Tax saving strategies

Expenses

Expenditure incurred before the company year end might reduce the current year's tax liability instead of next year's. Bringing forward expenditure by even a few weeks on, for example, building repairs, advertising, sales and marketing campaigns, and any other item deductible from profits can accelerate the tax relief by twelve months.

Plant & Equipment

Investment in plant and equipment (but not cars) attracts an allowance of up to 100% of the cost, up to £50,000. The annual investment allowance commenced on 1 April 2008 for companies, and 6 April 2008 for other businesses. The allowance of £50,000 relates to a full 12 month period, and is reduced proportionately for short accounting periods, and where the accounting period spans the commencement date. The allowance is only available once for a group of companies, but where companies are under common control of one or more individuals, multiple allowances will be available unless the companies also occupy the same premises or carry on the same type of business. The allowance is not available to partnerships with limited company members. For 2009/10 there is a temporary first year allowance of 40% on expenditure over £50,000 which is available to all businesses.

There is a further allowance, called the writing down allowance. This allowance is 20% and is applied to the unrelieved expenditure brought forward. The 60% balance of capital expenditure is added to this and carried forward to the next accounting period when it also will be available for that year's 20% capital allowance claim. Note that the writing down allowance is calculated on the tax written down value. There is a lower rate of 10% available which applies to assets with a useful life of 25 years or more, and to integral features in buildings such as lighting and power supply.

Spending money on energy efficient technology and water saving technology (including very low emission new cars) attracts a 100% allowance, over and above the annual investment allowance. Companies which spend significant sums on energy efficient or water saving technologies (but not cars) so that they incur tax losses can also surrender that loss for a tax credit payment of up to 19% of the loss. The payable tax credit arrangements are currently subject to EU approval.

Hire purchase and lease purchase

Hire purchase and lease purchase may provide a useful method of financing the purchase of an asset. Plant and equipment purchased on hire purchase will qualify for writing down allowance on the full purchase price, even if the company has paid only the deposit.

Industrial buildings

Expenditure on new industrial buildings qualifies for writing down allowance of 2% on cost. Used industrial buildings may also qualify for an allowance, dependent upon allowances available to previous owners.

Industrial Buildings Allowance is to be phased out by 2010/11.

Provisions

Specific provisions against bad debts or stock are allowable for tax purposes, but general provisions are not.

Bonuses to directors and staff

A proper provision may be made in the annual accounts for specific bonuses paid up to nine months after the year end. Take care to ensure that these are charged to PAYE and NI as appropriate.

Capital gains

Capital gains are taxed at the effective rate of corporation tax. Gains are calculated after deducting from the sale proceeds the market value at March 1982 (or cost of acquisition, if later), costs incurred in improving the asset, an indexation allowance, and certain disposal costs.

Reducing capital gains

Rollover Relief

Claim rollover relief if your company buys new chargeable business assets within one year before or three years after selling a business asset. This effectively postpones any tax liability until the new asset is sold. Special rules apply if the new asset is a wasting asset.

Negligible value claim

Claim relief on assets that have become worthless. A loss can be claimed even though the asset has not been sold, and this can then be offset against chargeable gains.

Getting the timing right

The timing of certain payments and receipts of income is crucial for tax purposes. By moving a date of payment or receipt by just a few days either side of the company's year end, you can reduce the tax bill and defer payment until the next tax year.

Do

- Ensure that charges on income (for example, annuities and royalties) are paid *before* the year end
- Ensure that any provisions made are against *specific* costs, not a general estimate
- Ensure that any pension contributions are paid *before* the year end
- Consider whether any additional remuneration/bonuses should be voted to directors in respect of the *current* accounting period (these can be paid up to nine months after the year end)
- Ensure that you value stock and work in progress taking into account any reduction arising as a result of obsolescence.
- Plan to bring forward any capital expenditure into the current accounting period

Don't

- Sell assets, such as property or shares, that will give rise to a large chargeable gain until after the company's year end
- Forget the effect this will have on your accounts as if you reduce your profits, the bank manager may wonder if that lending was such a good idea after all!

- Sell assets on which capital allowances have been claimed until after the year end

Do call us if you would like further help or advice on this subject.