Broadcast

FACTSHEET: TAX PLANNING FOR BUSINESSES

SPECIAL ISSUE

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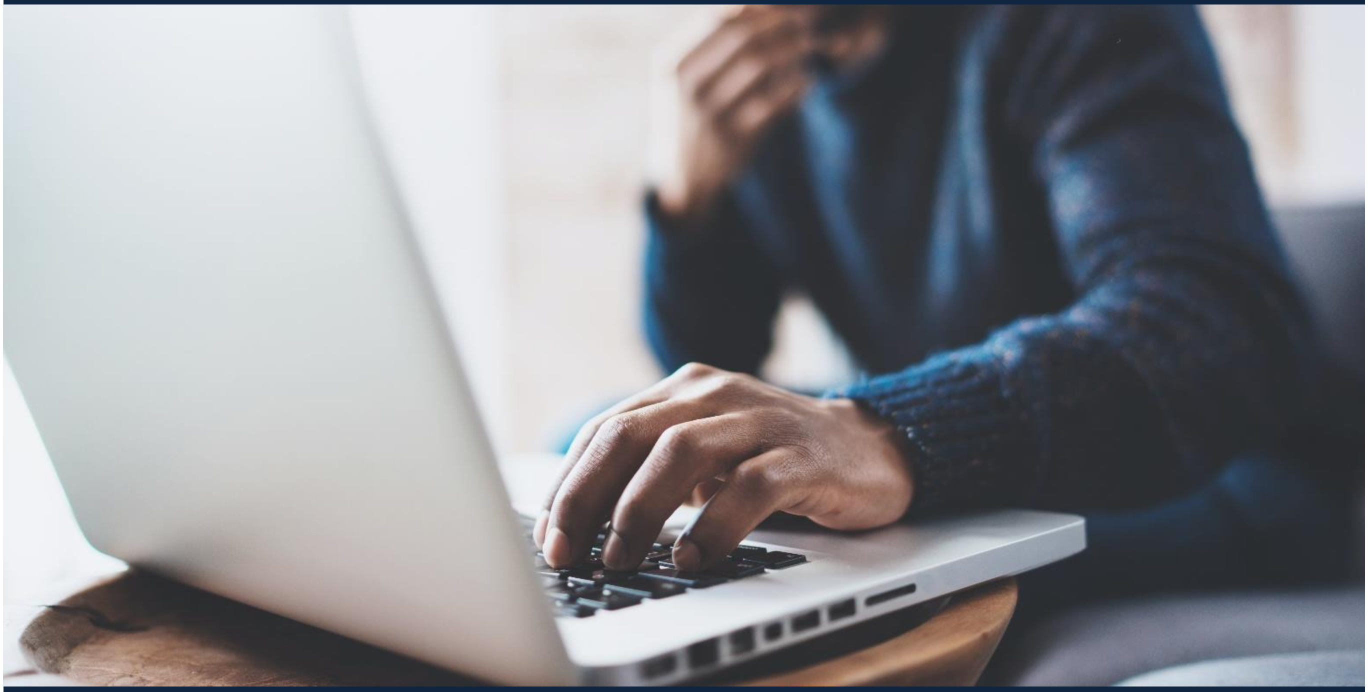
BUSINESS TAX PLANNING - OPPORTUNITIES TO SAVE TAX AND INCREASE BUSINESS NET WORTH



Some of the ideas shared in the following check list may provide you with ideas for tax saving opportunities if implemented. This year, more than at any previous time, we need to take advantage of savings as the COVID virus continues to wreak havoc on the UK economy.

Actions to take:

- Review the list
- Highlight those items that would seem to have relevance
- Call us so we can discuss what needs to be done to secure any tax saving benefits before 5 April 2021

The check lists that follow this introduction are relevant for any business structure: sole trader, partnership or limited company.

Where there are ideas listed that are only applicable to one of these three, this will be highlighted in the text.

The aim of this area of year-end planning is to consider factors that you have some measure of control over, and that will enable you to either reduce or increase your after-tax profits for the year under review.

This may seem to be counter-intuitive. How can you effect levels of profitability? Isn't this determined by market conditions?

