Mike Hankey & Co Ltd

ACCOUNTANCY, BUSINESS AND TAXATION CONSULTANTS

factsheet

Companies– Tax Saving Opportunities

Due to the ever changing tax legislation and commercial factors affecting your company, it is advisable to carry out an annual review of your company's tax position.

Pre-year end planning is important as the current year's results can normally be predicted with some accuracy and time still exists to carry out appropriate action. We outline below some of the areas where advance planning may produce tax savings. For further advice, do not hesitate to contact us.

Corporation tax

Advancing expenditure—Expenditure incurred before the company's year end may reduce the current year's tax liability.

In situations where expenditure is planned for early in the next accounting year, the decision to bring the expense forward by just a few weeks can advance the related tax relief by 12 months. Examples of the type of expenditure to consider to bring forward:

- Building repairs and redecorating
- Adverting and marketing campaigns
- Redundancy and closure costs

Payments to company pension schemes are only allowable for tax purposes when the payments are actually made.

Capital allowances

Consideration should also be given to the timing of capital expenditure on which capital allowances are available to obtain the optimum reliefs.

Single companies irrespective of size are able to claim Annual Investment Allowance (AIA) which provides 100% relief on expenditure on plant and machinery (excluding cars). The amount of AIA is currently set at £200,000.

Groups of companies have to share the allowance. Expenditure on qualifying plant and machinery in excess of the AIS is eligible for Writing Down Allowance (WDA) of 18%. Where the capital expenditure is incurred on integral features the WDA is 8%.

100% allowances on designated energy saving technologies continue to be available in addition to the AIA. Details can be found at www.gov.uk/guidance/energy-technology-list

Limited allowances are also available for investments in certain types of building.

Trading Losses

Companies incurring trading losses have three main options to consider in utilising these losses:

- They can be set against other income (for example bank interest) or capital gains arising in the current year
- They can be carried back for up to one year and set against total profits.
- They can be carried forward and set off against profits arising in future years.

More flexibility for losses from April 2017

The government have amended the rules for corporation tax losses to make tax relief more flexible. Losses arising on and after 1 April 2017 are carried forward, they will be available to be used against profits from different types of income in the company and other group companies (subject to certain restrictions).

Extracting profits

Directors/shareholders of family companies may wish to consider extracting profits in the form of dividends rather than as increased salaries or bonuses.

This can lead to substantial savings in national insurance contributions (NICs).

Note that company profits extracted as a dividend remain chargeable to corporation tax at a minimum of 19% (reducing to 17% from 1 April 2020).

Dividends

From the company's point of view, timing of payment is not critical but from the individual shareholder's perspective, timing can be very important. A dividend payment in excess of the Dividend Allowance (currently £2,000 p.a.) which is delayed until after the tax year ending on 5th April can give the shareholder an extra year to pay any further tax due.

Loans to directors and shareholders

If a 'close' company (broadly one controlled by its directors or by five or fewer shareholders) makes a loan to a shareholder, this can give rise to a tax liability for the company.

If the loan is not settled in full within nine months of the end of the accounting period, the company is required to make a payment equal to 32.5% (25% for loans made before 6 April 2016) of the loan to HMRC. The money is not repaid to the company until nine months after the end of the accounting period in which the loan is repaid by the shareholder.

A loan to the director may also give rise to a tax liability for the director on the benefit of a loan provided at less than the market rate of interest.

Rates of tax

Corporation tax is currently 19%. The rate for future years is:

- 19% for the financial years beginning 1 April 2018 and 2019.
- 17% for the financial year beginning on 1 April 2020.

Self assessment

Under the self assessment regime most companies must pay their tax liabilities nine months and one day after the year end.

Companies which pay (or expect to pay) tax at the main rate are required to pay tax under the quarterly accounting system. If you require any further information on the quarterly accounting system, we can forward you this.

Corporation tax returns must be submitted within twelve months of the year end and are required to be submitted electronically. In cases of delay or inaccuracies, interest and penalties will be charged.

Capital gains

Companies are chargeable to corporation tax on their capital gains less allowable capital losses.

Indexation allowance

An indexation allowance is given to counteract the effects of inflation. However the allowance is not allowed to increase or create a capital loss. The benefit of the indexation allowance was also restricted when in was announced at the Autumn Budget 2017 that the calculation of indexation allowance will be restricted for disposals of assets on or after 1 January 2018. The indexation allowance will be calculated using the Retail Price Index factor for December 2017 irrespective of the date of the disposal of the asset.

Planning of disposals

Consideration should be given to the timing of any chargeable disposals to ensure advantage is taken where possible of minimising the tax liability at small profits rates rather than the full rate. This could be achieved (depending on the circumstances) by accelerating or delaying sales. The availability of losses or the feasibility of rollover relief should also be considered.

Purchase of new assets

It may be possible to avoid a capital gain being charged to tax if the proceeds of the sale are reinvested in a replacement asset.

The replacement asset must be acquired in the four year period beginning one year before the disposal, and only certain trading tangible assets qualify for relief.