

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 tax planning is important as the current year's results can normally be predicted with some accuracy and time still exists to carry out any appropriate action.

We outline below some of the areas where advance planning may produce tax savings.

For further advice please do not hesitate to contact us.

Corporation tax

Advancing expenditure

Expenditure incurred before the company's accounts 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 forward this expenditure by just a few weeks can advance the related tax relief by a full 12 months.

Examples of the type of expenditure to consider bringing forward include:

- building repairs and redecorating
- advertising and marketing campaigns
- redundancy and closure costs.

Note that payments into company pension schemes are only allowable for tax purposes when the payments are actually made as opposed to when they are charged in the company's accounts.

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 an annual investment allowance of £100,000, previously £50,000 before 1 April 2010, which will provide 100% relief on expenditure on plant and machinery (excluding cars). Groups of companies have to share the allowance. It is proposed that this allowance will be reduced to £25,000 from 1 April 2012. Additional capital allowances were available for expenditure incurred by a qualifying activity in the 12 month period commencing 1 April 2009.

Expenditure on qualifying plant and machinery not covered by the AIA was eligible for a temporary first year allowance (FYA) of 40% instead of 20% Writing Down Allowance (WDA). The FYA did not apply for expenditure on integral features, cars, long life assets and assets for leasing.

100% allowances on designated energy saving technologies continue to be available in addition to the annual investment allowance. Details can be found at www.eca.gov.uk.

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

Trading losses

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

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

*Loss carry back has been amended for a period of two years and extends the period that current trading losses from businesses can be carried back against previous profits to a period of three years with losses being carried back against later years first.

The amount of losses that can be carried back to the preceding year remains unlimited. After carry back to the preceding year, a maximum of £50,000 (per 12 month accounting period) of the balance of unused losses is then available for carry back to the earlier two years.

The measure has effect for company accounting periods that ended in the period 24 November 2008 to 23 November 2010.

Extracting profits

Directors/shareholders of family companies may wish to consider extracting profits in the form of dividends rather than as increased salaries or bonus payments. This can lead to substantial savings in national insurance contributions. Note however that company profits extracted as a dividend remain chargeable to corporation tax at a minimum of 20% from 1 April 2011 previously 21% before 1 April 2011.

Dividends

From the company's point of view timing of payment is not critical, but from the individual shareholder's perspective, timing can be an important issue. If the shareholder is a higher/additional rate taxpayer, a dividend payment which is delayed until after the tax year ending on 5 April may give the shareholder an extra year to pay any further tax due.

The deferral of tax liabilities on the shareholder will be dependent on a number of factors. Please contact us for detailed advice.

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 within nine months of the end of the accounting period, the company is required to make a payment equal to 25% 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 a 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

For the 2011 financial year:

- If annual taxable profits do not exceed £300,000, they are charged at the small profits rate of 20%.
- If the profits exceed £1,500,000, the full rate of 26% applies.
- If profits fall between these limits, marginal relief is given. All the profits are charged to tax at a rate between 20% and 26%.

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 have a factsheet which summarises the system. Corporation tax returns must be submitted within twelve months after the year end. 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

In order to counteract the effects of inflation inherent in the calculation of a capital gain, an indexation allowance is given. However the allowance is not allowed to increase or create a capital loss.

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 rate rather than full rate. This could be achieved depending on circumstances by accelerating or delaying sales. The availability of losses or the feasibility of rollover relief (see below) should also be considered.

Purchase of new assets

It may be possible to avoid a capital gain being charged to tax if the sale proceeds 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.

How we can help

Tax savings can only be achieved if an appropriate course of action is planned in advance. It is therefore vital that professional advice is sought at an early stage. We would welcome the chance to tailor a plan to your specific circumstances. Please do not hesitate to contact us.

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