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Helping You to Develop Your Business with Free Hints and Tips

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Tax Saving Opportunities

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Tax Saving Opportunities for Companies

Due to the ever changing tax legislation and commercial factors affecting your company, it is advisable to carry out an annual review of your company's tax position.

Pre-year end tax planning is important as your current year's results can normally be predicted with some accuracy and time still exists to carry out any appropriate action.

We outline below some of the areas where advance planning may produce tax savings.

For further advice please do not hesitate to contact us

Corporation Tax:

Advancing expenditure:-

Expenditure incurred before the company's accounts year end may reduce the current year's tax liability.

In situations where expenditure is planned for early in the next accounting year the decision to bring forward this expenditure by just a few weeks can advance the related tax relief by a full 12 months.

Examples of the type of expenditure to consider bringing forward include:

- Building repairs and redecorating
- Advertising and marketing campaigns
- Redundancy and closure costs.

Note that payments into company pension schemes are only allowable for tax purposes when the payments are actually **made** as opposed to when they are charged in the company's accounts.

Capital allowances:-

Consideration should also be given to bringing forward capital expenditure on which capital allowances are available.

Generally an annual allowance of 25% is given for expenditure on plant and machinery. Small and medium sized businesses (as defined by company law) qualify for higher allowances in the year of expenditure generally at 40% but 50% for small companies for 12 months from April 2004.

The government has announced that the 50% rate for small businesses will be extended from April 2006. Expenditure on designated energy-saving technologies and products qualifies for 100% allowances. Details can be found at - www.eca.gov.uk

Allowances are also available for investments in certain types of building.

Trading losses:-

Companies incurring tax losses have three main options to consider in utilising these losses:

- They can be set against any other income (for example bank interest) or capital gains arising in the current year
- They can be carried forward and set against trading profits arising in future years
- They can be carried back for up to one year and set against total profits.

Extracting profits:-

Directors/shareholders of family companies may wish to consider extracting profits in the form of dividends rather than as increased salaries or bonus payments.

This can lead to substantial savings in national insurance contributions.

Note however that company profits extracted as a dividend from 1 April 2004 onwards suffer a minimum corporation tax charge of 19%.

Dividends:-

Since the abolition of advance corporation tax (ACT), from the company's point of view timing of payment is not critical, unless there is surplus ACT still available.

But from the individual shareholder's perspective, timing can be an important issue. If the shareholder is a higher rate taxpayer, a dividend payment which is delayed until after the tax year ending on 5 April may

give the shareholder an extra year to pay any further tax due.

The deferral of tax liabilities on the shareholder will be dependent on a number of factors. Please contact us for detailed advice.

Loans to directors and shareholders:-

If a 'close' company (broadly, one controlled by its directors or by five or fewer shareholders) makes a loan to a shareholder, this can give rise to a tax liability for the company.

If the loan is not settled within nine months of the end of the accounting period, the company is required to make a payment equal to 25% of the loan to the Revenue. The money is not repaid to the company until nine months after the end of the accounting period in which the loan is repaid by the shareholder.

A loan to a director may also give rise to a tax liability for the director on the benefit of a loan provided at less than the market rate of interest.

Rates of tax: -

For the 2005 financial year:

- If annual taxable profits do not exceed £10,000 they are charged to corporation tax at the starting rate of 0%. If profits are above £50,000 and do not exceed £300,000, they are charged at the small companies rate of 19%.
- If the profits exceed £1,500,000, the full rate of 30% applies.
- If profits fall between these limits, marginal relief is given. All the profits are charged to tax at a rate between 0% and 19% (where profits are between £10,000 and £50,000) and 19% and 30% (where profits are between £300,000 and £1,500,000).
- From 1 April 2004, the benefit of corporation tax rates below 19% where profits are below £50,000 is only available where profits are retained within the company. A 19% corporation tax rate is imposed where profits are taken out of the company as a dividend. The government has announced that the 0% starting rate and NCD regime are to be abolished.

Self assessment:-

Under the self assessment regime most companies must pay their tax liabilities nine months and one day after the year end.

Companies which pay (or expect to pay) tax at the main rate (30%) are required to pay tax under the quarterly accounting system. If you require any further information on the quarterly accounting system, we have a fact sheet which summarises the system.

Corporation tax returns must be submitted within twelve months after the year end. In cases of delay or inaccuracies interest and penalties will be charged.

Capital Gains:-

Companies are chargeable to corporation tax on their capital gains less allowable capital losses.

Indexation allowance:-

In order to counteract the effects of inflation inherent in the calculation of a capital gain, an indexation allowance is given. However the allowance is not allowed to increase or create a capital loss.

Timing of disposals:-

Where possible gains should be made in periods where profits are taxed at only 0% or 19%, as opposed to the full rate of 30%.

Consideration should therefore be given to the timing of the disposal and the delay of a sale may be advisable.

Purchase of new assets:-

It may be possible to avoid a capital gain being charged to tax if the sale proceeds are reinvested in a replacement asset.

The replacement asset must be acquired in the four year period beginning one year before the disposal and only certain assets qualify for relief.

How We Can Help:-

Tax savings can only be achieved if an appropriate course of action is planned in advance. It is therefore vital that professional advice is sought at an early stage. We would welcome the chance to tailor a plan to your specific circumstances.

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For Further Information or to Arrange a Consultation

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