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Reduce your company tax liability

This guide is intended to help you with your 2014/15 company tax planning

Don't let tax be a problem this year. Stay ahead of developments and make sure you take advantage of ways to legitimately reduce your company's liability to tax. Here are some of the allowances and planning tips directors and company owners should know about this year.

Research and development

The research and development (R&D) rules offer tax opportunities for SMEs. R&D expenditure carries a substantial 225% deduction against profits for SMEs. The rate of relief is 130% for large companies.

An additional tax credit system allows non-profit making companies to relieve the R&D expenditure or the trading loss - whichever is the lower - in exchange for a cash sum. There is a great deal of flexibility regarding what can be claimed for. Ask for our advice if you are incurring R&D costs.

Pension contributions

Pension contributions offer tax savings, including reducing national insurance contributions (NICs) for both the employee and the employer. Some employees and employers agree to a 'salary sacrifice', whereby a portion of salary is exchanged for a pension contribution by the employer. However, where the employer and employee's annual contributions exceed £40,000, 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 3 years.

Entrepreneurs' relief

Entrepreneurs' relief can result in only a 10% tax rate on the first £10 million of qualifying business asset disposals, giving rise to a maximum reduction of £1,800,000. This is a lifetime allowance that reduces the gain for owners of limited companies on the disposal of shares and securities in a trading company. Conditions apply so please ask for further advice.

Cars

The tax treatment of cars in a company is complex due to recent changes that 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 changes were designed in part 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% tax relief on purchase and carrying a benefit in kind as low as 0%.

'Green' capital allowances

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

Capital allowances

Getting the maximum in capital allowances for your business is an important part of minimising the net cost of the entrepreneur's investment. The Annual Investment Allowance is 100% for the first £500,000

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of expenditure on most types of plant and machinery from 1 April 2014 to 31 December 2015 - up from £250,000 between 1 January 2013 and 31 March 2014. The writing down allowance on unrelieved expenditure brought forward or in excess of this limit is 18%. A rate of only 8% is available for expenditure on 'integral features'.

Extracting profit: dividend or salary?

Consider how much you might save if, as an owner-director, you wanted to extract the £10,000 profit your company makes in 2014/15 by way of a dividend rather than a bonus. We assume that you are paying higher rate tax at 40%, 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 and bonus.

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%. For a 45% tax payer the saving is marginally lower at £900.

In practice, a combination of each is usually appropriate. Remember that dividends are usually payable to all shareholders. If you have outside 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 not be effective and could even result in a higher tax liability. Finally, you may need to consider the effect that regular payment of dividends will have on the valuation of shares in your company.

As you can see in the case study, the net amount withdrawn is increased by more than 15% by opting to declare a dividend. But be sure to discuss this with us before you act as this is a very complex area of tax law.

We can help you:

- Manage debt and cash flow
- Plan to take account of future changes in the rate of corporation tax
- Plan your business start-up
- Find finance options
- Comply with government regulations and avoid fines, surcharges, penalties and interest
- Time capital and revenue expenditure to maximise the tax advantage
- Improve your invoicing and debt recovery systems
- Involve family members in the business
- Develop a plan for tax-efficient profit extraction
- Improve profitability
- Sell your business or prepare your business for sale
- Value your business
- Minimise employer and employee NIC costs
- Minimise tax costs, enabling you to keep more of the profit you earn
- Identify and value unpaid bills and unbilled work at the year-end
- Prepare yourself and your business for your exit, succession or retirement.

Find out more about reducing your tax bill.