



Howsons
Chartered Accountants

Taxation for Business

Tax Saving Opportunities for Companies

What with ever-changing tax legislation, it is advisable that you conduct an annual review of your company's tax position. It is important that you undertake pre-year end tax planning as you still have time to carry out appropriate action to produce tax savings.

We have outlined some of the areas whereby you may benefit from advanced planning, but recommend that you always seek professional advice.

Corporation Tax

Advancing Expenditure

Any expenditure incurred before the company's year end may reduce the tax liability for the current year. If you decide to bring forward any expenditure that is planned for early in the next accounting year, you can advance the related tax relief by a full 12 months.

Types of expenditure to consider bringing forward include:

- Building repairs and redecoration
- Advertising and marketing campaigns
- Redundancy and closure costs

Capital Allowances

You should also consider the timing of capital expenditure in order to obtain the maximum relief.

From 1 April 2010 to 31 March 2012, single companies (irrespective of their size) can claim an 'annual investment allowance' of £100,000, which will provide 100% relief on any expenditure on plant and machinery (excluding cars). If you have a group of companies, the allowance must be shared. Any expenditure over the A.I.A is only eligible for a 20% writing down allowance.

From 1 April 2012, the annual investment allowance is to reduce to £25,000 and the writing down allowance to 18%.

There is also a 100% allowance on chosen energy saving technologies and this is available in addition to the annual Investment Allowance. Details can be found at www.eca.gov.uk.

New expenditure on 'permanent fixtures' (as defined), which were previously treated as part of a building and therefore not subject to capital allowances, now fall within the capital allowances regime albeit at a lower rate of allowance of 10%.

Trading Losses

Any company that incurs tax losses has three options to consider in how to utilise these losses:

1. The loss can be set against any other income (e.g. bank interest, rental income etc) or capital gains arising in the current year
2. The loss can be carried back for up to one year and set against total profits*
3. The loss can be carried forward and set against trading profits arising in future years

For accounting periods ending in the period 24 November 2008 – 23 November 2010, the carry back period for trading losses are extended to a period of three years with losses being carried back against later years first. The amount of trading losses that can be carried back to the preceding year remains unlimited.

After carry back to the preceding year, a maximum of £50,000 of the balance of unused trading losses is then available for carry back to the earlier two years.

Extracting Profits

Directors / shareholders of family companies may consider extracting profits in the form of dividends

rather than increased salaries or bonus payments as this can lead to significant savings in National Insurance contributions. Please note however, that company profits that are extracted as a dividend remain chargeable to corporation tax at a minimum of 20% from 1 April 2011.

Dividends

From the individual shareholders point of view, timing can be an important issue however from the company's point of view, timing of payment is not that critical. If the shareholder is a higher rate taxpayer, a dividend payment which is delayed until after the tax year ending 5 April, may give the shareholder an extra year to pay any further tax due. This deferral is dependent upon a number of factors, so please contact us for detailed advice.

Loans to Directors and Shareholders

If you operate a 'close' company (one that is controlled by its directors or by five or less shareholders) you can make a loan to a shareholder which will give rise to a tax liability for the company.

If the loan is not settled within 9 months (of the end of the accounting period), the company is required to make a payment of 25% of the loan to HMRC. The money is not repaid to the company until 9 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.

Tax Rates

For 2010:

- Annual taxable profits up to £300,000 are charged at the small company rate of 21%
- If profits exceed £1.5 million the full rate tax of 28% is charged
- Marginal relief is given for profits that fall between these limits; all the profits are charged at a rate between 21% and 28%.

For the 2011 financial year it is proposed that the small company rate will be reduced to 20% and that the full rate will be reduced to 27%.

Self Assessment

Most companies have to pay their tax 9 months and 1 day after the year end. All companies that pay (or expect to pay) the 28% tax rate must pay on a quarterly basis in advance. Corporation tax returns must be submitted 12 months after the year end. Penalties are charged for delays or inaccuracies.

Capital Gains

Corporation Tax is chargeable to companies on their capital gains, less allowable capital losses.

Indexation Allowance

Indexation allowance is given to counteract the effects of inflation that is inherent in the calculation of a capital gain. The allowance cannot increase or create a capital loss.

Planning of disposals

It is possible to minimise the tax liability at the small companies rate rather than the full rate by, depending upon circumstances, accelerating or delaying sales. The availability of losses should also be considered.

Purchase of new assets

If you reinvest any sale proceeds in a replacement asset, it may be possible to delay a capital gain being charged to tax.

Call our Tax Specialists for more help

To maximise your tax savings we suggest that you seek professional advice at an early stage. We have offices throughout Staffordshire. Our Tax specialists are:

Stoke Office - 01782 848838

James Eyre-Walker, Chris Parry, Vicky Hulse

Burslem Office – 01782 834775

Andrew Riley

Leek Office – 01538 393600

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To email: initialsurname@howsons.com

(N.B. When addressing the Leek Office, please replace .com with .net)

We believe the information contained within this fact sheet to be correct at time of going to press, but we cannot accept any responsibility for any damage or loss occasioned to any person as a result of action or refraining from action as a result of any item herein. This information sheet provides outline information only; you should always seek specific professional advice. April 2011

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