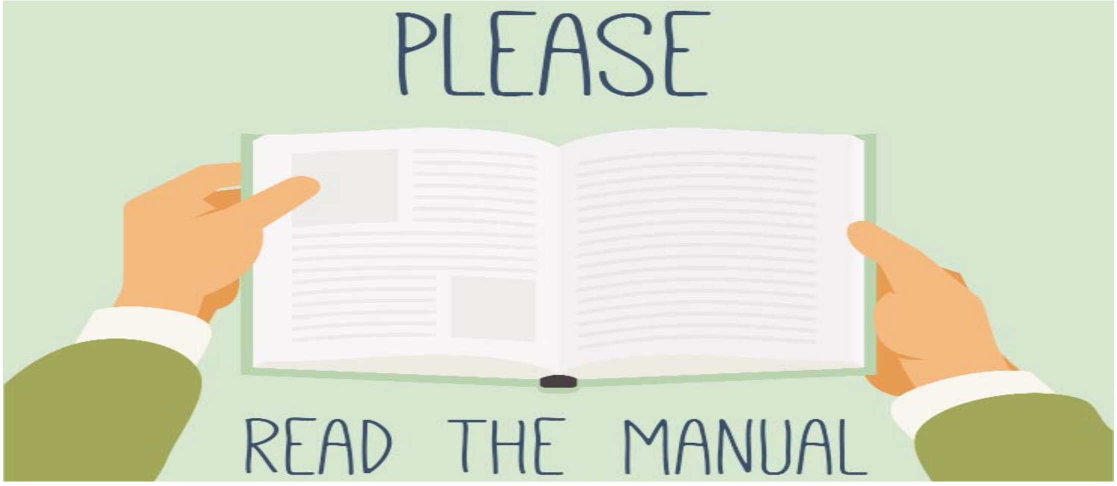
The Business-Owner's Essential Guide to Tax Planning



BUSINESS TAX GUIDE

November 2016

OVERVIEW

Whether your business year end is just a few weeks or several months away, it is always a good time to consider tax planning opportunities. In this Business Tax Guide we highlight straight-forward and acceptable planning ideas which could have a significant impact on the tax paid by your company, your employees and by you.

Taking Advantage of Falling Corporation Tax Rates

From 1 April 2015, the main rate of corporation tax fell from 21% to 20%. The rate is set to fall to 19% from April 2017 and again to 17% from April 2020. Consider opportunities to bring forward revenue expenditure ahead of any further fall in rates, and therefore defer taxable profits until the future. These opportunities might include:

- Accelerate or provide for the payment of bonuses before the year end (although they must be paid within 9 months of the year end to secure a tax deduction).
- Review the sales ledger and make appropriate provisions for specific bad and doubtful debts. Consider whether your provisions policies are sufficiently robust.
- Make specific provisions for obsolete and slow moving stock.
- If redundancy notices have or will be issued to employees, ensure redundancy payments are provided for. To be compliant for accounting purposes, these provisions need to pass certain tests.
- Accelerate the payment of discretionary expenditure, such as payments of charitable donations, to secure a tax deduction upfront.
- Identify capitalised revenue expenditure which can be written off immediately through the profit and loss account.

Consider opportunities to defer income, including:

- Shortening the accounting period to defer taxing a later profitable period; or lengthening the period to accelerate the assessment of a period of lower profitability or the use of tax losses.
- Where possible, under accounting rules, defer the accounting recognition of income.

Consider opportunities to enhance or accelerate capital allowances, including:

- Take full advantage of the Annual Investment Allowance by timing capital expenditure across the years. The AIA is £200,000 from 1 January 2016.
- On the purchase or sale of buildings in the past two years, make an election to maximise the claim for capital allowances on fixtures (known as a 'section 198 election').

- Elect to 'de-pool' computer and other 'short-life assets' bought in the last two years which will (or have been) scrapped or sold within a few years.
- Maximise the entitlement to enhanced 100% capital allowances on certain 'green technologies' used in a building refurbishment, on structures and assets used for research and development activities, and on low-emission cars.
- Consider whether financing purchases through leasing arrangements could be more beneficial than outright purchases.
- Consider the impact of the introduction of FRS 102, in particular, the treatment of non-commercial loans and whether an accelerated interest deduction could generate a tax saving.

