

# Tax and your company

This 2011/12 guide is to help with your business planning.

Managing a company always presents challenges, and the current year, while offering opportunity to some business owners, is challenging for many as we face continued public sector cuts and tax increases.

Financing and cash flow are already proving difficult for many businesses, even some of those benefitting from a growing market share. Don't let tax be another problem this year. Stay ahead of developments, and make sure you seek our professional advice. Here are some of the issues directors and company owners should know about.

## **CORPORATION TAX RATES AND BANDS**

Financial Year to	31.3.2012	31.3.2011
<b>Taxable profits</b>		
First £300,000	20%	21%
Next £1,200,000	27.5%	29.75%
Over £1,500,000	26%	28%

### **Due dates for paying Corporation Tax**

- Small and medium companies - nine months and one day after the end of accounting period.
- Large companies - four quarterly instalments commencing 6.5 months into the accounting period.

**Don't miss out on deferred tax opportunities. Planning for the year ahead could benefit your company.**

## **A MORE ACTIVE, MORE EMPOWERED HMRC**

HMRC now has the power to request any business documents that it considers necessary to check your tax position, it also has a right to visit business premises – without giving warning. However, businesses selected for a tax check are selected by risk category, and the entire system requires only that taxpayers (including businesses) take reasonable care over their tax responsibilities, such as notifying HMRC when they are liable to tax. It is the last thing many businesses need in today's economy, but it is important that your company is able to satisfy the taxman if he does turn up on your doorstep. So, please ensure the last six years' of your firm's documentation can be correctly and promptly produced, so that any HMRC visit is not aggravated by incomplete information.

## **RESEARCH AND DEVELOPMENT - CASH IN HAND?**

The SME research and development rules offer tax opportunities for SMEs, provided your expenditure is over £10,000. Research and development expenditure carries a substantial 200 per cent deduction against profits. From 6 April 2012, this deduction is planned to rise to 225 per cent.

Furthermore, if your business is not making a profit, there is a tax credit system which allows the relief as an up front cash sum, as long as you surrender the corresponding trading losses. There is a great deal of flexibility regarding what can be claimed for, so if you are incurring research and development costs, please seek our advice.

## **PENSIONS**

Pension contributions offer tax savings including reducing NIC contributions for both the employee and the employer. Some employees and employers agree to a 'salary sacrifice', whereby a portion of salary is exchanged for a pension contribution by the employer. However, where the employer's and employee's contributions exceed £50,000, tax relief is effectively restricted.

## **ENTREPRENEURS' RELIEF**

Entrepreneurs' relief is in its third year with the lower effective 10 per cent rate on the first £10 million of business asset disposals still in effect, giving rise to a maximum reduction of £1,800,000. This is a lifetime allowance that reduces the gain for owners of limited companies on the disposal of shares and securities in a company. However, conditions do apply so please ask for further advice.

**Ask us how we can help to make your company more tax efficient.**

**JOHNSONS,** Chartered Accountants

## CARS

The tax treatment of cars in a company is a complex picture, as recent changes have affected both the capital allowances that the company can claim on the purchase of a car and the benefit in kind that employees will pay tax on (and the company will pay national insurance contributions on). The general thrust of these changes is to encourage both companies and employees to choose more fuel efficient vehicles, by linking both taxes to the official emissions rating of the car. Choosing a fuel efficient car can benefit both the employee and the business, with the lowest emission cars attracting 100 per cent tax relief on purchase and carrying a benefit in kind as low as 0 per cent.

## GOING GREEN - 100% CAPITAL ALLOWANCES

It's not just some cars that are eligible for 100 per cent first year capital allowances. Any investment in approved environmentally friendly or energy saving equipment also qualifies.

## CAPITAL ALLOWANCES

For the entrepreneur, getting the maximum in capital allowances for your business is an important part of minimising the net cost of the investment. The Annual Investment Allowance is 100 per cent for the first £100,000 of expenditure on most types of plant and machinery and the writing down allowance on unrelieved expenditure brought forward is 20 per cent. This rate reduces to 18 per cent from 6 April 2012.

## OWNER-DIRECTOR – INCREASE YOUR NET INCOME

For the moment, consider how much you might save if, as an owner-director, you wanted to extract the £10,000 profit your company makes in 2011/12 by way of a dividend rather than a bonus. Please note that we assume that you are paying higher rate tax, so your earnings exceed the so-called 'upper limit' for NICs.

There are many matters to be considered when deciding whether directors should be paid by dividend or salary/bonus. In practice, a combination of each is usually an appropriate course.

Remember that dividends are usually payable to all shareholders. If you have outside shareholders who are not involved in the day to day running of the company then you will need to consider your dividend strategy carefully. Although it is possible for shareholders to waive their entitlement to dividends, this can result in tax complications, so a better option may be to have different classes of shares, on which different rates of dividend can be paid. However, if this technique is used as part of a scheme to avoid tax or NICs for employees, it may not be effective and thus result in an even higher tax liability.

Finally, you may need to consider the effect that regular payment of dividends will have on the valuation of shares in your company.

**Please do not hesitate to contact us to discuss any of the issues raised here.**

As you can see in the following case study, the net amount withdrawn is increased by almost 15 per cent by opting to declare a dividend. But be sure to discuss this with us before you act as this is a very complex area of tax law.

### Case Study

Bonus or Dividend?		
	Bonus £	Dividend £
<b>Profit to extract</b>	<b>10,000</b>	<b>10,000</b>
Employers' NIC	-1,213	0
Gross bonus	<b>8,787</b>	0
Corporation tax @ 20%	0	2,000
Dividend	0	<b>8,000</b>
Employee's NIC	-88	0
Income tax @ 40%	-3,515	0
Additional tax	0	-1,975
<b>Net amount extracted</b>	<b>£5,184</b>	<b>£5,925</b>

In this case declaring a dividend increases the net by £741. Please discuss your dividend strategy with us as there are a range of factors that need to be taken into account.

### HERE'S WHERE WE CAN ADVISE:

- Managing debt and cash flow;
- Dealing with administrators or liquidators
- Planning to take account of future changes in the rate of corporation tax
- Planning your business start-up
- Your options for finance
- Finding investors
- Putting you in touch with patent and intellectual property law specialists
- Trading during tough economic times
- Helping you to comply with government regulations and avoid fines, surcharges, penalties and interest
- Timing capital and revenue expenditure to maximum tax advantage
- Improving your invoicing and debt recovery systems
- Involving family members in the business
- Developing a plan for tax-efficient profit extraction
- Improving profitability
- Protecting your business from financial disaster
- Selling your business and grooming your business for sale
- Valuing your business
- Minimising employer and employee NIC costs
- Minimising tax costs, enabling you to keep more of the profit you earn
- Identifying and valuing unpaid bills and unbilled work at the year end
- Preparing yourself and your business for your exit, succession or retirement.