However adept you are at keeping your accounts it is likely there are inaccuracies in your numbers that will have an impact on the amount of profit or loss you believe you have achieved. We are not suggesting that you artificially adjust your figures, far from it. The prime aim of pre-year-end planning is to seek out your true financial position and then consider what can be done to improve your position BEFORE the end of your trading period. If you wait until after your year-end, remedial action may be timed out.

The benefits of profit planning prior to your trading year-end can be summarized as follows:

- An opportunity to arrive at a realistic estimate of profits for the current financial year.
- A chance to make decisions based on this estimate that will benefit your longer term goals.
- Time to consider the effects of the current year's performance on your business investors, your bank, your staff.
- It also flags up the ability of your business to sustain your current and future remuneration and withdrawals from your business.
- Finally, and crucially, this pre-yearend review will allow you to consider the effects of the past year – dominated by COVID disruption – and take steps to minimise any damage to your balance sheet and longer-term viability.

Another word for planning is forethought. If you don't plan your business future, you are apt to end up considering the reasons why things have not worked out as you expected – you will stare at the open stable door, and the empty stall, and wonder why you never repaired the lock.

Business Tax Review 2020-21

The basics:
Whether you are self-employed or have your own company, your periodic business tax payments will always be based on yearly trading profits and other chargeable gains made in the same period.

If you run your business through a company, corporation tax is payable on adjusted business profits (after allowances for capital purchases), nine months and one day after your year-end date. Accordingly, corporation tax for the accounting year to 31 March 2021, will be due for payment 1 January 2022.

If you are self-employed, your business profits will form part of your self-assessment tax return. The amount of tax you will pay is split into two instalments on account, and a balancing adjustment if necessary.

In order to reserve cash for your self-assessment tax payments, the mathematics are more complex. Your best option is to deduct £1,000 per month (being your approximate income tax personal allowance) for each business partner, from the trading profits you make, and apply 30% to what's left (20% to cover income tax and 10% for Class 4 NIC). Transfer this amount to a deposit account. However, this will only provide the funds to pay tax on your business profits. If you have other taxable income this will need to be factored in.

Pre Year-end Tax Planning

If you have a good set of management accounts, for say the first three quarters of your trading year, and a realistic projection for the year, then you can sit back with your trusted tax advisor and consider your options.

Whatever your business structure, tax due on business profits needs to be paid at some future date. Pre year-end tax planning gives you adequate time to estimate your future liabilities and reserve funds to pay the bill.

This year, it will also give you time to determine the amount of any tax losses due to COVID disruption and plan for any future recovery of tax paid in previous years.

The check lists that follow have been split into two: the first for self-employed business owners (sole traders or partners), and the second for limited companies and their directors. The suggestions will impact income tax, NIC and corporation tax payments.

Self-employed Tax Review 2019-20

- Both self-employed business owners and companies should consider their options if registered for VAT. If you presently use the standard scheme you may be advised to take a look at the VAT special schemes. These include: Cash Accounting, the Flat Rate Scheme, and Annual Accounting. There are turnover limits that will preclude larger organisations benefitting, but smaller businesses may be able to secure cash flow benefits and a possible reduction in their overall VAT payments. Please call so we can discuss your options.
- Grants received from government and local authorities will need to be considered. They should form part of your taxable profit but make sure that you exclude these amounts when reviewing the numbers. You will want to see how your business has performed excluding these amounts.
- Every self-employed person is entitled to earn £12,500 during 2020-21 without paying income tax. If your projected profits (or share of profits), assessable in 2020-21, are lower than this amount your personal tax allowance (or part of the allowance) may be wasted. To avoid this, you can defer claims for capital allowances, or perhaps defer refurbishment or other non-recurring costs to increase your taxable profits, and fully utilize your personal tax allowance. These adjustments will tend to push tax relief on deferred expenditure into future years.

