Top ten tax tips for privately-owned companies

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Privately-owned companies of all sizes have the opportunity to manage their tax affairs effectively for both the company and the shareholders. Here are our top ten tips and considerations.

1. Make use of tax free dividends

Dividends are paid out of post-tax profits of the company and are therefore not deductible for corporation tax purposes. However, they are not subject to employer or employee National Insurance Contributions ("NICs") and despite the income tax rates on dividends increasing over recent years, they are still taxed at a lower rate than salary.

There is an annual dividend allowance (currently £5,000) which means a shareholder can earn dividend income tax-free, although this allowance will reduce to £2,000 a year from the 18/19 tax year. Whilst shareholders should aim to utilise the tax free dividend allowance, it is important to consider the timing of larger dividend declarations, as it may be beneficial to defer the dividends until a future tax year if the higher or additional rate tax thresholds have been reached in the current tax year.

Deferring a dividend until the start of a new tax year can also defer the tax payment date by a year!

2. Bonuses are not all bad

Bonuses and salaries are deductible for corporation tax purposes, although these are subject to employers and employees NICs. Directors may wish to consider accelerating the payment of bonuses to staff so that they fall within the current accounting period and secure an earlier tax deduction.

Care must be taken to ensure that the bonus is due and payable before the year end so it can be accrued for in the accounts. The bonus must also be actually paid within nine months of the year end in order to obtain a corporation tax deduction. If the bonus is not paid by that date, the corporation tax deduction will be deferred until the bonus is paid.

3. Remember your pension

Pension contributions are frequently overlooked as a tax efficient way to remunerate employees. A company which pays a pension contribution directly to an employee's pension fund will be able to claim a corporation tax deduction for the amount and the employee is not taxed on the amount, nor is the contribution subject to employers or employees NICs. In order for the payment to be deductible for corporation tax purposes, it must be paid before the end of the accounting period, otherwise the tax deduction is deferred until the payment is made.

A company may wish to increase or accelerate pension contributions to maximise the corporation tax relief in a given period, but should be aware that there are limits on the amount each individual can have added to their pension pot each year without triggering a tax charge. The amount is currently £40,000 p.a. but this is reduced if the employee earns over £150,000 p.a.

When very large pension contributions are made by a company, the corporation tax relief may also be spread over a number of years. Broadly this may apply where the contribution is more

than 210% of the prior year contribution and the excess is more than £500,000.

4. Consider the personal savings allowance

In April 2016, the Government introduced the 'Personal Savings Allowance', meaning basic rate taxpayers are able to earn up to £1,000 in savings income (such as interest on bank accounts) before paying income tax on this income. The allowance is reduced to £500 for higher rate taxpayers (and abolished altogether for additional rate tax payers) but should not be overlooked. If a company has a requirement to borrow (such as to fund working capital or acquire a business asset), it may look to the shareholders for a loan, rather than approaching a bank.

Provided the interest paid on the loan is not unreasonable it would be deductible for corporation tax purposes and provided the shareholder had the allowance available, there would be no income tax on the receipt.

5. Making use of the annual investment allowance ("AIA")

The AIA provides a 100% tax deduction for qualifying capital expenditure in the year it is incurred. It is designed to support businesses with the cost of capital expenditure by matching the tax relief to the year in which the expenditure is incurred, rather than spreading the tax relief over the life of the asset. The allowance is currently set at £200,000 a year, expenditure over this amount needs to be 'pooled' for tax purposes, and only 18% or 8% is then tax deductible each year as a capital allowance.

Where a business is planning a large capital spend which is likely to exceed £200,000, it is worth seeing if the project can be planned to span the company year-end in order to access two years' worth of AIA. Where a business has unused AIA they may look to accelerate capital expenditure in order to accelerate the tax relief.

6. Maximise your losses

If a business is unlucky enough to make a loss in a financial year it may be able to access an immediate tax refund. Many businesses simply carry a loss forward for use in future periods, but if the company was tax paying in the previous year then carrying the loss back could trigger an immediate tax refund. Not only does this provide a cash flow benefit to the business, but with UK corporation tax rates falling, you may be able to obtain a higher tax benefit by carrying back than you will by carrying forward!

7. Do not undervalue your Research and Development ("R&D")

The UK has extremely generous tax reliefs for qualifying R&D expenditure and all but the very largest of businesses can benefit from a 230% tax deduction for R&D costs. A business which is loss making for tax purposes, after claiming the 230% tax deduction can surrender the loss to HM Revenue & Customs ("HMRC") for an immediate cash refund of 14.5% of the loss.

Alternatively the loss can be carried forward and set against future profits arising from the trade, providing tax relief at that point in the future at the tax rate prevailing at the time.

8. Accelerating expenditure

UK corporation tax rates are falling. The rate is presently 19% but will fall to 17% from 1 April 2020. Accelerating expenditure into an earlier financial year would therefore secure greater tax relief.

However, businesses need to be aware of special rules which apply to certain expenditure (such as bonuses and pension contributions) which are only tax deductible in the year they are accrued if they are paid within a certain time frame.

9. Think of your VAT

Businesses typically complete quarterly VAT returns and these include details of the VAT that the business has collected on sales and the VAT the business has paid on purchases. The two amounts are netted and the company either has to pay the additional VAT to HMRC, or may be due a repayment of VAT.

If a business is planning to purchase a large or unusual item, and is required to pay a substantial amount of VAT on the purchase, they should try and time the expenditure so it falls at the end of their VAT quarter, and can therefore be included within that quarterly VAT return. Getting the timing wrong could mean the business would have to wait up to three months before receiving the benefit of the VAT paid.

10. Be compliant

Not a tax tip, but simply an easy way that a business and the owners can make savings – be compliant with the company and personal filing and payment dates. Interest will be charged on tax underpaid, and penalties will be levied when returns are not filed on time. The later the return is, the higher the penalty will be.

There are a whole heap of personal and company filing and payment deadlines, and it can be difficult for a business to keep track of all of these, especially if the knowledge is all retained in the head of one key employee. Every business should have a tax calendar detailing the key payment and filing deadlines for the business and owners throughout the year.

Good housekeeping and not missing payment dates or filing deadlines is also going to improve a business's risk rating with HMRC, making tax enquiries less likely, which in turn will save on management time and professional fees responding to these.

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