Nunn Hayward
Chartered Accountants

TAX PLANNING ROADMAP
FOR BUSINESS OWNERS

Business Owners Planning Review 2024-25

Business Profits Review 2024-25

The check list that follows this introduction is 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 business year-end planning is to consider factors that you have some measure of control, and that will enable you to either reduce or increase your published profits for the year under review.

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

We shall see…

However adapt 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 no longer be possible.

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

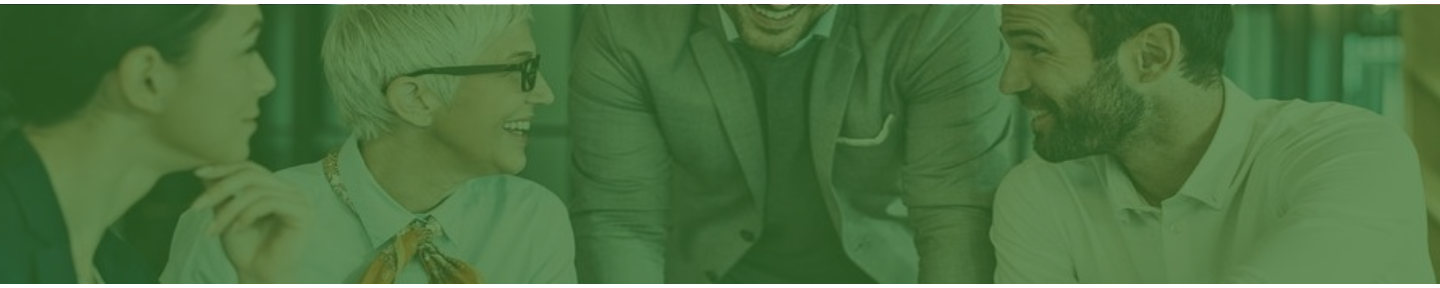
1. An opportunity to arrive at a realistic estimate of profits for the current fiscal year.
2. A chance to make decisions based on this estimate that will benefit your longer-term goals.
3. Time to consider the effects of the current year's performance on your business investors, your bank, and your staff.
4. It also flags up the ability of your business to sustain your current and future remuneration and withdrawals from your business.
5. And finally, all UK businesses will be challenged by the current, dire state of the UK and world economies. In the UK we are facing high inflation, rising interest rates, continuing supply issues – as well as extreme increases in energy costs. Assessing and planning your business profitability will be key to surviving these challenges.

Another word for planning is forethought. If you do not 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 Profits Review Checklist

ACCOUNTS:

- Make sure you have depreciated your fixed assets, equipment and vehicles, at a realistic rate. You don't want the written down value of your assets to exceed their market value.
- Write off any bad debts.
- Write off any slow moving or obsolete stock. Consider an on-site auction or similar to sale.
- Make sure that you have not capitalised any replacement equipment that should have been written as repairs or written off equipment purchases that should have been capitalised.



- Take a good look at your cut-off procedures. Are all your supplier invoices received and posted? Have you invoiced customers for work you have not delivered yet?

PROJECTIONS TO THE END OF YOUR TRADING YEAR:

- Base your sales projections on known factors. For example, orders received, consistent with past or repeat sales and considering current economic challenges.
- Base your cost projections on current fixed costs, rents, wages and salary costs, and additional costs that you feel need to be included. Be realistic.
- Factor in expenditure on capital equipment that you feel must be acquired to maintain sales or production at the required levels.
- Make sure that apart from creating profit and loss and balance sheet forecasts, you also prepare a detailed cash flow forecast.

CONSIDER THE RESULTS.

Do the results:

- Show an overall improvement or worsening of your financial position.
- Reveal a healthy cash flow.
- Point to deteriorating market conditions, falling demand for your products or services. How will this affect your planning for the immediate future and your longer-term goals?
- If you consider demand for your services will rise, are you in danger of over-trading?
- How will your business investors, or your bankers, react to the projected results?
- Is your business providing you with an adequate return for your capital invested in the business and are you properly remunerated for the time you spend in the business?

ACTION PLAN:
Based on the answers to these bullet points you will need to draw up an action plan. Included in this plan will be scrutiny of your business tax position – consideration of these tax issues are listed separately in the following section.

