BLACKFINCH
INVESTMENTS

Facing Change with the Blackfinch Corporate Management Service

Dominique Butters
Executive Business
Development Manager

If recent years have taught us anything, it's that change is inevitable. That can be seen in everything from the coronavirus pandemic, to continued political upheavals, to developments in financial services. Our challenge is to be ready to meet clients' requirements and deliver solutions to address their ever-changing needs.

This is applicable to the constantly shifting tax-efficient investment landscape. One aspect, not widely reported, is that lots of businesses, that think they're a qualifying trading company, aren't. This is in relation to Business Relief (BR) and Business Asset Disposal Relief (BADR), formerly known as Entrepreneurs' Relief.

Please note:

Benefits of tax-efficient investments are subject to change and personal circumstances.

The Trouble with too much Cash...

We know that company directors hold surplus cash or retain profits within their firms, especially to counteract times of economic hardship. This can lead to a large cash float that often keeps building. The problem is that this can cause issues with the ability to use benefit from BR and BADR.

- Too much cash could be classed as an excepted asset so BR may no longer be applicable on that surplus cash
- If most of the assets are held in cash/other investments there's a risk that the whole company will no longer qualify for BR
- If the firm is deemed an investment company, when it's sold/liquidated the directors may not even be entitled to BADR

A Potential Tax-Efficient Solution

So, what if you could offer your clients a solution? Well, one option could be for directors to withdraw the surplus profits in the form of an extra dividend. We have seen this approach taken previously, using the reliefs available through the Enterprise Investment Scheme and Venture Capital Trusts.

However, what about situations where there's a complicated share structure and the directors don't wish to extract the profits? Or is there perhaps a future need for that capital within the business?

The simplest way in which firms can look to ensure that they qualify for these reliefs is to get the surplus cash working for them in a qualifying trading activity. Blackfinch's Corporate Management Service (CMS) is designed to give firms the opportunity to use excess cash as a trade within a lending business.

Benefits of a Lending Business

In order to qualify as a trade, the loans must be short term in nature (less than three years) with the expectation of them being re-cycled over time. By continuing to use this cash in other trades, the service could potentially help with the following.

This is assuming that the firm will still be a trading and BR-qualifying company at the time of sale or death:

- Making money work harder for management: Discrete target returns (with no upper limit and net of fees) are 4-6% p.a. Blackfinch takes an annual management charge of 0.5% +VAT but only takes this after the target return has been achieved.
- Having penalty free access to cash: This is a major advantage in cases where premises come up for sale, a great business opportunity arises, or if the firm hits troubled times
- Achieving up to 100% Inheritance Tax (IHT) relief: IHT can now be potentially mitigated as the surplus is being used in a trade rather than sat as idle cash
- Not endangering trading status: Trading activity is taking place alongside the main business, to try and maximise the likelihood of HMRC granting BADR at 10% on sale

If you know clients or companies in this situation, get in touch. This is also well worth sharing with your professional connections, especially accountants. They'd likely be delighted to have this as a talking point with their clients.

A bespoke tax-efficient solution for businesses.

If you would like to find out more about our CMS solutions and how we can support your work with clients, please call us on **01452 717070**, email **enquiries@blackfinch.com** or visit **www.blackfinch.com**.