Be Smart – Save 28% on Your UK Tax Bill

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Businesses should be aware that new anti-avoidance tax rules will take effect **6 April 2016** which will have a negative impact on ***members' voluntary liquidations ("MVLs")***.

The new rules are part of a crackdown by Revenue and Customs to avoid 'income-into- capital' tax planning. This is probably in part due to the higher dividend tax rates coming into force in April this year which will further increase the incentive for returns to be taxed as capital rather than income.

Under the current rules, distributions in MVLs are taxed as capital gains (rather than income), which has lower rates and specific exemptions. However, with effect from 6 April 2016, certain MVL distributions will be taxed as income and to really stick the boot in, the tax rate on income distributions will increase by an effective 7.5%. The cumulative effect of an MVL distribution being taxed as income and the rise in the tax rate will be to increase the tax levied up to a staggering 28%.

From 6 April 2016, MVL proceeds will be treated as income distributions if certain conditions are met. A major concern for entrepreneurs is that if a company is placed into MVL and its shareholders either carry on the trade or a similar activity within 2 years of the MVL, the distributions will be treated as dividends. It appears that the aim of the Revenue is to target 'phoenixism', where a company is liquidated and a new company set up to replace it. Whilst phoenixes in certain situations have a negative connotation, in an MVL (where all creditors are paid in full) they are normally a perfectly sensible and proper corporate simplification tool. Thus the measures have been accused of being 'anti-business', may well have unintended consequences and hit individuals like property developers and other entrepreneurs where it really hurts – their bank balance.

It is expected that as a result of the impending changes, the number of MVLs will increase exponentially in the coming couple of months before the new rules come into force. If you are in a position that is likely to be affected, now is the time to act – unless of course, you want to pay more in tax!

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