Self-employed Tax Review 2019-20 (continued…)

- The income tax you will pay for 2020-21 will based on your profit or share of profits for the trading year ending in the 2020-21 tax year. However, you will have made two payments on account for 2020-21 (January and July 2021) based on your profits for the preceding year. Accordingly, if your profits are increasing you will likely have underpaid tax for 2020-21 and any balance owing will be payable 31 January 2022. More likely, your profits for 2020-21 will be lower than previous years. If your profits are decreasing, you can elect to make smaller payment on account. Either way, having your estimated trading figures available, to forecast your 2021 tax payments, means you have ample time to request reductions in payments on account (January and July 2021) or save to meet any balance due January 2022.
- If your share of profits looks as if it will breach one of the thresholds and push you into higher, marginal rates of tax (for example: loss of child benefit if income exceeds £50,000, or loss of your personal allowance if your income exceeds £100,000. To counter these risks, you could consider bringing forward capital investments, in plant, equipment or commercial vehicles and claim additional capital allowances.
- Self-employed farmers, who can experience significant variations in the level of profits achieved, should take advantage of the extended averaging rules that entitle them to average their profits over a five-year or two-year period.
- In planning for tax payments, based on profits assessable for 2020-21, business owners should be aware that generous tax allowances are still available for qualifying capital expenditure. In particular, the Annual Investment Allowance allows you to claim a 100% write off for expenditure after 1 January 2016. The allowable limit is £1m from 1 January 2019 to 31 December 2020. This limit reduced to £200,000 from 1 January 2021. This is a useful adjustment device to reduce taxable profits and save tax, whilst maintaining published profits in your profit statement.
- If you can make a hefty claim for investment in qualifying equipment, and as a result your profits are much reduced, or if you are forecasting low profits or a loss, you may want to consider a protective application for tax credits.
- Class 4 National Insurance is based on the level of business profits: 9% on profits between £9,501 and £50,000, and 2% on profits over £50,000. Any reductions you can achieve in your taxable business income will also reduce this significant NIC charge.
- Self-employed traders and partnerships that have managed to maintain or increase profits during 2020-21, may way to consider incorporation as a limited company as this may offer tax saving opportunities and reductions in risk for business owners.
- Finally, readers should take a look at our check list for individuals' subject to income tax, as all of the comments made will help self-employed persons reduce their tax liabilities.

And don't forget, you pay tax on the profits you make, not the drawings you take from your business.

Limited Company Tax Review 2020-21

- ❑ Incorporated businesses are taxed at corporation tax rates, currently 19%, and any profits retained in the business will be subject to no additional tax charge. This final point illustrates one of the major advantages of running a profitable business inside a limited company structure.
- ❑ Shareholders should review any plans in place to deal with succession, especially, smaller family businesses. This review should consider personal circumstances, changes in the company's financial status, and changes in tax legislation.
- ❑ Shareholders should also review shareholder agreements to ensure they still reflect the intentions of signatories.
- ❑ For 2020-21, shareholders' dividends up to £2,000 can be drawn tax free. There are important, and potentially punitive tax issues to research, but would it be possible to issue shares to adult children and provide them with a tax-free income?
- ❑ Review the active participation of director/shareholder family members. Is there an opportunity to employ a spouse or child; or provide taxable benefits?
- ❑ Directors who have overdrawn their loan accounts with the company should consider taking a dividend to clear the loan (if reserves are available) or otherwise repay the loan within nine months of the trading year-end. In this way the additional (albeit temporary) 32.5% corporation tax charge can be avoided.
- ❑ Directors with semi-permanent deposits on loan to the company may be advised to charge the company interest. Basic rate income tax payers can receive up to £1,000 in interest tax free, higher rate tax payers £500.
- ❑ The tax on-costs of running a company car fleet – class 1A National Insurance for instance – as well as the not inconsiderable tax implications for participating employees, may provide sufficient justification for a change in strategy. For example, could the company lend employees funds to buy their own cars and pay them a tax-free business mileage allowance to cover running costs?
- ❑ If projected profits forecast a temporary dip, or a loss in the short-term, could the company's accounting period be extended to embrace the loss and average down the taxable profits for the preceding period?
- ❑ If projected profits are forecasting a downturn in profits, how will this affect director/shareholders' remuneration in the coming months; will there be sufficient retained profits to maintain regular dividend payments?
- ❑ Be sure to consider the funding of corporation tax payments that will need to be made nine months and one day after the company's accounting year-end date.

How We Can Help

For more information regarding any issues raised in this Broadcast then as ever, please contact us on **01753 888211** or email **info@nhllp.com**