Business Tax Review 2024-25

THE BASICS:

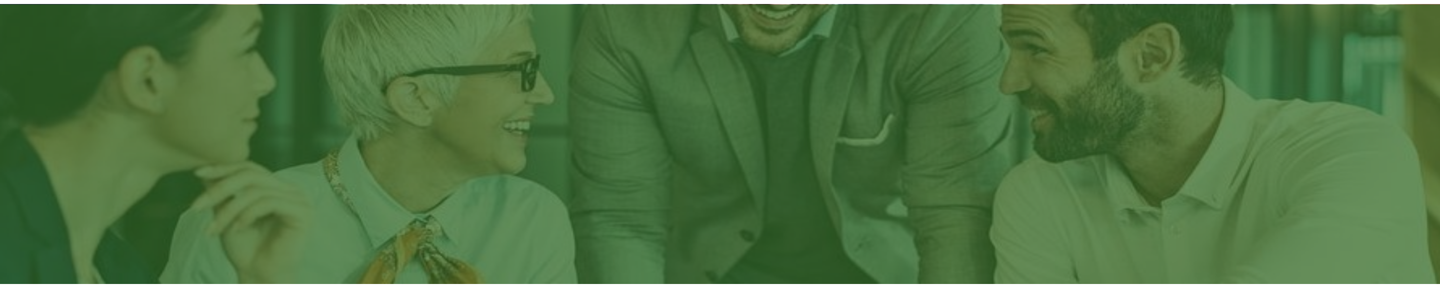
Whether you are self-employed or have your own company your periodic business tax payments will always be based on yearly trading profits and other chargeable gains made in the same period.

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 2023, will be due for payment 1 January 2024.

As a quick fix, you could transfer between 20% and 25% of your monthly profits to a deposit account to reserve for this liability.

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.

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 20% to what is left. Transfer this amount to a deposit account. However, this will only provide the funds to pay tax on your business profits at the basic rate. If you have other taxable income and your total income is more than £50,270 the potential higher rate tax 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…

VAT: ARE YOU USING THE BEST SCHEME?
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 look at the VAT special schemes.
These include:

- Cash Accounting,
- The Flat Rate Scheme, and
- Annual Accounting.

There are turnover limits that will exclude larger organisations benefitting, but smaller businesses may be able to secure cash flow benefits and a possible reduction in their overall VAT payments. Worth checking this out.

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 Check List 2024-25

- The income tax you will pay for 2024-25 will based on your profit or share of profits for the trading year ending in the 2024-25 tax year. However, you will have made two payments on account for 2024-25 (January and July 2024) based on your profits for the preceding year. Accordingly, if your profits are increasing you will likely have underpaid tax for 2024-25 and any balance owing will be payable 31 January 2025.
- 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 tax payments, means you have ample time to request reductions in payments on account or save to meet any balance due January 2025.
- Every self-employed person is entitled to earn £12,570 during 2024-25 without paying income tax. If your projected profits (or share of profits), assessable in 2024-25, 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 utilise your personal tax allowance. These adjustments will tend to push tax relief on deferred expenditure into future years.
- 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, loss of your personal allowance if your income exceeds £100,000, or a 75% reduction in the amount of pension relief you can claim if your income exceeds the relevant threshold). 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 for 2024-25.
- Class 4 National Insurance is based on the level of business profits: 8% on profits between £12,570 and £50,270, and 2% on profits over £50,270. Any reductions you can achieve in your taxable business income will also reduce this significant NIC charge.
- Since 2016 the rules for the VAT Flat Rate Scheme changed. All users of this scheme should crunch the numbers to see if they qualify as a limited cost trader. If they do, a flat rate of 16.5% must be applied and this may preclude the advantages of registering for the scheme.

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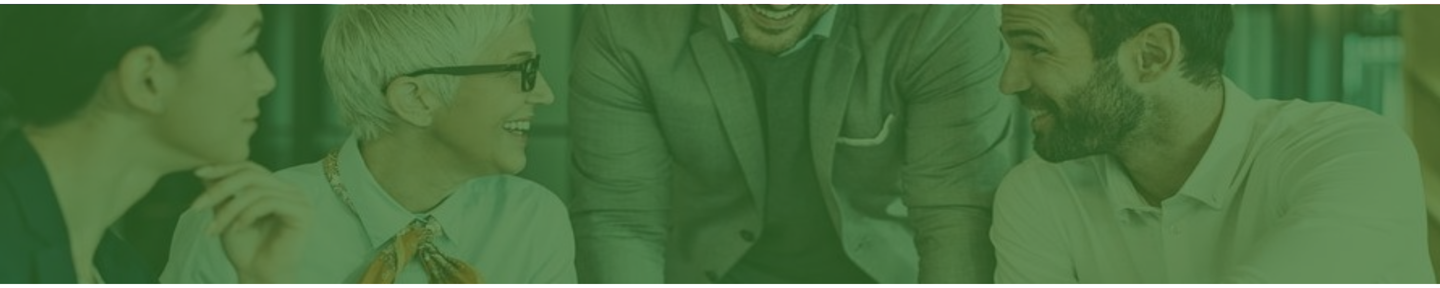