Taking Advantage of Tax Incentives for Entrepreneurial Companies and their Shareholders

The Government's policy is to promote growth through innovation and encouraging entrepreneurship. A number of current and proposed tax reliefs therefore incentivise corporate spend on research and development and on the development of patents. Some key personal tax breaks exist to incentivise shareholdings in entrepreneurial trading companies.

Opportunities include:

- Examine the purpose and nature of research and development expenditure and the opportunity to claim reliefs including;
  - For SMEs, an additional 130% tax deduction or, if loss making, claim a tax credit of 14.5% of the enhanced tax deduction (equivalent to 33p for every £1 of qualifying spend);
  - For non-SMEs, a taxable credit of 11% of qualifying research and development expenditure.
- Identify income streams that may qualify for a reduced corporation tax rate under the Patent Box regime.
- Consider qualification for various creative sector tax reliefs including animated programmes, high-end television, video games and films.
- Review strategies to protect the trading status of the company to allow claims for Entrepreneurs' Relief or Substantial Shareholding Exemption on sale or winding-up, Business Property Relief on inheritance, and Investors' Relief or Enterprise Investment Scheme qualification for outside investors.

Other Corporation Tax Reduction Strategies and Considerations

Other tax reduction strategies include:

- Repay any director / shareholder overdrawn loan accounts within nine months of the year end to avoid a 32.5% tax charge on the outstanding balance of those loans.
- Pay accrued interest on shareholder (and certain other) loans within 12 months of the accounting year end to obtain a tax deduction.
- Ensure employer pension contributions have been paid during the year to secure a tax deduction.
- Take advantage of transfer pricing legislation to increase tax deductions for goods and services from group companies, and for group interest payments, (close attention should be paid to the transfer pricing legislation).
- Examine the merits of electing for the UK tax exemption on the profits of foreign branches.
- Review the scope for revising the ownership structure of the business to help reduce overall tax liabilities.

Incentivising Employees Tax Efficiently

The highest rate of income tax that can now be applied to an employee's bonus or share award is four and a half times higher than the lowest rate of capital gains tax ('CGT'). That differential widens further if the award is subject to national insurance ('NIC') and you include the employee's 2% and the employer's burden of NIC at 13.8%.

Opportunities to improve tax efficiency include:

- Review bonus arrangements and consider awards of up to £250,000 (on market value terms) of HMRC-approved EMI share options. These are subject to CGT only on the growth in value, and no income tax or NIC liability on grant or exercise if structured appropriately. A 10% rate of CGT will be applied if the options are held for 12 months from grant date.
- Consider offering to new and existing employees new Employee Shareholder Agreements and to issue shares, in consideration for entering into those agreements, that will be exempt from CGT on sale.
- Consider the use of other approved share awards which minimise the employee's cost on acquisition and remove or mitigate the liability to income tax and NIC (including the employer's NIC element).
- Reassess company car provision or consider 'green' alternatives.
- Establish genuine opportunities for salary sacrifice arrangements, particularly in relation to pension contributions, low-emission cars, mobile phones, childcare vouchers, car-parking and medical check-ups.

Extracting Wealth from the Company Tax Efficiently

For a taxpayer suffering the highest rate of income tax of 45%, the effective rate of tax and NIC (including Employer's NIC) on a bonus payment is over 53%. If that taxpayer is paid a dividend instead, the combined income tax and corporation tax cost is 50.5%.

Tax efficient wealth extraction opportunities include:

- Review remuneration packages for shareholders, considering the mix of dividends, salary and pension contributions.
- Consider charging interest on loans to the company to make use of the Personal Savings Allowance introduced from April 2016.
- Review shareholdings and consider inter-spousal transfers and gifts to other family members and trusts to maximise the use of tax allowances and low personal tax rates. Those arrangements can be fraught with difficulties but can be highly effective.

If you are interested in further information in this regard, please contact the Rawlinson & Hunter partner who normally acts for you. Where you are not one of our regular clients, please contact Craig Davies or Andrew Shilling, who would be delighted to discuss this with you in more detail.

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