the government needs money. At a time when we are supposed to be "all in it together", the press has been assiduous in pointing out examples of people not paying the right amount of tax, whatever that may be. This then makes it politically expedient, or possibly politically essential for the government to be seen to be doing something about tax avoidance.

Unfortunately, however much some people might dislike it, while the wealthy are often perceived as avoiding taxes, the amount of tax that a relatively small number of wealthy people could possibly be required to pay is trivial compared to the amounts that the government actually needs. To raise material amounts of money for the Exchequer requires a greater tax burden on the greater portion of the working population, which means tax rises of some sort, whether this is by way of increasing rates, which is unpopular (and now unlawful), or otherwise widening the tax base. And that is what is happening, particularly to the self-employed and small companies. As noted, since Parliament has passed a law saying that there will be no rate increases in the major taxes, the Exchequer has been imaginative in extending the scope of tax in a number of areas. For example, we have the increased rate of tax on dividends, and a matching increase in the rate of tax on loans to participators. Further attacks on corporate businesses include strengthening the transactions in securities rule and on reductions of capital, making it more difficult for people to take out of a company the funds they originally put in when the company was set up, something that I feel is particularly unfair.

I could go on forever on this theme, and perhaps I will in future articles. For the moment, however, I think it is fair to say that the owner-managed businesses face a number of tax related challenges over the next few years and I suspect it will be a long time before the economy is sufficiently robust for some of this tightening of the tax rules to be loosened.