Business

PROFIT AND CASH EXTRACTION

With the top rate of income tax currently at 45% for some types of income, it is important to think about the most tax efficient way of extracting profits from a Limited Company. For Director's/Shareholder's there are several ways of doing this including taking dividends instead of salary, company contributions to a pension and receiving tax efficient benefits. For example if the timing of dividends can be controlled then they should be taken in the following tax year to ensure tax liabilities that arise are paid a year later which provides a tax cash flow advantage. Even for unincorporated businesses, timing of profits and business expenses can be altered to achieve maximum tax cash flow advantages.

CAPITAL ALLOWANCES

Capital allowances can be claimed on a wide range of qualifying capital assets including plant and machinery, fixtures and fittings (known as integral features) and cars. A variety of allowances are currently available some of which give an immediate reduction in taxable profits of 100% of the allowable expenditure. Capital allowance claims should be maximised where possible claiming all available allowances and thinking carefully about the timing of expenditure.

BUSINESS PROPERTY RELIEF (BPR)

Business Relief reduces the value of a business or its assets when working out how much Inheritance Tax has to be paid. Any ownership of a business or share of a business is included in the estate for Inheritance Tax purposes.

You can get Business Relief of either 50% or 100% on some of an estate's business assets, which can be passed on:

- while the owner is still alive
- as part of the will

A number of conditions must be met in order to qualify for BPR.

ENTREPRENEURS' RELIEF

Entrepreneurs' relief can offer significant tax savings to individuals and certain trustees when selling shares or the whole or part of a business. Where a claim is made, gains on qualifying business assets benefit from a very low effective tax rate of only 10%. Certain conditions must be met to ensure this relief can be applied.

RESEARCH & DEVELOPMENT CLAIMS

Broadly speaking, your company or organisation can claim an additional 125% on qualifying R&D costs if it undertook an R&D project that seeks to achieve a 'scientific need'. This includes an advancement in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty. The definition of research and development is much wider than many people think. You could therefore be eligible for an enhanced tax deduction and not realise it.

CONTRIBUTING TO A PENSION

Pension contributions are tax efficient for both Employers and Employees/Director's. Company contributions to an employee's pension will receive corporation tax relief and be free of income tax and national insurance for the employee (up to certain limits). Individuals can claim relief from income tax and national insurance for contributions to personal pension schemes (subject to certain limits).

Pension contributions can be made via a number of ways to obtain tax relief such as Small Self-Administered Pension Schemes (SSAS), Self Invested Personal Pensions (SIPP). While the merits of a SIPP are well-known, small owners could find the specific benefits of a SSAS enable them to save and boost their business.

FAMILY TAX PLANNING

Structuring of a family owned business in a commercial yet tax efficient way can maximise the tax reliefs available. Tax should also be an important consideration in succession planning. If you are thinking of selling your business to key management personnel or passing it to the next generation of family members then care needs to be taken to ensure the tax planning is done correctly and any pitfalls are avoided.

INCENTIVISING YOUR STAFF

If cash flows are restricted in these difficult times then granting share options to employees is an alternative means to incentivise staff. Certain tax-approved options schemes such as Enterprise Management Incentives (EMI) are potentially very tax-efficient and a good incentive for key workers. The EMI is a share scheme designed to help small, ambitious companies retain the right talent to grow. By rewarding staff you’re looking to recruit or retain with tax advantaged share options you offer employees a reason to work for you.

RAISING FINANCE

The Enterprise Investment Scheme (EIS) is a means to raise finance, especially for higher risk trading companies by offering a range of tax reliefs to investors who purchase new shares in those companies. Subject to specific conditions, individuals can obtain income tax and capital gains tax reliefs on investments in newly issued shares in unquoted companies.

While EIS has been around for two decades, its success has led to the government’s more recent introduction of the Seed Enterprise Investment Scheme (SEIS), which specifically targets companies in their first two years looking to raise that first £150,000 in funding.

CHOICE OF INVESTMENT VEHICLE

For a new or growing business the choice of investment vehicle (Limited Company, LLP, Partnership, Sole Trader) is important from a commercial and tax perspective. As the business changes and grows the choice of investment vehicle should be reviewed to ensure it continues to suit the business at its various stages of growth.

LOSS RELIEF

If you have losses arising from business interests or investments you should review them to ensure that such losses are claimed in the most efficient way. For example, they can be carried back to offset against previous year's profits, resulting in a tax refund if tax was paid in the prior year. This would be carried forward to offset against future profits or even relieved against your other income subject to certain conditions being met. Recent change in Budget allowing losses to be carried back 3 years.