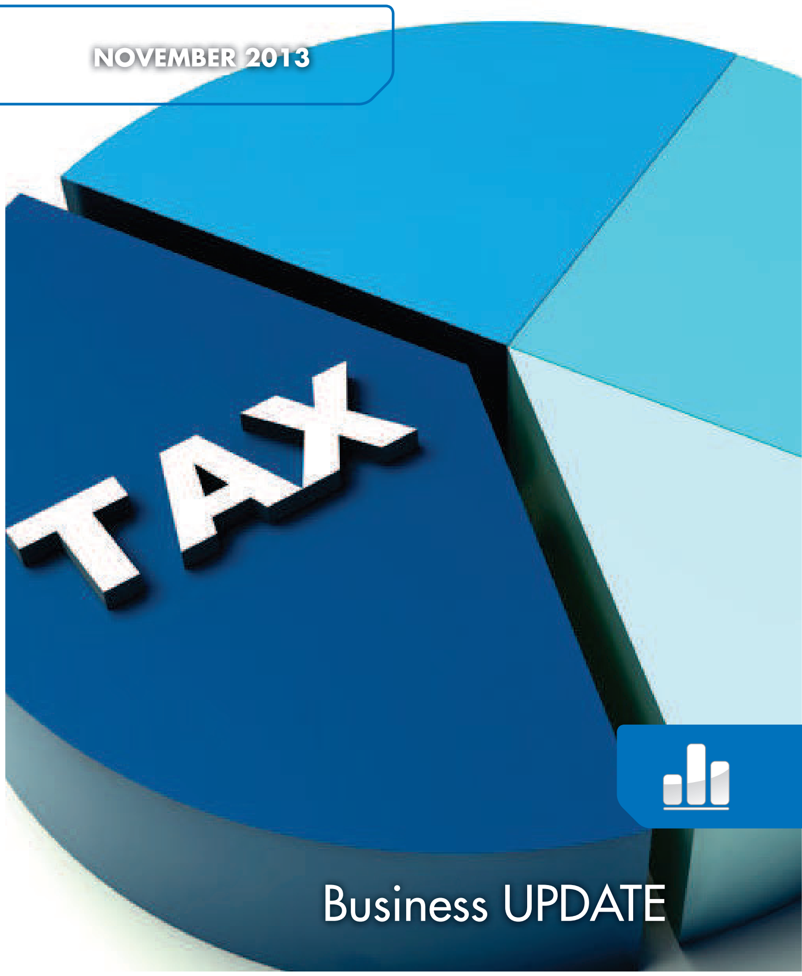
lowson ward
SPECIALIST ACCOUNTING SERVICES



Reducing company tax liability

This guide is intended to help you with your 2013/14 company tax planning

Managing a company always presents challenges, whatever the economic climate. Currently, a seemingly recovering economy offers opportunity to some business owners whilst remaining challenging for many. While some corporate balance sheets are awash with cash, many small and medium sized businesses - including high street retailers - are finding cash flow a challenge, even some of those benefiting from a growing market share.

Don't let tax be another problem this year. Stay ahead of developments and make sure you seek our professional advice. Here are some of the issues directors and company owners should know about tax in this financial year.

Corporation tax rates and bands

	Financial year ended	
Taxable profits	31/04/14 (%)	31/04/13 (%)
First £300,000	20	20
Next £1,200,000	23.75	25
Over £1,500,000	23	24

Corporation tax payment dates

- Small and medium companies - nine months and one day after the end of the accounting period
- Large companies - four quarterly instalments commencing 6.5 months into the accounting period.

Don't miss out on deferred tax opportunities. Planning for the year ahead could benefit your company.

HMRC visits

HMRC has the power to request any business documents that it considers necessary in order to check your tax position. It also has the right to visit business premises without giving advance warning. Businesses selected for a tax check are selected by risk category and the entire system requires only that taxpayers (including businesses) take reasonable care over their tax responsibilities. This includes notifying HMRC when they are liable to tax.

It is important that your company is able to satisfy the taxman if he does turn up on your doorstep. Please ensure that your firm's documentation for the last six years can be correctly and promptly produced so that HMRC visits aren't more uncomfortable than they need to be.

