

## Technology Companies – The Tax Agenda

In the early stages of development of a technology business tax is not always seen as important. This is largely understandable at a time when concentration on commercial factors is so crucial. Nevertheless taking control of tax may add considerable value to the business and reduce the risks of unpleasant surprises.

### Why is tax important?

- At a time when cash flow is crucial, businesses do not want to incur tax costs which are greater than the resources concerned.
- Some tax planning opportunities are only available at certain times in a Company's development. It is important that such opportunities are not missed.
- It is not uncommon for tax issues to delay or stop planned trade sales or floatations.

### What should be considered?

At James Cowper we advise many technology companies and their shareholders on tax matters. Our clients have found it useful to consider tax planning in the following three categories:

- Tax planning for the founders
- Employee reward
- Corporate taxes

### Tax planning for the founders

(a) *On exit:* Many technology entrepreneurs are building their businesses with a view to exiting in a number of years by either trade sale or floatation. Even if this is not the case, others admit that they may be tempted to sell if the right offer came along.

Many business owners are now aware that it is possible to sell their company after 2 years and pay only 10% capital gains tax (CGT). The headlines however hide the fact that qualifying for the 10% tax is not always straightforward. You therefore need to

- Ensure your company does not own assets which prevent the 10% rate from applying and
- Avoid traps which convert CGT into income tax where rates of 40% are likely to be payable.

The use of statutory tax incentive schemes such as Enterprise Investment Scheme (EIS), should also be considered.

(b) *Remuneration planning:* Good tax planning will also enable cash to be extracted from the business in the most tax efficient manner. Examples include:

- Consider dividends or salaries
- Pension planning
- The use of share options
- Tax relief for interest on any borrowed funds.

### Employee rewards

Technology companies can find it difficult to recruit and retain the best people. Employee share option schemes, especially Enterprise Management Incentives (EMI) and other alternative remuneration strategies have, to some extent become the industry norm. Many of these schemes have tax implications that need to be considered carefully.

Other issues include:

- How best do I provide a pension to employees?
- Should I be providing company cars?

## Corporate taxes

(a) *UK corporation tax*: Even at the early stages there are a number of important things to consider, for example:

- Maximising relief for losses at the early stages of the business
- Possibility of getting a tax refund for research and development expenditure (see separate help sheets)
- Enhanced capital allowances for small businesses
- Tax relief for software costs/web-site development costs etc
- Interaction between tax and accounting standards
- Deductibility of interest payments
- Intellectual Property Rights planning

(b) *UK Vat issues*: including:

- Do I need to register?
- What if I import/export?
- Effect of EU legislation

(c) *International issues*: Either if you trade abroad and/or expand operations abroad

## Help?

At James Cowper we have an efficient and cost-effective approach to helping technology companies and their shareholders with all their tax planning requirements. A member of our tax team would be happy to discuss any of the above matters with you. If you would like their help then please do not hesitate to give us a call.

For further information about James Cowper and how we may be able to assist you, visit [www.jamescowper.co.uk](http://www.jamescowper.co.uk)

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