



Financial planning for business owners

Band	Annual income	Tax rate
Personal allowance	Up to £11,850	nil
Basic-rate taxpayer	£11,851 – £46,350	20%
Higher-rate taxpayer	£46,351 – £150,000	40%
Additional-rate taxpayer	More than £150,000	45%

Comparing the tax treatment of a dividend to salary is not straightforward as your business must make a profit, and set aside money to pay tax on that profit, before it can pay a dividend.

If you take all of your funds from the business as dividends you will pay tax at the following rates in 2018/19:

Annual dividends income	Tax rate
Up to £13,850*	0%
£13,851 – £46,350	7.5%
£46,351 – £150,000	32.5%
More than £150,000	38.1%

*includes £2,000 dividend allowance on top of the personal allowance.

Our expert advisers are happy to discuss the most tax-efficient option for you when it comes to taking money out of your business.

Tax planning

Your business doesn't have to be involved in lab work for it to potentially qualify for R&D tax relief.

If your business carries out eligible R&D work, you can deduct 230% of eligible R&D costs from your total profits.

For every £100 of eligible R&D costs, £230 can be deducted from business profits or added to trading losses for tax purposes.

If your business spends more than £25,000 a year on plant and machinery, in most cases it should be eligible to claim the full costs in the first year of purchase through the annual investment allowance.

You have to own the assets, not lease them, for them to be eligible, although this does not apply to company cars.

Saving plans

If you have NICs deducted at source, you will already be contributing towards your state pension. However, if you're a sole trader, you can expect to pay class 2 or class 4 NICs, although recent changes require you to have 35 qualifying years of NICs to get the full basic entitlement.

You can expect to pay class 2 NICs if your profits are more than £6,205 and class 4 NICs if your profits exceed £8,424 in 2018/19. To muddy the waters further, the Treasury has scrapped its plan to abolish class 2 NICs from April 2019.

If you're enrolled into a workplace pension, two options you can utilise include your annual pension allowance (up to £40,000 depending on personal circumstances) and your tax-free ISA allowance (£20,000 in 2018/19).

Five ISAs are on the market: cash, stocks and shares, innovative finance, help to buy and the lifetime ISA. All offer various saving options and you won't need to declare any ISA interest, capital gains or income tax on your tax return.

Planning your exit

It can help you make decisions today if you cast your mind forward to where you will be in 10 or 20 years' time – hopefully ready to retire, and to pass your business on to a successor.

This could be a family member who's been involved with the business since leaving school, or a loyal and talented member of staff you've invested time in training up.

Inheritance tax is likely to come into play with family-based succession, while there are tax reliefs to assist with a transfer of business-related gifts.

If you have at least a 5% stake in your business, you may be able to claim **entrepreneurs' relief** which charges a reduced capital gains tax (CGT) rate of 10% on disposals up to £10 million.

Alternatively, you could be eligible for **gift holdover relief** if you're passing your business assets on for less than they are worth.

Instead of paying CGT when you pass on the assets, your successor agrees to pay CGT on any gain – if any tax is due – when they sell or dispose of them.

However, CGT isn't usually payable if your successor is your spouse, civil partner or a charity.

If you want to pass on your business in a will, it may qualify for up to 100% relief from inheritance tax under **business relief**.

The same exemption applies if you have an interest in a business or shares in an unlisted company.

To qualify, your business must be an unlisted company and must have been trading for at least two years.

Agricultural relief is similar to business relief and covers farmland or farming businesses, but it has to be a trading farm to qualify.

Get in touch for business planning advice.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change.

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation.

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