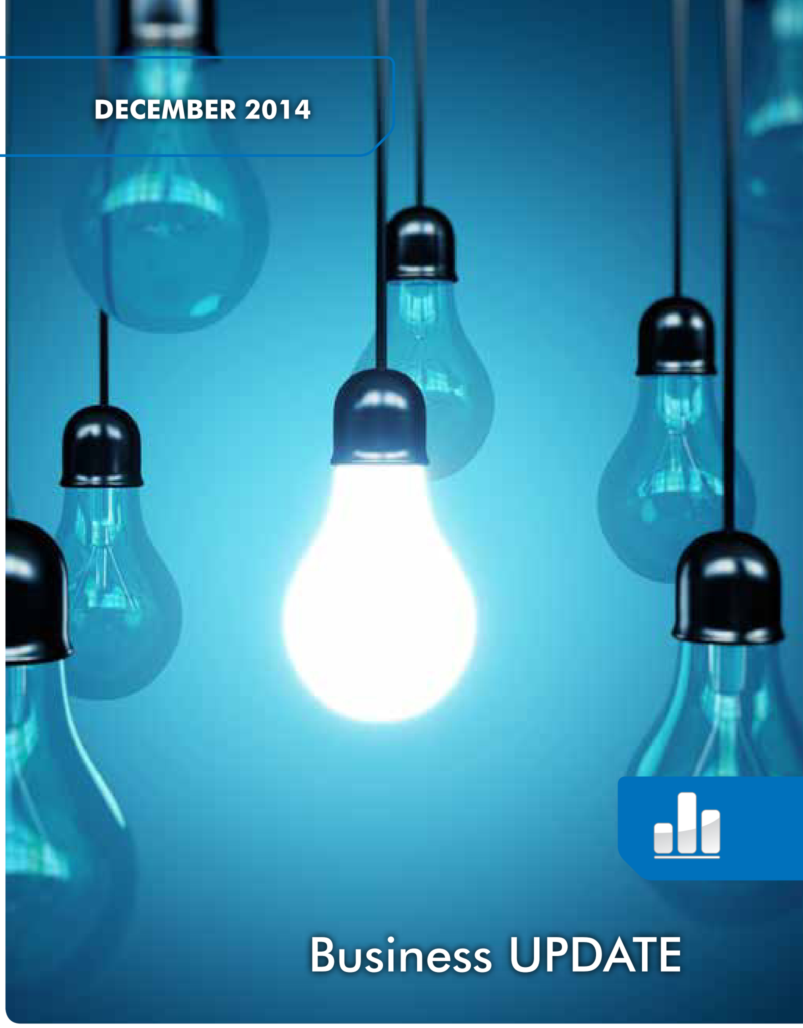
ACTIVE PRACTICE UPDATES



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Tax and your business

This guide is intended to help unincorporated business owners with their tax planning

Individuals pay tax on the profits of their unincorporated business at income tax rates ranging from 20% to 45%. In addition, there is a liability to class 4 national insurance contributions (NICs), which is taxed at a rate of 9% on taxable profits from £7,956 to £41,865 and thereafter at a rate of 2% without limit.

The family business

You can employ family members in your business, provided the salary and other benefits you pay them is commercially justifiable. Benefits include:

- a company car
- medical insurance
- making payments into a registered pension scheme.

However, HMRC may challenge what they regard as excessive remuneration packages or profit shares for family members.

You can also take family members into partnership and gain more flexibility in profit allocation. In fact, taking your children into partnership and gradually reducing your own involvement can be a very tax efficient way of passing on the family business.

However, taking family into your business may put the family wealth and income at risk if the business were to fail.

If you operate your business through a limited company, you can pass shares in your trading company on to other family members. This gradually transfers the business with no immediate tax liability in most cases. However, a tax saving for the donor usually impacts on the recipient and you need to steer clear of anti-avoidance rules known as the settlements legislation.

Expenses

HMRC has extensive and ever-changing regulations on which expenses you can and cannot claim against tax. Naturally, you will want to make sure your business is claiming all available expenses.

Professional guidance can ensure your business is making the right claims, and at the right time. For example, incurring expenditure just before the end of the accounting year means you can claim any available tax relief a year earlier.

For 2014/15 £500,000 of qualifying capital expenditure ranks for a 100% allowance. You may also want to consider investing in certain energy efficient or environmentally beneficial plant and equipment, which attract 100% allowances irrespective of cost.

Tax and your business

Home offices

If you work from a residential address and you arrange your business affairs in a clear and demonstrable way, you can claim a number of home expenses.

Depending on usage, area and working time, you can claim an apportionment of both fixed and running costs. You may be able to claim:

- utility bills
- mortgage interest (or rent)
- water rates
- general repairs
- telephone line rental
- cleaning.

If you are working from home, please talk to us. You may also need to consider whether the business use of your home breaches planning restrictions and whether business rates may be due on the property.

Rewarding staff

There are ways of rewarding staff that can be tax efficient for both your business and your employees.

For example, providing childcare vouchers of up to £55 per week to staff as part of their salary package is tax free and attracts no NICs, saving both your business and your employees money.

This relief is restricted to £28 a week for new participants paying 40% tax and to £25 for new participants paying 45% tax.

You could also consider providing some staff with a company car. Low emission models can attract 100% allowances when the business purchases them brand new and can produce a very low taxable benefit in kind for the staff concerned.

The tax penalty regime

Penalties can be incurred for inaccuracies in tax returns, late filing of returns, late payment of tax and failing to register for certain taxes.

Individuals and business owners now face penalties of up to 100% for deliberately underpaying tax and taking steps to conceal this. Penalties can be even higher if the matter relates to non-UK income or assets.

Even honest mistakes may be regarded as 'careless' and attract penalties of up to 30% of the tax.

HMRC also has wide ranging legal powers, including rights of entry for all business premises (including home offices), whether announced or not. They can also demand the production of documents by any person involved in the supply of goods and services.

Although businesses are selected for compliance checks on the basis of risk, it is essential that your records are adequate if you are going to satisfy a tax inspection. If you take reasonable care to comply with the law you will not be penalised.

If you are unsure whether your business records will stand up to scrutiny, seek our advice.

Incorporation and tax

If limiting your personal liability is important to you, a limited company may be the right solution. But remember that banks and other creditors often require personal guarantees from directors for company borrowings. This means owners and directors of the business may in fact bear the liabilities of the business out of their personal assets.

Trading through a limited company can be an effective way of sheltering profits as the rates of corporation tax on profits are generally lower than those applying to unincorporated businesses.

Although profits paid out in the form of salaries, bonuses, or dividends will normally be taxable at top rates (with quite punitive amounts of NICs in addition), profits up to £300,000 that are retained in the company will be taxed at 20%.

The tax rate increases to an effective 21.25% for taxable profits between £300,000 and £1,500,000.

Retained profits can be used to buy equipment or to provide for pensions, both of which are eligible for tax relief.

Contact us to discuss tax planning for your business.