- In planning for tax payments, based on profits assessable for 2024-25, business owners should be aware that generous tax allowances are still available for qualifying capital expenditure. The Annual Investment Allowance allows you to claim a 100% write off for expenditure up to a £1m limit. This is a useful adjustment device to reduce taxable profits and save tax, whilst maintaining published profits in your profit statement. If your business is incorporated, you can take advantage of the Full-Expensing of qualifying capital purchases. This means that ALL capital expenditure can be written off for tax purposes, no limits.
- 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 do not forget, you pay tax on the profits you make, not the drawings you take from your business!

Limited Company Tax Review Check List 2024-25

- Incorporated businesses are taxed at corporation tax rates, currently between 19% and 25%, 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. If you are self-employed you may want to consider the benefits of incorporating your business.
- Since April 2023, two rates of corporation tax apply. Smaller companies with profits up to £50,000 continue to pay corporation tax at 19%. Companies with profits in excess of £50,000 will be subject to a 25% rate. Firms with profits between £50,000 and £250,000 will be able to claim marginal relief.
- The marginal rates reduction from April 2023 will be reduced if companies have associated businesses. It is recommended that companies consider restructuring these associated businesses to avoid unnecessary increases in their corporation tax payments.
- Companies who are considering investments in plant or other qualifying assets in excess of £1m, can fully expense their investment against profits. This was facilitated by the new "fully expensing" rules introduced in the Spring Budget March 2023.
- 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.
- Presently, shareholders' dividends up to £1,000 can be drawn tax free. Would it be possible to issue shares to adult children and provide them with a small tax-free income?
- If all the shareholders of a small company hold the same class of shares, say ordinary shares, dividends will be paid based on the percentage held. This can be inconvenient if directors want to split dividends in a different proportion to equalise tax liabilities. One way to achieve this result is to convert existing shares into a number of different classes, say "A", "B" shares etc., and in this way, shareholders can receive dividends in a more tax efficient manner.
- 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 repaying the loan within nine months of the trading year-end. In this way an additional (albeit temporary) 33.75% 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 taxpayers can receive up to £1,000 in interest tax free, higher rate taxpayers £500

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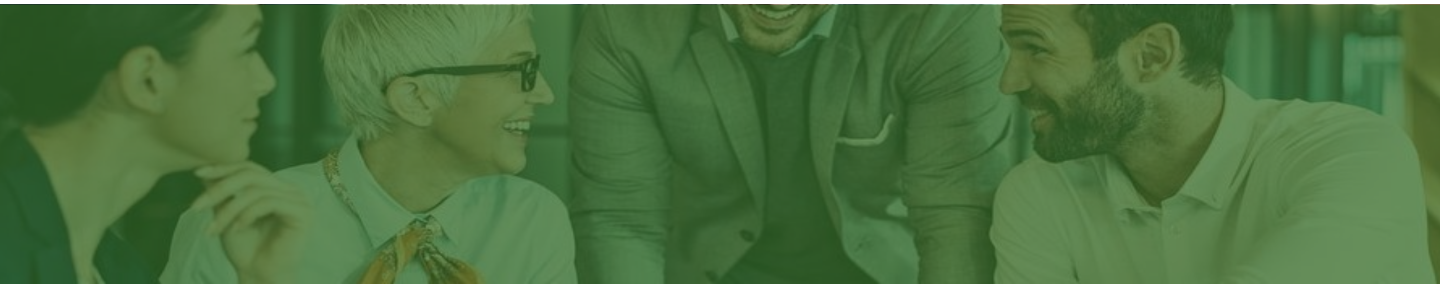

- The tax on-costs of running a company car fleet – class 1A National Insurance for instance – as well as the considerable tax implications for participating employees, may provide sufficient justification for a change in strategy. For example, could the company lend employees funds to buy their own 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.

Please contact us if you want more information on any of the issues raised in this update.