UPDATED FOR BUDGET 2014

THE BUSINESS-OWNER'S ESSENTIAL GUIDE TO TAX PLANNING

Whether your business year end is just a few weeks or several months away, it is always a good time to consider tax planning opportunities. In this briefing note we highlight straight-forward and 'acceptable' planning ideas which could have a significant impact on the tax paid by your company, your employees and by you.

Business Tax Alert

Taking advantage of falling corporation tax rates

From 1 April 2014, the main rate of corporation tax fell from 23% to 21%. A further 1% reduction takes effect from 1 April 2015 to 20%, bringing an end to the smaller profits tax rate.

Consider opportunities to bring forward revenue expenditure ahead of the current year end, and therefore defer taxable profits until the rate falls next year and beyond. These opportunities might include:

- Accelerate or provide for the payment of bonuses before the year end (although they must be paid within 9 months of the year end to secure a tax deduction).
- Review the sales ledger and make appropriate provisions for specific bad and doubtful debts. Consider whether your provisions policies are sufficiently robust.
- Make specific provisions for obsolete and slow moving stock.
- If redundancy notices have or will be issued to employees this year, ensure redundancy payments are provided for. To be compliant for accounting purposes, these provisions need to pass certain tests.
- Accelerate the payment of discretionary expenditure, such as payments of charitable donations, to secure a tax deduction in the current year.
- Identify capitalised revenue expenditure which can be written off immediately through the profit and loss account.

Consider opportunities to defer income, including:

- Consider shortening the accounting period to defer taxing a later profitable period; or lengthening the period to accelerate the assessment of a period of lower profitability or the use of tax losses.
- Where possible, under UK GAAP, defer the accounting recognition of income.

Consider opportunities to enhance or accelerate capital allowances, including:

- Take full advantage of the temporary increase in the Annual Investment Allowance to £500,000 for expenditure incurred before 31 December 2015 by bringing forward capital spend commitments.
- On the purchase or sale of buildings in the past two years, make an election to maximise the claim for capital allowances on fixtures (known as a 'section 198 election').

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- Elect to ‘de-pool’ computer and other ‘short-life assets’ bought in the last two years which will (or have been) scrapped or sold within a few years.
- Maximise the entitlement to enhanced 100% capital allowances on certain ‘green technologies’ used in a building refurbishment, on structures and assets used for research and development activities, and on low-emission cars.

Taking advantage of tax incentives for entrepreneurial companies and their shareholders

The Government’s policy is to promote growth through innovation and encouraging entrepreneurship. A number of current and proposed tax reliefs therefore incentivise corporate spend on research and development and on the development of patents. Some key personal tax breaks exist to incentivise shareholdings in entrepreneurial trading companies.

Opportunities include:

- Examine the purpose and nature of research and development expenditure and the opportunity to claim an additional 125% tax deduction (under the SME scheme) or an additional 30% (if the project is grant funded); or, if loss making, claim a tax credit of 14.5% of the enhanced tax deduction (increased from 11% for expenditure incurred on or after 1 April 2014) (SME’s only).
- Consider eligibility to claim the 10% Research and Development Expenditure Credit (the “RDEC”, or the “Above the Line” Tax Credit), introduced from April 2013, where your company is precluded from accessing the SME scheme.
- Identify income streams that may qualify for a reduced corporation tax rate under the new Patent Box regime.
- Consider qualification for the new corporation tax relief for expenditure on animated programmes, high-end television and video games incurred from April 2013.
- Review strategies to protect the trading status of the company to allow claims for Entrepreneurs’ Relief or Substantial Shareholding Exemption on sale or winding-up, Business Property Relief on inheritance, and Enterprise Investment Scheme qualification for outside investors.

Other corporation tax reduction strategies and considerations

Other tax reduction strategies include:

- Repay any director / shareholder overdrawn loan accounts within 9 months of the year end to avoid a 25% tax charge on the outstanding balance of those loans.
- Pay accrued interest on shareholder (and certain other) loans within 12 months of the accounting year end to obtain a tax deduction.
- Take advantage of transfer pricing legislation to increase tax deductions for goods and services from group companies, and for group interest payments.
- Examine the merits of electing for the UK tax exemption on the profits of foreign branches.
- Review the scope for revising the ownership structure of the business, particularly existing “mixed partnerships”, to help reduce overall tax liabilities.

Incentivising employees tax efficiently

The highest rate of income tax that can now be applied to an employee's bonus or share award is four and a half times higher than the lowest rate of capital gains tax ('CGT'). That differential widens further if the award is subject to national insurance ('NIC') and you include the employer's burden of NIC at 13.8%.

Opportunities to improve tax efficiency include:

- Review bonus arrangements and consider awards of up to £250,000 (on market value terms) of HMRC-approved EMI share options. These are subject to CGT only on the growth in value, and no income tax or NIC liability on grant or exercise. Qualification for the 10% rate of CGT on disposal of shares since 6 April 2013 is now more straightforward with relaxations to the conditions on the size and holding period of shareholdings.
- Consider employing new and existing employees on new Employee Shareholder Agreements and to issue shares, in consideration for entering into those agreements, that will be exempt from CGT on sale.
- Consider the use of other unapproved share awards which minimise the employee's cost on acquisition and remove or mitigate the liability to income tax and NIC (including the employer's NIC element).
- Reassess company car provision or consider 'green' alternatives.
- Establish genuine opportunities for salary sacrifice arrangements, particularly in relation to pension contributions, low-emission cars, mobile phones, childcare vouchers, car-parking and medical check-ups.

Extracting wealth from the company tax efficiently

For a taxpayer suffering the highest rate of income tax of 45%, the effective rate of tax and NIC (including Employer's NIC) on a bonus payment is over 53% in 2014/15. If that taxpayer is paid a dividend instead, the combined income tax and corporation tax cost is between 44.5% and 46.5%, depending on the profitability of the company.

Tax efficient wealth extraction opportunities include:

- Review remuneration packages for shareholders, considering the mix of dividends, salary and pension contributions.
- Review shareholdings and consider inter-spousal transfers and gifts to other family members and trusts to maximise the use of tax allowances and low personal tax rates. Those arrangements can be fraught with difficulties but can be highly effective.

Please get in touch with your usual Rawlinson & Hunter contact or Andrew Shilling (020 7842 2135 or andrew.shilling@rawlinson-hunter.com) if you wish to discuss the points raised in this alert in more detail.