Research and development (R&D)

R&D rules offer tax opportunities for SMEs. R&D expenditure carries a substantial 225 per cent deduction against profits. Furthermore, if your business is not making a profit, there is a tax credit system which allows the company to relieve the lower of the R&D expenditure or the trading loss, in exchange for a cash sum. There is a great deal of flexibility regarding what can be claimed for. Please seek our advice if you are incurring R&D costs.

292 Wake Green Road
Birmingham B13 9QP West Midlands
0121 777 5632 contracting@lowsonward.com

www.lowsonward.com

Reducing company tax liability

Pensions

Pension contributions offer tax savings, including reduced national insurance contributions (NICs) for both the employee and the employer. Some employees and employers agree to a 'salary sacrifice', where a portion of salary is exchanged for a pension contribution by the employer. However, where the employer and employee's annual contributions exceed £50,000, the employee may be subject to an annual allowance tax charge. An individual may carry forward any of the annual allowance that they have not used in the previous three years.

Entrepreneurs' relief

Entrepreneurs' relief is in its third year with the lower 10 per cent rate on the first £10 million of business asset disposals still in effect, giving rise to a maximum reduction of £1,800,000. This is a lifetime allowance that reduces the tax charge on the gain for owners of limited companies on the disposal of shares and securities in a company. However, conditions do apply so please ask for further advice.

Company cars

The tax treatment of cars in a company is a complex picture, as recent changes have affected both the capital allowances that the company can claim on the purchase of a car and the benefit in kind that employees will pay tax on (and the company will pay NICs on). The general aim of these changes is to encourage both companies and employees to choose more fuel efficient vehicles, by linking both taxes to the official emissions rating of the car. Choosing a fuel efficient car can benefit both the employee and the business, with the lowest emission cars attracting 100 per cent tax relief on purchase and carrying a benefit in kind as low as 0 per cent.

'Green' capital allowances

It's not just some cars that are eligible for 100 per cent first year capital allowances. Any investment in approved environmentally friendly or energy saving equipment also qualifies for 100 per cent relief.

Capital allowances

For the entrepreneur, getting the maximum in capital allowances for your business is an important part of minimising the net cost of the investment. The Annual Investment Allowance (AIA) is 100 per cent for the first £250,000 of expenditure on most types of plant and machinery. The writing down allowance on unrelieved expenditure brought forward is 18 per cent. A rate of only eight per cent is available for expenditure on 'integral features'. As the £250,000 AIA limit is only available from 1 January 2013 to 31 December 2014, timing of expenditure can significantly affect the amount of AIA the business can claim.

Owner-director income

Consider how much you might save if, as an owner-director, you wanted to extract the £10,000 profit your company makes in 2013/14 by way of a dividend rather than a bonus. The following example assumes that you are paying higher rate tax, so your earnings exceed the so called 'upper limit' for NICs. There are many matters to be considered when deciding whether directors should be paid by dividend or salary/bonus. In practice, a combination of each is usually an appropriate course.

Remember that dividends are usually payable to all shareholders. If you have external shareholders who are not involved in the day-to-day running of the company you will need to consider your dividend strategy carefully. Although it is possible for shareholders to waive their entitlement to dividends, this can result in tax complications. A better option may be to have different classes of shares, on which different rates of dividend can be paid. However, if this technique is used as part of a scheme to avoid tax or NICs for employees it may result in an even higher tax liability. You may also need to consider the effect that regular payment of dividends will have on the valuation of shares in your company.

Case Study - higher rate tax payer

This example is based on a higher rate tax payer paying tax at 40 per cent.

Bonus or dividend?	Bonus (£)	Dividend (£)
Profit to extract	10,000	10,000
Employer's NIC	-1,213	0
Gross bonus	8,787	0
Corporation tax @ 20%	0	2,000
Dividend	0	8,000
Employee's NIC	-176	0
Income tax @ 40%	-3,515	0
Additional tax	0	-2,000
Net amount extracted	£5,096	£6,000

In this case declaring a dividend increases the net by £904, or by more than 15 per cent. For a 45 per cent tax payer the saving is marginally lower at £900.