Tax issues of acquiring quality and antique assets

Contractors considering making company purchases of high quality assets likely to appreciate in value, such as antiques, may find it more tax efficient to make the purchase personally.

“Contractors can acquire virtually any kind of asset for their limited companies, and this includes high quality items likely to maintain or gain value, such as antique items,” explains **James Abbott**, founder and head of tax at contractor accountant **Abbott Moore**.

“However, if a high quality, antique asset such as a clock, furniture or a car is likely to maintain or appreciate in value over time, for a typical contractor it may be more tax efficient to acquire the asset personally.”

Annual Investment Allowances for qualifying capital assets

According to Abbott, every business has what is known as an Annual Investment Allowance (AIA) of up to £250,000 each year: “If a business is considering buying something that lasts a long time, such as a computer, then rather than put it into the profit and loss account (P&L) as an expense all in one year, the contractor’s accountant will spread the cost over, say, three years.”

“A contractor’s company could buy qualifying assets up to the AIA limit each year and the tax treatment of those assets is to set the entire cost against corporation tax during that tax year.”

This gains the contractor ‘instant’ tax relief, rather than spreading the capital cost over several tax years. The contractor’s accountant would continue to depreciate the asset over several years in the company’s P&L.

Antique and other assets can qualify under AIA

“To qualify for tax allowances under AIA, the asset has to be used in the company’s trade. So a contractor buying, for example, an antique clock would have to make a business case for its acquisition and corporation tax relief,” highlights Abbott.

“It would reinforce the argument if the contractor had a home or other office and regularly invited clients to meetings. They may expect to be invited into a pleasant environment and high quality furnishings and decorations would be a legitimate expense.”

HMRC could challenge an antique clock’s or furniture’s eligibility, but if visitors come to their home office, a contractor could justify the purchase and gain full corporation tax relief for the asset, and enjoy their new antique clock ticking away on the office mantelpiece.

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AIA tax relief sounds great, so what’s the catch?

“Putting the antique through as a capital allowance and getting tax relief for the cost of the item sounds great,” notes Abbott. “But it is unlikely to lose any value during ownership by the company. This is where the company purchase argument starts to fall down.

“If you look at what would happen if the antique clock was a personal purchase by the company director, then the company route starts to look less attractive from a tax perspective.”

Firstly, in the case of an asset like an antique clock, because to the taxman it has a mechanical life of less than 50 years, any gain made when the contractor sells the clock is free from capital gains tax. So, any profits on the private sale of the clock would be tax free.

Contractor limited companies may not last long

Of course, the contractor may have no intention of selling the clock for short-term profit, and plan to keep it in the company. “That’s fine, but on balance most contractor limited companies do not trade for very long,” warns Abbott.

“Many contractors dip in and out of contracting, and shut down the limited company during periods of permanent employment. There is a risk that the company will have to sell the high value asset to its contractor director/shareholder if it ceases to exist.”

It may be possible for the company to make a profit on the sale of the antique to the contractor director, but then the company would have additional profit it needs to pass onto the contractor tax efficiently, charged at 20% corporation tax.

“If the gain is within the company, then the contractor will need to pay some personal tax on the gain,” says Abbott. “This could be 10% entrepreneur’s relief tax, but depending on the contractor's circumstances, it could also be a 25% or 37.5% income tax charge.

It would not be expected that an antique asset like a clock would fall in value, and if owned personally a contractor could potentially avoid paying any tax on profit altogether, which would not be the case when the company sells the antique.

VAT implications

Although most contractors operate the **VAT flat rate scheme**, it is still possible to claim back the VAT in full for any capital purchases of goods costing over £2,000. However, because of the VAT rules affecting classic car and antique dealers, the contractor is unlikely to be able to reclaim the VAT costs on the purchase.

Abbott explains: "Most car and antique dealers only pay VAT on the margin they make. If, for example, an antique dealer buys a secondhand clock for £700, they pay no VAT. But when selling it on, they have to include VAT in the price.

"Fortunately, HMRC allows that VAT is only charged on the margin. Say the clock was then sold for £1,500, then the dealer would pay VAT on the £800 margin but does not provide a VAT invoice to the customer. As a result, the contractor is unlikely to be able to reclaim the VAT."

James Abbott

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James Abbott is the owner of Abbott Moore LLP and often speaks on freelancer / contractor tax matters. He has his own growing portfolio of contractor clients.

Abbott Moore LLP are PCG Accredited Accountants and specialise in providing tax advice to freelancers as well as dealing with their year end accounts and tax returns. **Read Full Profile...**

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"Each individual case should be examined on its merits, as with any major financial decision," says Abbott. "However, on balance, unless securing tax relief early is really important, because of the risk of challenge by HMRC, the complications of extracting profits tax efficiently and the VAT complications, it tends to be simpler and more tax efficient in the long run to hold the antique in the contractor's own name."

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