

Business tax planning

Corporation tax

The main rate of corporation tax is 19% until 31 March 2020. From 1 April 2020 this rate reduces to 17%.

Corporation tax self-assessment requires companies to work out their own tax liability as part of their return and account for the 'self-assessed' liability to corporation tax.

Planning

Taxable profits are typically reduced by employers making pension contributions. Self-invested personal pensions are popular with many company owner-directors.

Another tax reduction strategy is to bring qualifying capital expenditure forward to take advantage of the 100% annual investment allowance. The allowance is currently available on qualifying expenditure of up to £200,000.

Business deductions

Business owners are entitled to claim deductions from income for costs which are incurred wholly and exclusively in running the business.

Determining how this rule applies in practice can be a challenge. In most circumstances, a deduction may not be claimed in respect of depreciation. However, deductions in the form of capital allowances are available for some expenditure on qualifying capital expenditure.

Planning

Directors' bonuses can be claimed as an in-year deductible cost so long as they are paid within nine months after the company year-end.

Pension contributions must be paid before the year-end to get tax relief in the accounting period.

Salaries can be made to family members as long as they are justifiable and at commercial rates.

Other potentially tax-efficient ways of extracting profits include dividends and benefits in kind.

Entrepreneurs' relief

Entrepreneurs' relief provides relief for disposals by smaller business owners. It charges a reduced tax rate of 10% on disposals up to the lifetime limit of £10 million, giving a potential tax saving of up to £1 million.

The relief is available on material disposals of business assets which covers businesses operated as a sole trader, partnership or through a limited company.

It may not be available when a company is liquidated if the owner is involved in a similar business (whether a company, self-employment or a partnership) after the liquidation.

Planning

Capital gains tax liability is just one aspect of all the planning that goes into the wording of the final contract for sale.

Maximising the sale value and looking carefully at the proposed sale structure helps to ensure the liability to capital taxes is not a penny more than absolutely necessary.

There are a number of planning opportunities in this area but there are also pitfalls if some shareholders do not qualify for this relief.

VAT

VAT is chargeable where taxable turnover is above £85,000 in the previous 12 months or you expect this threshold will be exceeded within the next 30 days.

There are schemes which simplify VAT accounting. These include the cash accounting scheme, annual accounting scheme and the flat rate scheme. However, changes to the flat rate scheme from April 2017 have made it less attractive (and even costly) for some businesses.

Planning

Things to consider:

- would it be appropriate for you to use one of the schemes?
- have you reviewed the use of the flat rate scheme and taken appropriate action – which might include voluntary de-registration for VAT if trading under the deregistration threshold (£83,000)?
- are you claiming any VAT bad debt relief that you are entitled to?
- are you accounting for VAT on the fuel used for private motoring using the appropriate scale charge?
- make sure that you don't reclaim VAT on cars (unless you are a car dealer or taxi company, for example, or provide certain pool or leased cars for employees) or on entertaining UK customers.

Penalties

The penalty regime covers income tax, corporation tax, VAT and inheritance tax.

Miss the first income tax return filing deadline and the next day you are liable for a £100 fine. Leave it for another 3 months and the maximum penalty rises by £10 a day up to a maximum of £900.

After 6 months a further £300 or 5% of the tax due, whichever is the higher, is added. In some serious cases the penalty can be even higher than this.

There are also penalties to cover the notification of starting a business and filing returns and accounts at Companies House. Penalty rates range from £150 for a private company filing the accounts not more than one month late, up to £7,500 for a public company filing accounts more than six months late.

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